

## What IAASA does

IAASA is responsible for the supervision of the accounting profession in Ireland, comprising of 36,277 members of Prescribed Accountancy Bodies ('PABs') in business and practice in the State.

IAASA is the competent authority for the oversight of statutory auditors in Ireland, including oversight of the manner in which the six Recognised Accountancy Bodies ('RABs') perform the functions assigned to them in law in respect of statutory auditors, namely approval and registration, continuing education, quality assurance systems and investigative and administrative disciplinary systems.

In addition, IAASA has direct responsibility for the inspection of audits of Public Interest Entities ('PIEs'), comprising of entities with securities listed on a regulated market, credit institutions and insurance undertakings. We directly regulate ten auditing and accounting firms, including all of the Big 4, in respect of this element of their work.

IAASA is responsible for examining the level of compliance of certain entities' annual and half-yearly financial reporting with applicable financial reporting standards (in the main International Financial Reporting Standards ('IFRS') and Irish Generally Accepted Accounting Practice ('GAAP')). This comprises 119 entities, made up of:

- 28 equity issuers, whose market capitalisation at 31 December 2016 was €127bn;
- 73 debt issuers, with balance sheet assets totalling €360bn; and
- 18 closed-ended fund issuers, with balance sheet assets totalling €131bn.

IAASA is responsible for the conduct of investigations on issues arising from its inspection of the audits of PIEs and referrals from overseas competent authorities. IAASA also has the discretionary power to investigate whether a member of a PAB has complied with that body's standards and to investigate whether a prescribed accountancy body has complied with its approved investigation and disciplinary process.

IAASA is responsible for adopting standards on auditing, ethics and internal quality control for all auditors.

IAASA carries out a range of other activities, including registration of certain types of liquidators, engaging with our peer European and international counterparts, and advising the Minister for Jobs, Enterprise & Innovation on key auditing and accounting matters.

## Why do we do it

IAASA's mission is to contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest.

## What guides us

IAASA operates with powers and functions granted to it under the Companies Act 2014, and related Statutory Instruments. We carry out our work in accordance with values set out by our Board:

- Public interest
- Independence
- Integrity
- Commitment
- Fairness and consistency
- Effectiveness and efficiency
- Transparency and accountability

## Who do we report to

IAASA is governed by a Board of Directors made up of representatives of stakeholders and members nominated by the Minister for Jobs, Enterprise & Innovation. IAASA is answerable to the Oireachtas.

## What is our budget

IAASA's total expenditure in 2016 was €2.6m, from a budget of €4.4m. The most significant areas of underspend were in payroll and related costs due to ongoing difficulties in attracting additional suitably qualified staff.

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# 3 CHAIRPERSON'S STATEMENT

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*Martin Sisk, Chairperson*

## Introduction

This is IAASA's ('the Authority') eleventh Annual Report. It is with pleasure that I submit it to the Minister for Jobs, Enterprise & Innovation ('the Minister'), in accordance with section 928(1) of the Companies Act 2014 ('the Act'). The Chief Executive's Review summarises the principal activities undertaken by the Authority during 2016 to fulfil its mission. The remainder of this Report gives details of this work. In my Statement, I would like to highlight some significant developments that occurred during the year 2016.

## Audit reform

Our audit oversight role is currently governed by SI 312<sup>1</sup>, which came into effect on 17 June 2016. At year end the Department of Jobs, Enterprise & Innovation was well advanced in its work of replacing this with new primary legislation, the Companies (Statutory Audits) Bill. This legislation will repeal SI 312 and amend the Companies Act 2014 in particular by adding a new Part 27 to the Act to cover auditor oversight. This will substantially bolster the oversight regime conferred on IAASA as the competent authority.

While at year end draft Heads were not yet available, the intent of the legislation is to change the nature of IAASA's interaction with the RABs who are allowed to authorise their members to perform statutory audits. IAASA is already (under SI 312) responsible for the public oversight of statutory auditors and audit firms of PIEs, with certain other tasks directly assigned in law to the RABs. The new model will result in significant change to the nature of the relationship between IAASA and the RABs as when the legislation comes into force it will confer on IAASA the power to delegate tasks to the RABs. Delegation agreements between IAASA and the RABs will set out how the new model will operate in practice. IAASA will liaise with the RABs during 2017 to ensure that the necessary administrative structures are in place in advance of that time. Ultimately, working with the RABs, the intent is to further underscore the high quality and robust oversight regime under which the auditing profession operates.

Internationally, IAASA continues to work with fellow competent authorities and during 2016 discussions continued with the our US equivalent, the PCAOB, to put in place an agreement which will lead to joint inspections of the auditors of companies subject to US jurisdiction. Significant progress has been made and it is hoped that the final hurdles to a signed agreement will be overcome in 2017.

## Investigations

The Bill is also intended to reform and streamline how the Authority undertakes its investigative responsibilities. While it is intended that the RABs will retain their primary role in relation to the investigation of matters relating to non public interest entity auditors, the legislation assigns responsibility to IAASA to carry out investigations into potential breaches of the law uncovered as a result of quality assurance inspections or referred to IAASA by other competent authorities. IAASA also retains responsibility for investigations into potential non-compliance with approved investigations and disciplinary procedures of the PABs and investigations into breaches of a PAB's standards where it deems it appropriate. The intent is that IAASA will have a single investigative

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<sup>1</sup> *Statutory Instrument 312 of 2016 European Union (Statutory Audits) (Directive 2006/43/EC, as amended by Directive 2014/56/EU, And Regulation (EU) No 537/2014) Regulations 2016*

process which will deal with any matter that falls to it to investigate, and that the necessary powers to carry out these investigations will be housed in legislation, allowing the Authority to establish its own procedures. Public consultation on this process will take place when a draft set of procedures are available.

## Staffing resources

During 2016 IAASA received sanction to recruit significant additional staff, which when carried through will put it on a much firmer footing in terms of being able to carry out the many tasks assigned to it under legislation. However the Authority continues to face challenges in recruiting additional appropriately skilled staff. IAASA operates in a competitive marketplace where there is significant demand for the professional and technical skills it is seeking to obtain. There are key roles which are to be filled in 2017, in particular the Team Lead on Audit Standards and the Team Lead on Conduct, as well as several vacancies across the Authority's other areas of activity. The Authority continues to be the subject of critical comment by the European Securities and Markets Authority in relation to the level of resources in its Financial Reporting Supervision Unit. The Executive will continue to prioritise filling its approved staffing sanction.

## *Brexit*

Like many other entities, private and public, the work of IAASA will in all likelihood be impacted by the proposed departure of the UK from the European Union. Partly these impacts will reflect the impact on the audit profession, with a number of the RABs being located in what will become a non-EU jurisdiction. Equally, elements of the regulatory structure in this jurisdiction are intertwined with the UK. As alluded to elsewhere in this Report, the Authority has a strong working relationship across a range of areas with our UK counterpart, the Financial Reporting Council, and the extent to which we can continue to work closely on

a range of issues of mutual interest will need to be kept under review. The Board has identified Brexit as a key challenge for IAASA in the short to medium term and will strive to ensure that the Authority is well placed to respond to that challenge.

## Board composition

The year was one of change in the Board, marked in particular by the tragic passing of Professor Brendan Walsh, my predecessor as Chairperson. I would like to thank my colleague Conor O'Mahony, who took on the role of Deputy Chairperson for the period up to my appointment just prior to the year end. 2016 also marked the departure of our Chief Executive, Helen Hall, who left to take up the role of Chief Executive of the Policing Authority, and the Board wishes her well in that position. I would like to thank Michael Kavanagh who acted as interim Chief Executive until the appointment of Kevin Prendergast as Chief Executive in November, 2016.

## Concluding remarks

In my short time as Chairman it is already evident that the Authority benefits from a strong and dedicated Board, as well as a committed Executive and staff, and I would like to pay tribute to them for their work during 2016. I would also like to thank on behalf of the Board the Minister for Jobs, Enterprise & Innovation and the staff of her Department for their ongoing support in striving to ensure that the Authority is adequately structured and resourced to carry out its obligations. As IAASA moves forward into a new era under a revised legislative structure, it will be vital that all parties work together to create an efficient and robust regulatory environment for the profession.

*Martin Sisk*  
*Chairperson*  
28 April 2017



*Kevin Prendergast, Chief Executive*

## Introduction

The purpose of this report is to provide an overview of the activities of IAASA during 2016, as well as to present the Authority's annual financial statements. The year was a significant one for the governance of the Authority with my appointment as Chief Executive and the appointment of our new Chairperson both occurring late in the year. From an operational standpoint this year marked the first full year of operation for the Audit Quality Unit as well as the establishment of the Conduct and Legal Services Unit, which will oversee IAASA's investigations and sanctioning remit, as well as having responsibility for the registration of certain classes of liquidators.

In order to be able to respond to these demands, IAASA has been granted sanction to expand its workforce, and steps to achieve that commenced in 2016. This will continue to be a priority for the Authority.

## Our Activities

IAASA's remit continues to expand, as further responsibilities are conferred by legislation. The nature of our relationship with the audit profession underwent fundamental change during the year, with SI 312 replacing SI 220 of 2010. SI 312 will in turn be replaced by primary legislation and at the year end work was well under way on what will ultimately be the Companies (Statutory Audits) Bill. IAASA has worked closely with the Department of Jobs, Enterprise & Innovation in the development of this legislation, which will have a significant impact on how we carry out our oversight of the auditing profession.

Our Financial Reporting Supervision Unit completed 45 examinations during 2016. Arising from our work in 23 instances issuers provided undertakings in respect of future financial periods. As part of its review work programme, the Financial Reporting Supervision Unit undertook five thematic examinations into operating lease commitments, defined benefit pension scheme assumptions, the recognition of intangible assets, share based payments and the application of IFRS 13 *Fair Value Measurement*.

Closed end funds and debt issuers continue to reveal more issues than equity issuers, with an average of 3.1 issues per issuer as compared to 1.4 for equity issuers. While there was some improvement in 2016 compared to previous years, some of these issuers continue to underestimate the need for proper financial reporting processes, and consequently under resource this process. This may ultimately result in prolonged engagement between those issuers and IAASA in resolving matters so that, ultimately, financial statements comply with financial reporting standards and are not misleading users. In addition, IAASA publishes, on a named basis, some of its financial reporting decisions each year. Six such decisions taken in 2016 have been published by IAASA.

Our Regulatory & Monitoring Supervision Unit is responsible for the supervision of the nine PABs in Ireland, six of which are also RABs who may authorise their members to carry out statutory audits. During the year we undertook supervisory visits to three RABs. The focus of two of these visits was on investigation and disciplinary processes and one focused on auditor licensing. Also during the year supervisory reports were issued to four RABs, three on their processes for the licensing of auditors and one in respect of auditor quality assurance.

In relation to auditor licensing, in general these reviews found that the processes were of a good standard. However some areas for improvement were identified. IAASA will continue to work with the RABs to ensure that these improvements are put in place. Work is continuing on the reports in relation to investigation and disciplinary processes.

IAASA also carried out checks to confirm whether RABs were complying with the obligation to review each statutory auditor at least once every six years. We were satisfied to note substantial compliance with this cycle.

In overseeing the PABs, IAASA also has the power to carry out enquiries to determine whether they have complied with their investigation and disciplinary

procedures. During the year two such enquiries were concluded with fines imposed and further procedures required.

IAASA also reviewed the report prepared by the regulatory arm of Chartered Accountants Ireland into the audits of the impairment provisions of certain financial institutions in financial statements dating back to the economic collapse. IAASA considered this report carefully having regard to the many legislative and professional standards changes that have taken place since then, as well as IAASA's enhanced role now in relation to direct inspections of the audits of these institutions. The Authority will continue to supervise the ICAI in its ongoing regulatory responses to these and related issues.

IAASA's Audit Quality Unit continued its planning activities in the first half of 2016 and its powers were commenced by SI 312. Its Audit Inspections Team has responsibility for inspecting the quality of work performed by the auditors of PIEs, including those remaining financial institutions referred to above. Staffing this Team remains a priority. Following the receipt of its powers, the Team commenced one inspection. This was still ongoing at the year end.

During 2016 IAASA was also conferred with the responsibility for the adoption of auditing and related ethical and internal quality control standards. At the year end work was well advanced in putting Irish standards in place. And also during 2016 significant progress was made on our liquidator registration obligations.

Integral to our work are our engagement and advocacy responsibilities, and IAASA engages on a regular basis with a range of bodies at EU and international level, including the European Securities and Markets Authority ('ESMA'), the Commission for European Auditor Oversight Bodies ('CEAOB'), and the International Forum for Independent Audit Regulators ('IFIAR'). As part of this engagement we are active members of a number of committees and working groups. We also work closely with other audit regulators. In particular, we liaise with the Financial Reporting Council in the UK across a range of our activities, including attending as an observer at the Corporate Reporting Council and Audit & Assurance Council. The Corporate Reporting Council provides strategic input to the FRC as a whole with regard to accounting standards. The Audit & Assurance Council considers and advises the FRC Board and the Codes and Standards Committee on audit and assurance matters.

We also published a range of reports covering our work as financial reporting enforcer, and on the accounting profession, all of which are available on our website, [www.iaasa.ie](http://www.iaasa.ie). And as part of our wider advocacy role we engaged regularly with our stakeholders during the year.

## Concluding remarks

Our 2016 Report provides a comprehensive review of the breadth of the work of IAASA during 2016. Achieving this, and dealing with the changing legislative environment within which we operate, brought enormous challenges to the organisation during the year. I would like to pay tribute to the hard work and dedication of my colleagues, who in my short time in office have already shown their professionalism, flexibility and willingness to take on those challenges. I would also like to express my gratitude to my Chairperson and Deputy Chairperson and the Board for their ongoing support and guidance.

*Kevin Prendergast*  
*Chief Executive*  
28 April 2017