



**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 8<sup>th</sup> 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;
  - 3<sup>rd</sup> 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