
CHAPTER 2

Chairperson's Statement and Chief Executive's Review

Introduction

This is IAASA's ('the Authority') twelfth Annual Report. It is with pleasure that I submit it to the Minister for Business, Enterprise and 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 2017 to fulfil its mission. The remainder of this Report gives details of this work. In my Statement, I would like to focus on key developments affecting IAASA both now and into the future.

A significant year

2017 was a year of significant achievement for IAASA. In addition to the continued development of our role in the direct inspection of auditors of PIEs, and our preparations in the context of the Companies (Statutory Audits) Bill 2017, two particular accomplishments are worthy of note. At the beginning of the year IAASA issued the Auditing Framework for Ireland, which sets the standards for all statutory audits undertaken on Irish companies. For the first time in the history of the State, Ireland now has responsibility for issuing its own auditing standards. I am pleased to note that their implementation has been smooth and, working with our stakeholders, we continue to develop and where appropriate expand that framework.

Towards the end of the year I signed a Memorandum of Understanding on behalf of IAASA with the US auditing regulator, the Public Companies Audit Oversight Board ('PCAOB'). This was followed shortly after by a joint inspection of an Irish firm by staff from both authorities. Both authorities will continue to build on this groundwork and we expect that such joint engagements will become a regular part of the Authority's annual work programme.

Both of these were important milestones in Irish audit regulation, and were achieved as a result of significant engagement by the Authority, working with fellow regulators and other stakeholders over an extended period. I wish to pay tribute to all those in the Authority who worked to make them possible.

Companies (Statutory Audits) Bill 2017

As detailed in this Report, the Companies (Statutory Audits) Bill 2017, introduced to the Oireachtas in November 2017 and which is expected to be enacted during 2018, will alter the audit regulatory oversight model in the State. The Bill provides the Authority with additional powers in respect of its oversight of the RABs and also in relation to its enhanced investigation and disciplinary responsibilities related to PIE auditors. In respect of the latter, the Bill provides the superstructure for the development of an enhanced Conduct function within IAASA. IAASA has commenced the process of establishing a dedicated Conduct Unit which will be capable of carrying out its investigative functions under law, that is, matters arising from the Authority's inspections of PIE auditors, matters referred to it by another authority, as well as cases where the Authority determines that it is appropriate or in the public interest to do so.

The Authority will continue its preparations for the Bill during 2018, preparations which include ongoing discussions with all parties affected by the legislation.

Audit Quality

The Authority has now been carrying out its inspections of PIE auditors for over a year. The strategic plan for this area of work included an undertaking to publish the results as and from the second round of inspections, to allow firms to adjust to the new oversight regime. PIE auditors include all of the Big 4 global audit firms and currently a further five firms, most of which are significant in the Irish market. Arising from IAASA inspections, audit firms have one year to implement recommendations or they will be subject to disciplinary action. As such, during 2018 the Authority will begin the process of reviewing the recommendations issued. The Audit Quality Unit engages with PIE auditors to ensure that implementation is taking place in order to minimise the need for formal measures to be employed.

Brexit

On 29 March 2017 the UK Government triggered Article 50 of the Lisbon Treaty setting a two year deadline for the negotiations that will ultimately lead to Britain exiting the EU. These negotiations between the UK and the EU are now well underway.

Brexit has the capacity to affect IAASA on a number of fronts. The structure of the auditing profession across these islands predates the EU and allows for free movement and recognition of qualifications for the UK based RABs in Ireland. While this recognition is housed in Irish domestic law, *Brexit* has the capacity to impact directly on this structure. Depending on how *Brexit* is implemented, this could impact on those members of RABs which are based in the UK. In turn this could have a significant impact on IAASA's regulatory oversight model were the UK RABs to be excluded from EU, and hence Irish, recognition. Alternatively, *Brexit* may impact on those auditors who are themselves resident in the UK. In the context of what for significant parts of the profession is an all island structure, again the impact could be considerable.

Brexit may also impact on IAASA's population of issuers under its remit (depending on how issuers listed in the UK may seek to re-list within the EU) as well as on our accountancy supervision role, with the three PABs who are not RABs having their regulatory functions based in the UK.

In response, IAASA has engaged with the Department of Business, Enterprise and Innovation in highlighting the projected impacts of *Brexit* on the auditing and accounting profession, and has discussed the issues raised with a wide range of stakeholders. The lack of clarity around the final shape of *Brexit* is a challenge to providing guidance on those impacts. *Brexit* is now a standing agenda item for IAASA at Board meetings, and the Authority will continue this process of engagement with a view to ensuring that it is well placed to address the various challenges that *Brexit*, regardless of its final form, will bring.

Governance

Over the past few years IAASA has undergone significant change in its governance structure and responsibilities. While the Board has shrunk in size from 15 directors to ten (and to nine subsequent to the year end), the responsibilities of the Authority have expanded considerably at the same time. Allied to the introduction of the Code of Practice for the Governance for State Bodies in 2016, and its adoption by IAASA in 2017, the Board identified this as an appropriate point to review the Authority's governance arrangements. The outcome of this review will hopefully be a structure that allows the Board to fulfil its statutory obligations while also making the best use of both the Board and the Executive team. At the year end that process of review is ongoing.

2017 marked the departure of Michael Quinlan, one of our longest serving Board members. I would like to thank Michael for his contribution to the Authority during his tenure. In line with the reduction in the size of the Authority's Board under the Act, Michael was not replaced. Separately there remained a board vacancy and Nicole Lappin was appointed as a Ministerial nominee to fill that vacancy. Nicole brings a wealth of experience in a range of regulatory and governance roles in Northern Ireland.

Concluding remarks

My first full year as Chairperson has been an eventful one for the Authority as it responds to the wider responsibilities imposed by developments in audit regulation. In that time I have been gratified by the support and commitment from my fellow Board members. In addition I would also like to thank the Executive team and the entire staff of IAASA for their work and dedication during 2017. On behalf of the Board I wish to thank the Minister and her staff for their continued support. I believe that the open and constructive working relationship between the Authority and the Department, with mutual respect for the role of each, is conducive to the highest standards of efficiency and effectiveness in regulation. All of this will hopefully serve us well in rising to the challenges that are to come.

Martin Sisk
Chairperson

30 APRIL 2018

Introduction

The purpose of this review is to provide an overview of the activities of IAASA during 2017. During the year the Authority expanded its operations across the range of its remit, while at the same time recruiting additional staff to meet its enhanced regulatory challenges. IAASA now issues auditing standards for use in the State for the first time. Highlights during the year included the publication of the Auditing Framework for Ireland, and the conclusion of an agreement with our US counterparts, the PCAOB. We were also pleased to participate in the first joint PCAOB inspection later in the year.

Key activities

Under our financial reporting supervision remit the Authority completed 34 examinations of reports issued by entities under our supervision. Arising from that work staff from the Authority submitted seven issues to the EECS decisions database, which collates all significant accounting enforcer decisions across the EU. IAASA's contribution to this project was noted in the Peer Review Report issued by ESMA during the year, which commended the Authority's contribution to the EECS database. Despite having just 2% of total EU IFRS issuers, IAASA has contributed 14% of the decisions submitted to the database. While in general equity issuers continue to report to a good standard, concerns remain in relation to some debt and fund issuers. Looking to the future, new financial reporting standards in the area of financial instruments, revenue and leases, as well as the estimation of the impact of *Brexit*, will all be expected to impact on issuers' reports in the coming year.

On 1 February 2017 IAASA issued the Auditing Framework for Ireland, and auditors must now comply with International Standards on Auditing (Ireland), as issued by the Authority. IAASA issued both Auditing and Ethical standards on that date, with a number of updates issued later in the year primarily to reflect changes in the underlying International Standards on which they are based. IAASA has established an Audit Standards Team and at year end was putting in place a Technical Advisory Panel to assist the Authority on standards related issues. The Authority continues

to monitor the market to assess the need for new standards or modification of current standards. The Irish standards are modelled on the UK equivalents, with minimal amendments. This was in the main because the UK standards provide much more detail and hence clarity for stakeholders, and also to ensure consistency for auditors with the standards that were previously in place. The Authority will keep the policy under review, not least in light of *Brexit*.

Under our direct inspections remit, inspections of the Big 4 firms were either commenced or continued in 2017. Consistent with our stated policy, the outcomes of these inspections will not be published to allow all of the nine firms under our remit to adjust to the new inspections regime. However I can say that, notwithstanding some issues that will require addressing, in general the standard of audits we have inspected so far has been high.

In November the Authority and the PCAOB announced that they had signed an agreement allowing for joint inspections of certain firms in Ireland who audited entities listed on regulated US exchanges or who contributed to the audits of such entities. This was subsequently followed by the first joint inspection. This successfully brought to a conclusion negotiations which had been progressing for some time. We look forward to continuing our working relationship with PCAOB.

The Authority is a member of the Committee of European Auditing Oversight Bodies ('CEAOB'), which brings together all the national audit oversight bodies at EU level. In October the Authority hosted meetings of three CEOB sub-groups, including the market monitoring sub-group which is chaired by a staff member of the Authority.

In June 2017 two of Ireland's six RABs held EGMs to provide for the members of Institute of Incorporated Public Accountants ('IIPA') to join the Institute of Certified Public Accountants in Ireland ('CPA'). Subsequently the majority of both members and students of IIPA transferred their membership. IIPA indicated publicly that it was its intention to seek de-recognition as a RAB subsequent to that transfer. At the year end IAASA was continuing to work with both RABs on this project.

In November the Department of Business, Enterprise and Innovation published the Companies (Statutory Audits) Bill 2017, which will replace SI 312. The Bill will create a new Part 27 in the Companies Act 2014 dealing specifically with audit. The Bill proposes a revised model of regulatory oversight for the RABs and IAASA will have an enhanced range of powers to assist it in carrying out its supervisory role. IAASA contributed to the Bill drafting process through liaison with the Department throughout the year.

The Authority finalised three on-site supervisory reviews in relation to the PABs' investigation and disciplinary processes during the year, and further work was being undertaken on three more on-site reviews at the year end. Arising from these reviews, IAASA continues to work with the PABs on the implementation of the recommendations made therein.

In preparation for the Bill and also in recognition of its enhanced role in investigations under SI 312, the Authority has continued its development work within its now established Conduct team. A Conduct Team Lead was recruited in 2017 and detailed work on policy and procedures was ongoing at the year end.

Under its ongoing enforcement powers, the Authority agreed a settlement with the Institute of Chartered Accountants in Ireland ('ICAI') in relation to a failure to comply with its approved investigation and disciplinary procedures.

The Act gave the Authority responsibility for the admission of certain persons as liquidators (so-called "Category 5 Liquidators"). This process was finalised in 2017, when power to prescribe forms was granted to the Authority. The form and fee relating to admissions was prescribed, and the final deadline for submissions was set at 1 December. In all 26 applications were received and were being processed at the year end.

The growth of the Authority over the past two years has driven a whole range of separate but necessary developments to support IAASA and its staff. IAASA has expanded its floorspace in its premises in Naas, has significantly upgraded its IT systems, and has also promoted staff development through education support.

IAASA is committed to a policy of stakeholder engagement across its workstreams. As part of that commitment, IAASA staff attend a range of EU and international fora. These include EECs sessions and the Corporate Reporting Steering Committee ('CRSC') of ESMA as part of its financial reporting remit, and CEAOB and International Forum of Independent Audit Regulators ('IFIAR') meetings as part of its audit inspection and enforcement roles. The Authority also has observer status at the Corporate Reporting Committee and the Audit & Assurance Committee of the UK Financial Reporting Council. IAASA publishes a range of reports and statistics on the profession, as set out in Appendix 4 to this report. We also regularly engage with our stakeholders throughout the year.

Concluding remarks

2017 was a year of further expansion for the Authority in response to the obligations placed on it by domestic and EU legislation. Looking forward, enactment of the Companies (Statutory Audits) Bill 2017 will bring about further change for the Authority. IAASA has been able to respond to these demands only with the dedication and goodwill of an exceptional group of people, its staff. I am deeply indebted to them. I would also like to express my ongoing appreciation for the support afforded to me by the Chairperson and the Board of IAASA.

Kevin Prendergast
Chief Executive

30 APRIL 2018

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