



Irish Auditing & Accounting Supervisory Authority

IAASA's role in supporting and enhancing market confidence through regulatory and compliance oversight

**Presentation to the
Association of Compliance Officers in Ireland
Institute of Bankers - 22 January, 2009**

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Disclaimer

The views expressed are my own and do not necessarily reflect the views of the Board or of individual Board members.

Overview

- Context
- Principal statutory functions
- Forthcoming developments
- Closing remarks

Mission

‘To support and enhance public confidence in the accountancy profession and in financial reporting through the exercise of effective, independent oversight and promotion of adherence to high standards’

Context

- *‘Supporting and enhancing market confidence’*
- Market confidence arguably at an all time low:
 - Equities have nosedived – investors nursing substantial losses;
 - Public finances facing major challenges due to contraction in tax revenues;
 - Public/media concern/outrage at banks’ activities during the boom – charges of profit-driven irresponsible/reckless lending practices;
 - Banks being recapitalised/nationalised – Exchequer’s exposure unclear;
 - Apparent concealment of loans and associated financial reporting issues;
 - Concerns being expressed over auditors’ role; and
 - Severe criticism of regulators.

Context

- Current domestic and international economic climate posing major challenges and risks in the context of issuers' statutory financial reporting;
- Increased risk of material misstatement in issuers' financial statements;
- Difficult time for Audit and Risk Committees;
- Associated challenges and risks for auditors; and
- Associated challenges and risks for regulators/supervisors.

Principal statutory functions

- Supervise certain listed entities' statutory financial reporting;
- Supervise the Prescribed Accountancy Bodies' (PABs) regulation and monitoring of their members and member firms;
- Provide advice on auditing and accounting matters to the Ministers for Enterprise, Trade & Employment and Trade & Commerce respectively; and
- Promote adherence to high standards, i.e., in the areas of audit and financial reporting.

Supervision of issuers' statutory financial reporting

- Approximately 260 issuers within scope, comprising of equity, debt and CEFs (40/160/60);
- Approximately 450 periodic financial reports published per annum;
- Issuers' reports selected for review on a risk assessment basis; and
- Reviews examine compliance with '*relevant reporting framework*', i.e. accounting standards and relevant legislation.

Supervision of the accountancy profession

- Nine PABs within remit (of which six are also RABs);
- Approval of PABs' constitutional documents and proposed amendments thereto;
- On-site and desk-based reviews – examine all aspects of the PABs' regulatory & monitoring activities; and
- Examination of complaints received (re PABs and their members/member firms).

Financial Reporting Supervision

- Selection methodology employed in selecting issuers' PFRs for review as regard to relevant factors including, *inter alia*:
 - financial structure and business/economic trends;
 - financial position and ratios;
 - industry specific issues;
 - audit qualifications and related issues;
 - corporate governance and control environment issues;
 - incidence of related party transactions;
 - incidence of business combinations and/or disposals;
 - administrative, court and/or regulatory actions; and
 - third party signals (e.g. complaints, referrals, press reportage).

Financial Reporting Supervision

- Issues arising are addressed to issuers' Boards in writing and comments and responses sought ;
- Formal legal process - statutory entitlement to receive information, explanations and documents from issuers and directors;
- Outputs of review activity can include:
 - agreed rectification actions;
 - voluntary remediation, i.e. re-filing (31 to date);
 - enforced re-filing (plus costs);
- Issues arising – greater likelihood of subsequent review.

Supervision of the Accountancy Profession

- Outputs include:
 - Written Reports to governing body (typically Council) detailing:
 - Findings & conclusions;
 - Required improvements to Constitution, Rules, Regulations etc.;
 - Recommended improvements;
 - Attachment of conditions;
 - Implementation of measures to monitor compliance with conditions;
 - Referrals to other parties (including PABs and other regulatory bodies);
 - Instigation of statutory Enquiries.

Advocacy/Advisory

- Direct advice to Minister;
- Indirect advice, e.g. through membership of the CLRG;
- Development and publication of guidance and feedback, e.g. on issuers' obligations under the Transparency Regulations and on review findings to date;
- Observations on year end financial reporting issues published last week.

Forthcoming developments

- EU 8th Company Law Directive (expected to be transposed by March 2009):
 - Independent oversight of statutory auditors;
 - Audit Committees (PIEs);
 - Dismissal – proper grounds (not including differences of opinion);
 - Auditing standards;
 - 3rd country auditors;
 - Transparency reports;
- EU Recommendation on Quality Assurance
- EU Recommendation on Auditors' Liability

The Compliance Function

- In IAASA's experience, many of the issues that have arisen have been the result of insufficient importance being placed on internal arrangements for ensuring compliance with, *inter alia*, law, regulations and internal procedures;
- Properly resourced and supported Compliance Functions have the potential to enable management to avoid many of these issues, thereby leading to the benefits of:
 - reduced risk ratings; and
 - less frequent/intrusive regulatory attention.

The Compliance Function

- While Compliance may in recent years have been considered to be a necessary evil (*'Prevention of Business Unit'*), in view of more recent developments, the Compliance Function is likely to assume a much higher profile and level of importance in the coming years.
- This would suggest that it's a good (albeit challenging) time to be a Compliance professional.
- Important that Compliance professionals have the means of sharing experiences and leveraging off each others' knowledge, methodologies and practices – IAASA has similarly benefitted from fora such as IFIAR and the EGAOB).

ACOI

- The context of the foregoing, the ACOI clearly has a key role to play in:
 - providing support to members;
 - representing members' interests; and
 - increasing the profile and understanding of Compliance professionals' role and the importance of that role to the organisation as a whole.

Further information

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Thank you