

2020

## **Consultation Paper**

Proposals to revise the Ethical Standard for Auditors (Ireland), International Standards on Auditing (Ireland) and Glossary of Terms

## **MISSION**

**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**

## Contents

1. Summary.....	3
2. Background.....	3
3. Overview of proposed revisions to the Irish auditing framework .....	3
3.1 Ethical Standard for Auditors (Ireland) .....	4
3.2 ISAs (Ireland) .....	4
4. Differences to UK revisions .....	5
5. Matters on which IAASA is consulting .....	6
6. Making your submission.....	7
7. Covid-19.....	7

## 1. Summary

The purpose of this consultation paper is to obtain the views of stakeholders with regard to IAASA's proposals to issue revised versions of:

- the Ethical Standard for Auditors (Ireland);
- certain International Standards on Auditing (Ireland) and the International Standard on Quality Control (Ireland) 1 (together the 'ISAs (Ireland)'); and
- the Glossary of Terms, which defines the terms used in the Irish auditing framework.

The proposed revised Ethical Standard for Auditors (Ireland) and Glossary of Terms and the proposed revisions to the ISAs (Ireland) can be found [here](#).

The proposed effective date of the revised standards in Ireland is for the audits of financial statements with accounting periods beginning on or after 15 October 2020.

## 2. Background

The ISAs (Ireland) are based on the ISAs (UK) which, in turn, are based on the corresponding standards issued by the International Auditing and Assurance Standards Board ('IAASB'<sup>1</sup>). The Ethical Standard for Auditors (Ireland) is based on the Ethical Standard (UK), which has been developed by the Financial Reporting Council ('FRC') and adheres to the principles of the IESBA<sup>2</sup> Code of Ethics.

IAASA's policy is to make minimal amendments to the UK standards. Amendments are considered where there is a conflict with Irish or EU law or where there are distinct differences between the Irish and UK markets which impact on the applicability of a standard in Ireland.

On 17 December 2019, the FRC in the UK issued revised versions of:

- its Ethical Standard; and
- certain ISAs (UK) and the International Standard on Quality Control (UK) 1;

and made corresponding amendments to its Glossary of Terms (Auditing and Ethics).

The changes made by the FRC reflect revisions to the IESBA Code of Ethics which came into effect on 15 June 2019 and the outcome of the FRC's post implementation review of the efficacy of the 2016 UK Auditing and Ethical standards. The FRC's revisions also reflect the provisions of UK legislation applicable post Brexit. Prior to the adoption of the revised standards, the FRC consulted on the proposed revisions in July 2019. The FRC's feedback in respect of that consultation can be found [here](#) on its website.

## 3. Overview of proposed revisions to the Irish auditing framework

Section 4 of this consultation paper sets out specific areas where it is not proposed to adopt the FRC's changes in Ireland. Otherwise, IAASA supports the FRC's amendments, noting that they are designed to reflect the revised IESBA code and address issues identified in the 2016 UK Auditing and Ethical Standards and are intended to improve audit quality.

IAASA is not proposing to add any new Irish requirements to the changes made by the FRC. Amendments have been made to reflect the enactment of the Companies (Statutory Audits) Act 2018, which revoked and replaced Statutory Instrument 312 of 2016<sup>3</sup> ('SI 312 of 2016'), e.g. replacement of references to SI 312 of 2016, updating of definitions that come from Irish/EU

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<sup>1</sup> IAASB is a committee of the International Federation of Accountants (IFAC).

<sup>2</sup> The International Ethics Standards Board for Accountants ('IESBA') is also a committee of IFAC.

<sup>3</sup> European Union (Statutory Audits) (Directive 2006/43/EC, as amended by Directive 2014/56/EU, and Regulation (EU) No 537/2014) Regulations 2016.

legislation and removal of references to 'public auditors'. In addition, some wording amendments have been made to the Ethical Standard for Auditors (Ireland) and IAASA's Glossary of Terms to reflect the fact that they apply to auditors only. These changes do not alter the requirements of the standards.

The principal proposed revisions to the Irish auditing framework are listed below.

### 3.1. Ethical Standard for Auditors (Ireland)

- Simplification and restructuring of the Ethical Standard for Auditors (Ireland), which is intended to assist auditors better understand the ethical requirements and so lead to a higher level of compliance.
- The 'objective, reasonable and informed third party' test has been redefined and additional application guidance inserted.
- Changes to reflect the prohibitions in the revised IESBA code on providing recruitment services to or acting as the general counsel of an audited entity.
- Strengthening of a number of ethical prohibitions and requirements related to auditor independence for all audit clients, including prohibitions on:
  - contingent fees for all services;
  - the provision of internal audit services; and
  - loan staff assignments.
- Enhancements to ethics partners' authority.
- Removal of the reliefs for small and medium listed entities in section 5 of the extant Ethical Standard for Auditors (Ireland).
- A new requirement for auditors to report breaches of the Ethical Standard for Auditors (Ireland) on a biannual basis to:
  - IAASA for auditors of public interest entities ('PIEs'); and
  - the relevant recognised accountancy body for non-PIE auditors.

Auditors will also be required to report any breaches relating to a specific audit to those charged with governance of the relevant entity.

- The cooling off period for engagement partners on PIE audits has been amended to 3 years, as provided in EU Regulation 537 of 2014 ('the EU Regulation'), and a corresponding change made to the requirement for listed entities.

### 3.2. ISAs (Ireland)

- Clarification and enhancement of requirements relating to:
  - group audit procedures;
  - auditor reporting; and
  - the auditor's work effort in respect of 'other information' included in annual financial reports.
- Conforming amendments to align with the requirements of ISA (Ireland) 570 (Revised October 2019), Going Concern.
- Extension of the requirement for the auditor report to explain the extent to which the audit was considered capable of detecting irregularities, including fraud, to all audits.

Where it is anticipated that changes will be made to paragraph numbering or referencing (including footnotes) in the ISAs (Ireland), they have not all been reflected in the consultation document as these are not substantive changes and will not impact on the work effort required by auditors.

#### 4. Differences to UK revisions

The FRC's revisions were reviewed for potential conflicts with Irish or EU law, in particular text which has been amended to reflect legislation passed by the UK Parliament applicable post Brexit. IAASA identified a number of instances where the changes made by the FRC are inconsistent with Irish legislation, largely due to how the EU Audit Reform Directive (2006/43/EC, as amended) and member state options in both that Directive and the EU Regulation have been transposed into Irish law compared to UK legislation post Brexit.

In this context, the substantive differences between the changes made to the UK standards by the FRC in December 2019 and the proposed revisions to the Irish auditing framework are listed below.

- The existing list of prohibited non-audit services in the Ethical Standard for Auditors (Ireland) reflects the requirements of the EU Regulation. In this context, it is not proposed to replace this requirement with a 'white list' of permitted non-audit services that may be provided to PIE audit clients.
- References to the EU Audit Reform Directive and the EU Regulation in the Ethical Standard for Auditors (Ireland) and ISAs (Ireland) have been retained to indicate where requirements are derived from EU legislation. Provisions setting out legislative requirements reflect the wording and requirements of Irish/EU legislation, which in some instances differ to the corresponding provisions in the FRC standards.
- The FRC has expanded the scope of the non-audit services requirements applicable to PIEs to include 'other entities of public interest'. These are entities that do not meet the definition of a PIE but are 'of significant public interest to stakeholders', which the FRC have stated includes the following entities in the UK:
  - large Alternative Investment Market listed entities;
  - Lloyds syndicates;
  - large private sector pension schemes; and
  - entities subject to UK Regulations on corporate governance (there is no Irish equivalent of these Regulations).

The definition of PIE in section 1461 of the Companies Act 2014 includes 'undertakings that are otherwise designated by or under any other enactment.' To date, no such entities have been so designated in Irish law. Question 3 below seeks respondents' views on this topic.

- The Companies Act 2014 and the EU Audit Reform Directive prohibit the imposition of additional independence requirements on a statutory auditor or firm in the case of a subsidiary established in another EU state. In this context, it is not proposed to extend the independence requirements of the Ethical Standard for Auditors (Ireland) to apply to the auditors of all components in a group regardless of location.
- The FRC has removed the derogation for auditors that allows them to provide certain prohibited non-audit services to PIE audit clients where they have 'no direct' or an 'immaterial' effect on the financial statements. This provision has been retained in the Ethical Standard for Auditors (Ireland) as it reflects the provisions of the Companies Act 2014.

## 5. Matters on which IAASA is consulting

In light of the above, a number of matters are set out below on which IAASA is seeking views from stakeholders and interested parties by 5pm on **Friday 3 July 2020**.

No.	Matter on which views are sought
1.	<p>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?</p> <p>If so, please:</p> <ul style="list-style-type: none"><li>(a) identify the relevant proposed amendment(s);</li><li>(b) identify the relevant legal provision(s);</li><li>(c) give reasons for your view; and</li><li>(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.</li></ul>
2.	<p>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?</p> <p>If so, please:</p> <ul style="list-style-type: none"><li>(a) identify the relevant proposed amendment(s);</li><li>(b) identify the market sector(s), audited entities etc. in Ireland impacted by the proposed amendment(s);</li><li>(c) give reasons for your view; and</li><li>(d) explain what action, if any, you believe should be taken to update the standards in Ireland in respect of the matter(s) concerned.</li></ul>
3.	<p>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 <a href="#">here</a></p> <p>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?</p> <p>If so, please</p> <ul style="list-style-type: none"><li>(a) give your reasons; and</li><li>(b) provide a suggested definition and examples of the entities to be included within the definition of 'other entities of public interest'.</li></ul>
4.	<p>Are there any matters set out in section 4 above that should, in your view, be reflected in the revised standards in Ireland?</p> <p>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.</p>
5.	<p>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.</p>

## 6. Making your submission

IAASA invites comments on all proposed amendments to the Ethical Standard for Auditors (Ireland), the ISAs (Ireland) and the Glossary of Terms. In particular, comments are sought on the specific matters set out in Section 5 above.

Stakeholders and interested parties are invited to provide responses to the above questions by e-mail only to **submissions@iaasa.ie** no later than **5pm on Friday 3 July 2020**.

Any anonymous submissions will not be considered.

Comments are most helpful if they:

- (a) respond directly to the specific question posed;
- (b) provide a clear rationale for the position adopted by the respondent;
- (c) provide supporting evidence underpinning the views expressed/rationale proposed; and
- (d) describe in detail any alternative option(s) you wish IAASA to consider.

All responses from identifiable individuals and organisations received by the deadline will be considered by IAASA. Depending on the nature and scale of responses, IAASA may publish a feedback statement summarising the content of the responses. Respondents should note that, in the interest of transparency, their responses may be published in full or in part (and may be attributed to the respondent) by IAASA in that feedback statement.

## 7. Covid-19

IAASA recognises that this is a challenging time for everyone due to the impact of Covid-19 and that working arrangements have changed significantly in recent weeks.

In this context, while a response period of 3 months (until **Friday 3 July 2020**) has been specified in this consultation paper, IAASA will monitor the situation and extend the consultation period if necessary.

All updates will be posted to the IAASA website ([www.iaasa.ie](http://www.iaasa.ie)).



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