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# CHAPTER 1

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Overview of 2015

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## 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

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## What IAASA does

IAASA is the independent body in Ireland responsible for the:

- (a) examination and enforcement of certain listed entities' periodic financial reporting;
- (b) supervision of the regulatory functions of the Prescribed Accountancy Bodies ('PABs'); and
- (b) (with effect from 17 June 2016) the inspection and promotion of improvements in the quality of auditing of Public Interest Entities ('PIEs').

IAASA's principal goals are to:

- I.** deliver independent and effective supervision of financial reporting which promotes high quality financial reporting and which responds to non-compliance robustly, promptly and proportionately;
- II.** deliver independent and effective supervision of the PABs' regulatory activities which promotes high quality regulation and which responds to inadequate regulatory practice robustly, promptly and proportionately;
- III.** promote adherence to high professional standards by accountants, auditors and preparers of financial reports; and
- IV.** provide specialist advice and support to the Minister for Jobs, Enterprise & Innovation ('the Minister') and high quality information to our stakeholders on key auditing and accounting matters.

The key strategies employed to realise these goals during 2015 were to:

- apply a risk-based approach to the supervision of the entities under IAASA's financial reporting supervision remit and to the supervision of the PABs;
- take appropriate supervisory and enforcement actions where necessary; and
- cooperate with third parties, both domestic and international, to further the Authority's objectives.

The work done to realise these goals is elaborated upon further in Chapters 2 and 3. IAASA's activities during the year in relation to the new activities of Audit Inspections and Liquidators registration are set out in Chapter 4. Information on the structure and governance of IAASA is set out in Chapter 5.

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# 3 CHAIRPERSON'S STATEMENT

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*Brendan Walsh, Chairperson*

Professor Brendan Walsh presided as Chairperson of IAASA from 3 January 2013 until his sudden and untimely death on 17 May 2016. A brief biography is set out in Chapter 5 of this Report.

Brendan was appointed to the Board in 2013, and brought a wealth of experience to the Board of IAASA. He had worked for many Irish and international bodies, and authored numerous studies on economic matters. He guided the Board during a period of significant development in the auditing and accounting profession nationally and internationally, providing strong leadership to the Authority as its role expanded to adapt to these changes. He presided over a Board where debate and discourse were welcomed and encouraged, so that complex issues could be comprehensively and properly dealt with. Aside from his knowledge and experience, Brendan's gentlemanly nature was such that all who worked with him in IAASA felt that their views were valued and respected.

The following was his Statement to the Minister on IAASA's achievements in 2015 and his expectations for 2016 and beyond.

*Ar dheis Dé go raibh a anam dílis.*

*Conor O'Mahony  
Deputy Chairperson*

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## Introduction

This is IAASA's ('the Authority') tenth Annual Report. It is with pleasure that I submit it to the Minister for Jobs, 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 2015 to fulfil its mission. The remainder of this Report gives details of this work. In my Statement, I would like to highlight some significant developments that occurred during the year 2015.

## Organisational change

2015 was a year of significant organisational change in the Authority. As described below, a new Audit Inspections Unit ('AIU') was set up to plan for the inspection of the quality of audits of Public Interest Entities ('PIEs'), a function for which the Authority is expected to assume full responsibility during 2016. The Authority also put in place processes and procedures for the registration of liquidators, a new function assigned to it under the Act. These changes, together with developments within the Authority's Financial Reporting Supervision function, have led to an increase in the sanctioned and actual staff numbers and a change in internal structures designed to optimise the delivery of our services. While further increases in staffing are required to allow the Authority to discharge its statutory mandate, I wish to acknowledge the assistance and commitment of the Department of Jobs, Enterprise and Innovation ('the Department') in its support to date in this regard.

## Audit reform

During 2015, we continued to liaise with the Department in relation to the transposition of the EU audit reform legislation into Irish law. In particular, the Authority provided advice to the Department on the options available to member states and on the interpretation of some aspects of the legislation. In addition, representatives from the Authority participated in EU audit reform workshops and submitted clarification questions to the European Commission regarding the audit reform legislation.

This legislation, which I expect to be enacted in 2016, will represent the most significant reform of audit regulation in Ireland for quite some time. The changes expected to be introduced include provision for the Authority to be:

- responsible for the direct inspection of the quality of audits of PIEs;
- designated as the competent authority with ultimate responsibility for approval and registration, continuing education, quality assurance and investigative and disciplinary systems in relation to all statutory auditors and audit firms in Ireland, as well as the adoption of standards on auditing, ethics and independence; and
- responsible for the investigation and sanctioning of auditors of PIEs in certain circumstances.

The legislation also introduces several new requirements relating to directors and audit committees of PIEs and imposes additional requirements on the auditors of PIEs, including mandatory audit firm rotation after specified periods and restrictions on the levels of non-audit

services that they may provide.

During 2015 the Authority set up its new AIU in order to plan for the new PIE audit inspection regime. It is expected that these inspections will commence in mid-2016 subject to the transposition of the relevant legislation. As at 31 December 2015 there were three AIU staff and one further inspector commenced employment in early 2016. The legislation will also have significant consequences for the Authority's Regulatory and Monitoring Supervision Unit, in particular its relationship with the six Recognised Accountancy Bodies ('RABs'). While it is expected that the Authority will be designated as the competent authority with ultimate responsibility for the matters outlined above, it is also anticipated that the legislation will provide that certain of these tasks are to be performed by the RABs. This represents a significant change from the current model in which the RABs are designated as competent authorities subject to supervision by the Authority.

The significant international dimension to the new audit inspection regime shouldn't be underestimated. In addition to continued engagement with the international forums of audit regulators, IAASA will be required to share inspection findings at a European level and will participate in joint inspections with third country regulators.

IAASA is an active member of the International Forum of Independent Audit Regulators ('IFIAR') and the European Group of Auditors' Oversight Bodies ('EAOB'). During 2015, the Authority also finalised Memoranda of Understanding with the Canadian Public Accountability Board and Swiss Federal Audit Oversight Authority which will allow for mutual reliance on the audit oversight functions of those countries. Negotiations also continued during 2015 with the US Public Company Accounting Oversight Board ('PCAOB') and, subject to the enactment of the relevant legislation, the Authority hopes to conduct joint inspections with the PCAOB of the audits of the significant US-headquartered entities operating in Ireland.

## Increased transparency regarding financial reporting decisions

During 2015 the law was amended to allow the Authority wider discretion in terms of publication of its financial reporting enforcement decisions than had previously been the case. IAASA published financial reporting decisions in respect of 11 examinations where decisions were reached in 2015. I welcome this development

as it affords the Authority the facility to make public information regarding its activities and increases the transparency of the outcomes its examinations of financial reports to preparers, auditors and other users of financial information.

## Changes to the Board's composition

Late in 2015, IAASA's former Chief Executive, Helen Hall, tendered her resignation from her post and as a director of the Authority, and the Board agreed the appointment of Michael Kavanagh as interim Chief Executive. Helen led the Authority with energy and skill during a period of great change. I sincerely thank her for her work with IAASA and wish her every success in her future career. In addition, Seán Hawkshaw, Paddy Keating, Bernadette McGrory-Farrell, Sylvia McNeece and Muireann O'Neill departed from the Board during the year. As the 2014 Act provides for a considerably reduced Board membership, most of these members will not be replaced. I wish each of them well in the future and I express my appreciation on behalf of the Board for their service to the Authority over the years. Máiréad Devine also resigned from the Board in 2015. She too has my best wishes for her future career, and I warmly welcome Mary Burke who joined the Board in her place.

## Concluding remarks

The Authority's successes and achievements are attributable to a strong and cohesive Board, the leadership of the Chief Executive and its dedicated and professional staff. I wish to thank all involved for the dedication they displayed during the year. I look forward to the continuing development and expansion of IAASA's role, and I am confident that the Authority can face the challenges arising from its broadened remit. I would also like to express my gratitude to the Minister and the management and staff of his Department for their ongoing support for our activities, as we strive to put in place the resources required to fulfil the Authority's mandate.

*Professor Brendan Walsh*

*Chairperson*

*29 April 2016*



Michael Kavanagh, Interim Chief Executive

## Introduction

The purpose of this review is to set out a brief overview of the activities undertaken in pursuit of the Authority's core mission which is to supervise and promote high quality financial reporting and auditing, and effective regulation of the accounting profession in the public interest. As alluded to in the Chairperson's Statement, these activities in 2015 also included the setting up of the new Audit Inspections Unit, putting in place processes and procedures for the registration of liquidators and other internal organisational developments

## Financial reporting examination and enforcement activities

IAASA's Financial Reporting Supervision Unit is responsible for the examination and enforcement of certain listed entities' periodic financial reports. This remit extends to equity issuers, closed-ended funds and issuers of debt instruments. As at 31 December 2015, the Authority's known financial reporting review constituency stood at 130 issuers, which published approximately 250 periodic financial statements during the year.

During the year the Authority:

- completed 33 examinations of individual financial statements and corresponded with issuers in relation to 24 of these examinations;
- raised 162 matters with issuers' directors in respect of completed reviews;
- secured 78 voluntary undertakings from 17 issuers' directors to amend future periods' financial statements;
- reviewed 25 financial statements as part of thematic studies; and
- published financial reporting decisions in respect of 11 examinations under the increased transparency allowed by the new legislation .

In pursuit of its goal to promote adherence to high professional standards in the area of financial reporting, during 2015 IAASA published the following reports:

- *Alternative Performance Measures - A Survey of their Use together with Key Recommendations: An Update* (January 2015);
- *Observations on selected financial reporting issues for issuers' financial years ending on or after 31 December 2015* (October 2015); and
- *Commentary on Directors' Significant Judgments and Auditors' Risks of Material Misstatement* (November 2015).

The Authority's financial reporting supervision publications are well received by our fellow European financial reporting enforcers. In particular, the concept, format, content and timing of IAASA's annual Observations document has been replicated in some other countries. It is also noteworthy that in 2015 the European Securities and Markets Authority ('ESMA') published mandatory reporting requirements on Alternative Performance Measures which apply to all EU issuers from July 2016. These requirements are consistent with previous IAASA publications on this topic which derived from our enforcement activity.

Further details on IAASA's financial reporting supervision work is outlined in Chapter 2 of this Report.

## Supervising the Irish accounting profession

The Authority's Regulatory & Monitoring Supervision Unit ('RMS') is responsible for supervising the regulatory functions of the nine Prescribed Accountancy Bodies ('PABs') in Ireland. At 31 December 2015 there were:

- 34,777 PAB members resident in Ireland; and
- 1,476 statutory audit firms with offices in Ireland.

The principal supervisory activities performed by the Authority in this area in 2015 included:

- conducting four on-site supervisory visits;
- issuing three supervisory visit reports;
- holding 15 review meetings with PAB representatives;
- approving 28 new or revised constitutional documents; and
- initiating one statutory enquiry.

The Authority also published its annual *Profile of the Profession*, which provides statistical data on the nine PABs including memberships, student numbers, and the nature and scale of their regulatory and monitoring activities.

Since 2013, the Authority conducted six on-site supervisory visits focussed on the quality assurance procedures put in place by those PABs that are recognised in law to issue audit practicing certificates to their members. While in general, the audit monitoring inspections conducted by these PABs are carried out to a good standard, a number of common areas where there is scope for improvement were identified under the following headings:

- non-compliance with the inspection cycle requirements of the Statutory Audit Directive Regulations;
- process for the postponement of monitoring inspections;
- reporting delays;
- timeliness and appropriateness of follow-up actions;
- weaknesses in the documentation of quality assurance inspections; and
- monitoring of compliance with Irish legislation.

Further details are outlined in Chapter 3 of this Report.

## Audit inspections and liquidator registration functions

As outlined in the Chairperson's Statement, it is anticipated that from 2016 the Authority will be responsible for the direct inspection of the work of the largest audit firms in the State with regard to the quality of their audits of Public Interest Entities. The Authority's new Audit Inspections Unit ('AIU') was set up in 2015 and is planning for the new regime and actively participating in International and European fora.

As well as outlining the work of the AIU, Chapter 4 also describes the work conducted by the Authority in 2015 arising from our new liquidator registration function.

## Concluding remarks

2016 will also be a year of major change for the Authority and I would like to acknowledge colleagues' continued hard work and professionalism to date. We will continue to adapt and structure our work to meet these new challenges within the resources available to us. I would also like to thank the Chairperson and directors for their ongoing support and guidance during the year.

*Michael Kavanagh*  
*Interim Chief Executive*  
29 April 2016