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Mr. Kevin Prendergast
Chief Executive
Irish Auditing & Accounting Supervisory Authority
Willow House
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Dear Kevin

We welcome the opportunity to set out our views on the Authority's recently published proposals to revise the Ethical Standards for Auditors (Ireland) and the ISAs (Ireland), and related guidance and glossary.

We agree with the adoption of standards which pursue as their objective enhancement of confidence in audit and strengthening independence of the auditor.

We are pleased to note that the Authority has considered those changes within the FRC standards which pose potential conflicts to Irish or EU Law, and in particular those amended in the UK to reflect legislation passed by the UK Parliament which are applicable post Brexit.

We also welcome the Authority's decision not to replace the requirements on the existing list of prohibited non-audit services with a "white list" of permitted non-audit services that may be provided to Public Interest Entity ("PIE") audit clients. Providing a regime which maintains alignment with the international ethical standard published by IESBA as well as with statutory requirements adopted within the European Union is an appropriate decision by the Authority.

There are key changes proposed in the consultation which we understand are being introduced based on changes adopted by the FRC following their review of the efficacy of the 2016 UK Auditing and Ethical Standards. We have commented on some of these in our responses to the specific questions set out in the consultation paper, as well as noting some other matters for consideration. In general, it is our belief that proposals for change should be considered where there is evidence that these are necessary to enhance quality or to respond to the marketplace. It is unclear from the consultation paper which proposals are to respond to such findings, and their equivalence in Ireland.

Guidance

There have been significant and key changes to the Ethical Standards in the last few years, commencing with the transposition of the EU Audit Directive and Regulation in the current 2017 standards, and now further proposed changes presented in this consultation. We welcome those proposed changes which provide further clarification and guidance to auditors on application of the requirements. We would however welcome the Authority developing regular guidance or FAQs based on local thematic matters arising from the audit firm inspection programme or as a result of enquiries that have been received from firms and audit committees.

Timing - Proposed Effective Date

A key point which we wish to raise in our submission, and further considerations are set out later in this submission, is on the timing of implementation. We note that the Authority's proposed effective date for these revised changes in Ireland is for the audits of financial statements with accounting periods beginning on or after 15 October 2020. We have concerns on the proposed timeline which we believe will present acute practical challenges to audit firms, as well as to Companies and their Directors.

The consultation on these proposals comes at a time of significant challenge for the profession, and for all businesses. The current COVID-19 pandemic is significantly impacting businesses and the economy. Businesses and professions are trying to stabilise in a difficult economic environment and return their staff to their places of work.

In particular, regulators including IAASA and the wider accountancy profession are assisting auditors navigate some of the challenges ahead and which will remain for the foreseeable future. As a result of these challenges, regulators and standard setters are deferring normal work plans and implementation dates, thus allowing sufficient time, resource and effort that is required to deal with these matters.

Whilst some of the proposals could potentially be adopted with relative practical ease and in the timeline presented, firms are not currently operating under normal working conditions, indeed the current environment is presenting significant pressure on the system for Companies and their auditors. The final standards will only be available for a very short period of time before the effective date.

A number of the more key proposals presented by IAASA will require a substantial effort by audit firms to implement. In addition to the requirement for amendments to audit firm's policies and procedures, the proposals will require significant resource and time to transition to the finalised new requirements as well as to develop and implement appropriate training programmes for staff. Similar challenges will be required of Companies and their Directors in a

number of areas of the key changes proposed, in particular those presented in the Ethical Standards.

We would encourage the Authority to allow for more time for implementation. We set out some considerations for the Authority to consider in our response to Question 5.

Audit Framework Setting Policy in Ireland – Time for Change

Whilst we strongly support an Auditing Framework that continues to evolve to best serve the wider public interest, we believe it is important that the Authority reflect on its current policy to adopt the UK standards with minimal amendments.

Recent changes in the UK as a result of Brexit and an evolving regulatory landscape including a recent set of proposals by the FRC providing a set of principles for operational separation of audit firms further evidences a continuing divergence of initiatives implemented in the UK compared with the rest of Europe.

As the regulatory landscape in the UK continues to evolve and their standards continue to diverge from auditing and ethical standards that are applied by European auditors, we think it is an apt time to consider the appropriateness of adopting proposals by the UK standard setter. The changes proposed in the UK were determined by the UK standard setter to be necessary based on their review of the efficacy of their UK Audit Framework as applied by UK statutory auditors, as well as guidance that was published by the FRC on implementation of the Audit Directive and Audit Regulation in 2016.

Detailed responses to the questions posed in the consultation paper are attached as an Appendix to this letter.

We would again like to thank you for the opportunity to comment on the proposed revisions to the Ethical and Auditing Standards. Our comments are provided in the spirit of constructive feedback and we hope that you find them helpful. Should you wish to discuss any aspect of our response further, please do not hesitate to contact us.

Yours sincerely



Dermot Quinn

Partner, Audit Compliance Principal

Appendix: Responses to Specific Questions in the Consultation Paper

Question 1

In the context of IAASA's policy to make minimal amendments to the UK standards, are there any amendments proposed that, in your opinion conflict with Irish or EU law?

If so, please:

- (a) identify the relevant proposed amendment(s);
- (b) identify the relevant legal provision(s);
- (c) give reasons for your view; and
- d) explain what action(s), if any, you believe should be taken to update the standards in Ireland in respect of the matter(s) concerned.

In our covering letter we noted that the Authority has reviewed the FRC revisions for potential conflicts with Irish or EU law, and in particular those where the text has been amended to reflect legislation passed by the UK Parliament applicable post Brexit. These exclusions from the IAASA proposals includes the FRC amended standards where these are inconsistent with Irish legislation and due to how the EU Audit Reform Directive and member state options in the Directive and Regulation have been transposed into Irish law compared to UK legislation post Brexit. We welcome this approach to not adopt standards which go beyond the requirements of EU and Irish law.

Some of the more significant proposals within the Ethical Standards is in the area of non-audit services (NAS), including proposed prohibitions on tax advocacy, secondments, contingent fees and internal audit services. These proposals also go beyond current Irish and EU law.

Part 4 of the consultation paper sets out the differences between the changes adopted in the UK and those proposed by the Authority. The first bullet point notes that the existing list of prohibited non-audit services in the Ethical Standards for Auditors (Ireland) reflects the requirements of the EU Regulation. Whilst this is true for the EU PIE specific prohibitions from the Audit Regulation, there are changes within IAASA's proposals for all audits which also go beyond the EU Regulation and Irish law which, as noted earlier, includes tax advocacy, internal audit services and loan staff assignments.

We expect that these amendments to the UK standards were to reflect the output of the FRCs review of the efficacy of the 2016 UK Auditing and Ethical standards and general related perception risks in the UK marketplace on conflicts of interest by auditors. As noted in previous submissions by this firm, we do not believe that the current non-audit service provisions adversely affect audit quality. We consider the current regime to be appropriate.

Question 2

In the context of IAASA's policy to make minimal amendments to the UK standards, are there any areas not identified in this consultation paper where there are distinct differences between the Irish and UK markets which, in your opinion, would impact on the applicability of the proposed amendments to the standards in Ireland?

If so, please:

- (a) identify the relevant proposed amendment(s);
- (b) identify the market sector(s), audited entities etc. in Ireland impacted by the proposed amendment(s);
- (c) give reasons for your view; and
- (d) explain what action, if any, you believe should be taken to update the standards in Ireland in respect of the matter(s) concerned.

As noted in our covering letter, we believe there are evident differences in the regulatory landscape between the UK and Ireland which would appear to justify a regulatory impact analysis on proposed changes to Irish standards which mirror changes brought in by the UK standard setter.

The recent proposals to introduce principles of audit firm separation in the UK are testament to the different regulatory actions the UK regulator has deemed appropriate to respond to the UK landscape. Such proposals are unique to the UK and have not been, nor are we aware that they will be replicated elsewhere, particularly in Europe. We believe such an assessment to ensure appropriateness of adoption or proposed changes to the Auditing Framework in the Irish marketplace will ensure that companies are not limited in choice, where such choice is appropriate, and which could allow for a more cost effective engagement of service provider.

We believe that to introduce extended restrictions in Ireland is premature without a compelling reason at this particular time, as it is likely such proposals will create additional cost and unnecessary disruption to business.

In particular, we support the requirement that an audit cannot be undertaken by a firm if there is a threat to that firm's independence posed by advocacy that would fail the objective, reasonable and informed third party test. The provisions in the extant Ethical Standards which allow an audit firm / auditor to act as tax advisors in a situation where the matter is likely to be determined by an appeals tribunal or court and where it is not material to the entity's present or future financial statements, or where the outcome of the tax issue will not be dependent on a future or contemporary judgement by the firm in relation to the financial statements is appropriately restrictive. We do not believe there was necessity or evidence that this should be restricted and the standard should continue to allow a business to benefit from one service provider and take action if the matter escalates such that tax advocacy is an issue.

We have a concern that the proposed prohibition would adversely affect small and medium-sized entities who may be more reliant on their auditor as a source of advice and support, and will likely impact smaller audit firms. The more rigid proposals would represent a significant level of administrative 'red tape' burden and increased costs, if every SME, which is subject to statutory audit, has to consider whether to appoint separate firms to provide audit and tax services and so to prevent extra management time and cost in selecting additional service providers and getting them up to speed on the details of matters which are known by their auditors.

Question 3

As noted in section 4 above, the FRC has expanded the scope of the non-audit services requirements applicable to PIEs to include 'other entities of public interest', as defined in the FRC's glossary of terms, which is available [here](#). In your view, should IAASA expand the scope of the non-audit services requirements applicable to PIEs to include 'other entities of public interest' in Ireland? If so, please (a) give your reasons; and (b) provide a suggested definition and examples of the entities to be included within the definition of 'other entities of public interest'.

We agree with the Authority's current proposals not to expand the scope of non-audit service requirements applicable to PIEs to include "other entities of public interest". The concept of a PIE is one that has been enshrined in EU and also Irish law since the 8th Statutory Audit Directive. The definition is applied throughout Europe and can be supplemented under member state option of the EU Directive. On transposition of the definition of PIE in Irish law it was not deemed necessary to supplement with other categories of entity that would be considered public interest. We believe this position remains and to introduce a second tier of public interest entity would create a conflict of the Ethical Standards for Ireland with Irish and EU Law.

Questions 4

Are there any matters set out in section 4 above that should, in your view, be reflected in the revised standards in Ireland? If so, please give your reasons and explain what action, if any, you believe should be taken to update the standards in Ireland in respect of the matter(s) concerned.

We agree with IAASA's approach in this regard and also concur with the Authority that none of those provisions are necessary for the reasons stated in the explanation provided in section 4 as the basis for the difference.

Question 5

Is the proposed effective date, i.e. for financial periods beginning on or after 15 October 2020, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.

As noted in our covering letter, we believe the effective date proposed is too short and particularly for companies with 31 December year ends. We would encourage the Authority to allow more time for implementation of the final proposed changes and consider deferring the implementation date to the start of 2021 at the earliest and allowing for transitional arrangements such as in flight non-audit services to be completed/ transitioned, subject to a maximum of 12 month period from the effective date.