

Audit Committee Breakfast Briefing

10 September 2020



1. Welcome & Introduction

Kevin Prendergast
Chief Executive



Disclaimer

Disclaimer

The views expressed are our own and do not necessarily reflect the views of the Authority, Board or the staff of IAASA

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This event will be recorded to be uploaded to IAASA's website

Audience Participation

SLI.DO

- Access by typing **SLI.DO** into the address bar of your browser or you can also use the SLI.DO app
- The event code for the briefing is **#ACBriefing2020**
- Respond to the questions posed
- Ask your own questions

Slido questions

Pre-event questions

- What do you hope to get from the event?
- What areas of Audit regulation do you find challenging or would like to learn more about?

Agenda

- 1. Welcome & Introduction** **8:30-8:40**
- 2. General overview & IAASA functions** **8:40-9:10**
- 3. Changing role of audit – AC Chair and Audit Firm perspectives** **9:10-10:00**
- 4. The audit committee and current regulatory requirements** **10:00-10:30**
- 5. Audit Committee perspectives through a European lens** **10:30-11:00**
- 6. Audit Committee chair interactions with the Regulator** **11:00-11:30**
- 7. Closing Comments** **11:30-11:45**

Slido questions

- Despite the level of associated work, are you happy/willing to continue to sit on your audit committee, would you be willing to join other audit committees?

2. General overview of the Regulatory landscape

Lisa Campbell
Head of Operations



Slido questions

- Which of these IAASA publications have you read?
 - FRSU observations
 - FRSU decisions
 - AQU inspection reports
 - Thematic reviews
 - Annual audit programme and activity report
 - Annual report
 - Profile of the profession

IAASA and what it does ...

IAASA is responsible for:

1. supervision of the accounting profession
2. statutory auditors
3. examining the level of compliance with applicable financial reporting standards
4. direct inspection of audits of Public Interest Entities
5. conduct of investigations
6. adopting standards on auditing
7. other activities: liquidators, third country auditors, advising the Minister

IAASA and what it does not do ..

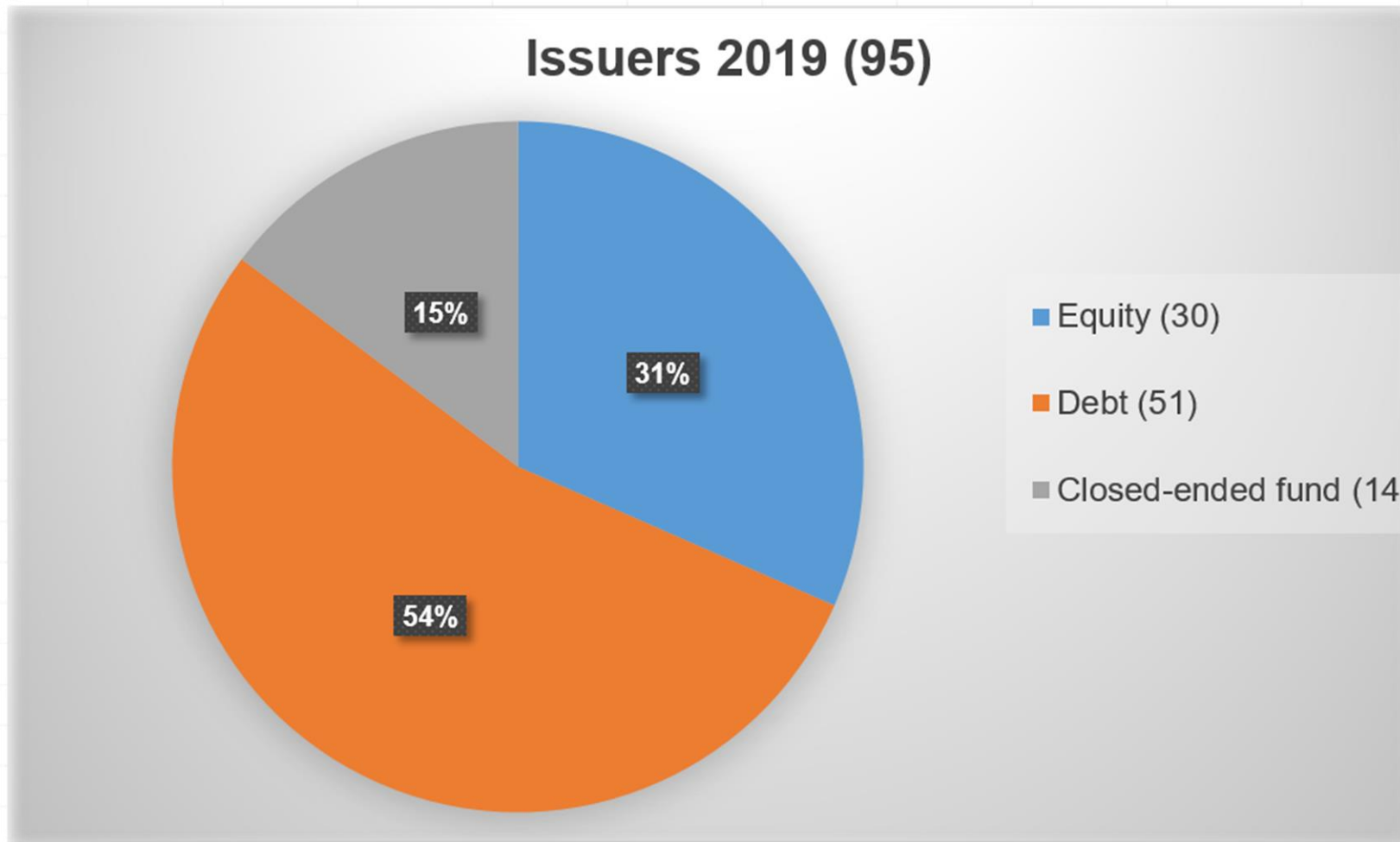
- Does not have direct oversight over audit committees, directors
- However...
 - Responsibilities under Article 27.1 of the Audit Regulation (537/2014) where:
 - The competent authority shall assess ‘the performance of audit committees’

Remit

- 8 Prescribed Accountancy Bodies (PABs)
- 40,027 PAB members in Ireland
- 4,341 Statutory Audit Firms (8 auditing PIEs)
- 752 Public Interest Entities (PIEs)
- 95 issuers

Financial statement examinations

Issuers under remit at 31 December 2019



FRSU reviews

- Risk assessment carried out to identify relevant issuers for review
- Also comply with ESMA Guidelines on Enforcement of Financial Information, which includes rotational element
- Initial contact is letter to CEO
- Further engagement can be carried out by letter or by meeting/call
- Matters typically resolved by provision of undertakings by the directors

IAASA's approach to accounting enforcement during COVID-19

1. Flexible response timelines:
 - normally a response deadline of 3 weeks is given to issuers to respond to IAASA's initial letter
 - extended to 6 weeks
2. Open to granting extensions to response deadlines
3. Open to discussion in advance of receiving a response

Topical issues

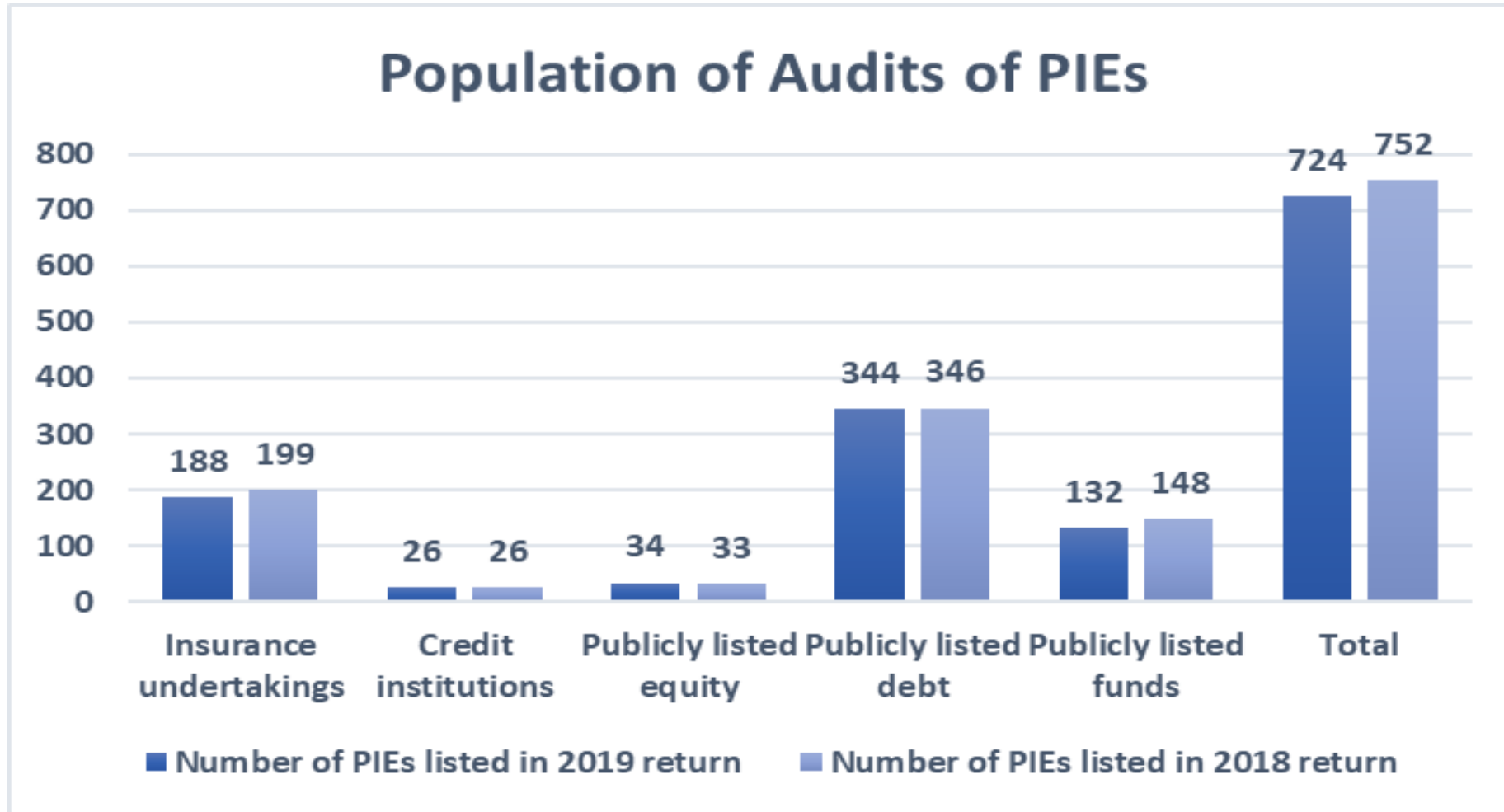
- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 16 Leases
- IFRS 9 Expected Credit Losses
- Compliance with bank covenants
- Impairment
- Going concern
- Alternative performance measures

Watch out for ...

1. 2020 *Observations* document (due September 2020)
2. 2020 ESMA Common Enforcement Priorities (expected late October 2020)
3. ESMA extracts of European financial reporting decisions (on-going)

Audit inspections

PIE Population



Audit Inspections

- IAASA's mission includes promotion of high quality auditing
- Transparency in relation to findings is vital for market
- All PIE audit firms are visited annually
- Number of inspections performed dependent on size and risk profile of portfolio (as well as firm considerations)
- 2019 was the second round of inspections and the first year the firmwide inspection reports were published
- Audit Committees of PIEs are required to consider the findings and conclusions of published inspection reports in appointing an auditor

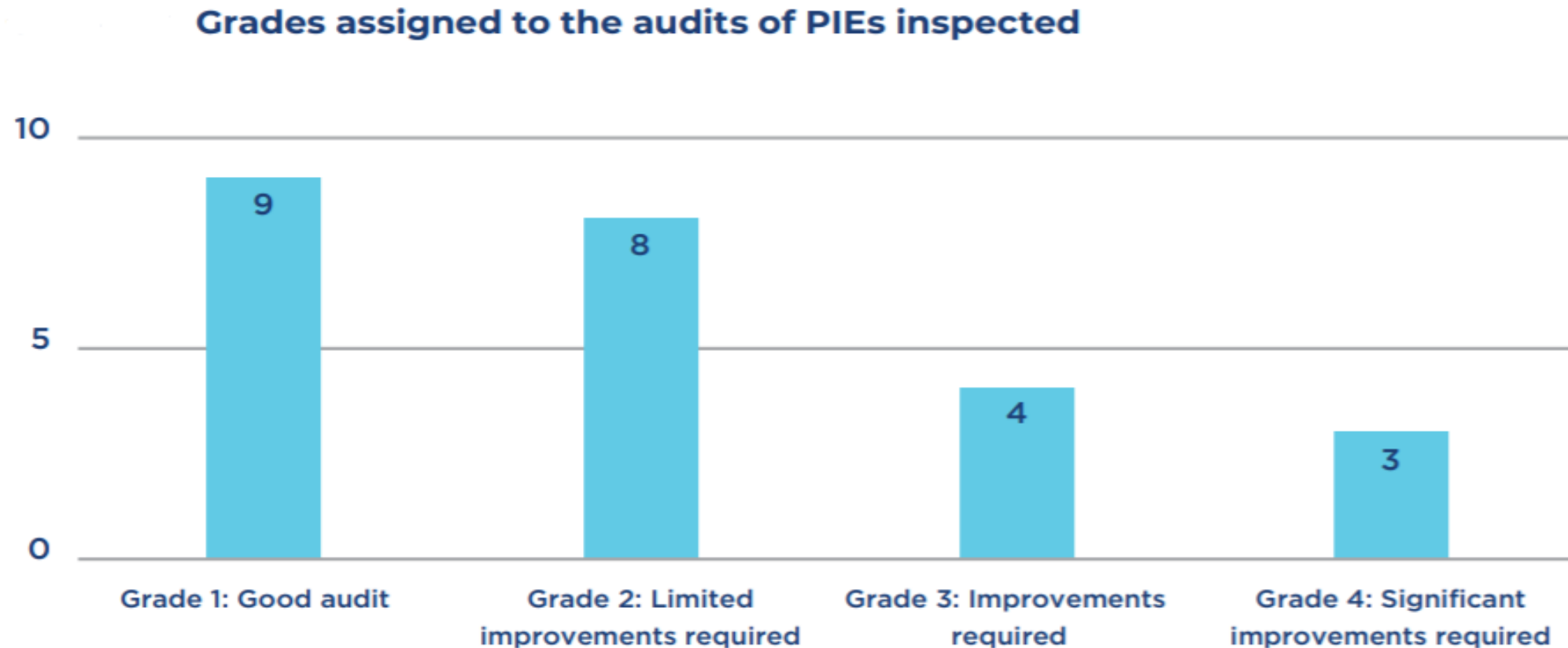
Audit inspections – grading

Individual Audit Inspections: 1 → 4 Grading

Grade	Definition
1	Good Audit <ul style="list-style-type: none">No concerns regarding the sufficiency and quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed
2	Limited Improvements Required <ul style="list-style-type: none">Limited concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed
3	Improvements Required <ul style="list-style-type: none">Concerns, assessed as less than significant, regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed
4	Significant Improvements Required <ul style="list-style-type: none">Significant concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed

Audit inspections – grading

Individual Audit Inspections: 1 → 4 Grading



Inspections update – key findings

Key findings

- Risk assessment
- Estimates
- IT findings
- Group audits
- Communications with TCWG

COVID-19 impact on audit

- Acceptance of new audit engagements
- Planned audit procedures
- Internal control
- Professional scepticism
- Auditor's report
- Group audits

ISA 570 update – Going concern

- New definitions added – “management bias” and “material uncertainty”
- Increased requirements for the auditor
 - the entity and its environment;
 - the applicable financial reporting framework;
 - the entity’s system of internal control;
 - evaluation of management’s assessment
- Enhanced auditor reporting requirements

ISA 540 update – Accounting estimates

- Enhanced requirements and application material for risk assessment procedures and the auditor's response
- Enhanced work relating to:
 - Considering events occurring up to the date of the auditor's report;
 - Testing how management made the accounting estimate; or
 - Testing how estimation uncertainty has been addressed by management

ISA 540 update – Accounting estimates

- Enhancements to reinforce the application of professional scepticism
- Emphasising the importance of the need to consider internal control, with improved cross references to ISAs 315 & 330
- Procedures should address whether both the accounting estimates and the related disclosures are "reasonable"

2021 Audit Inspections

- Round 3
- All PIE firms in scope
- Reports for 2020 inspections published Q1 2021
- Increased interaction with Audit Committee Chairs

Questions?

Useful links

- [IAASA Covid Hub - https://www.iaasa.ie/Covid-Hub](https://www.iaasa.ie/Covid-Hub)
- [IAASA inspection reports](#)
- [Annual Audit Programme & Activity report](#)
- [AQU Bulletin](#)
- [Guidance note on PIE inspections](#)
- [Frequently Asked Questions](#)

3. Changing role of audit – AC Chair and Audit Firm perspectives

Slido questions

1. How do you assess the quality of the audit process?
2. To AC Chairs – How important are audit fees when tendering for a new auditor?
3. What is your view on 10 year period for audit rotation?

3. Changing role of audit – AC Chair and Audit Firm perspectives

Questions?

4. The audit committee and current regulatory requirements

Martin Kelly

Senior inspector

Chair of CEAOB market monitoring sub-group

Slido questions

- How often do you meet with management/CFO in relation to Risk management/Internal Controls?
- Has the company gone through an audit tender process in the last 3 years?
- How often do you meet the auditors during each audit?

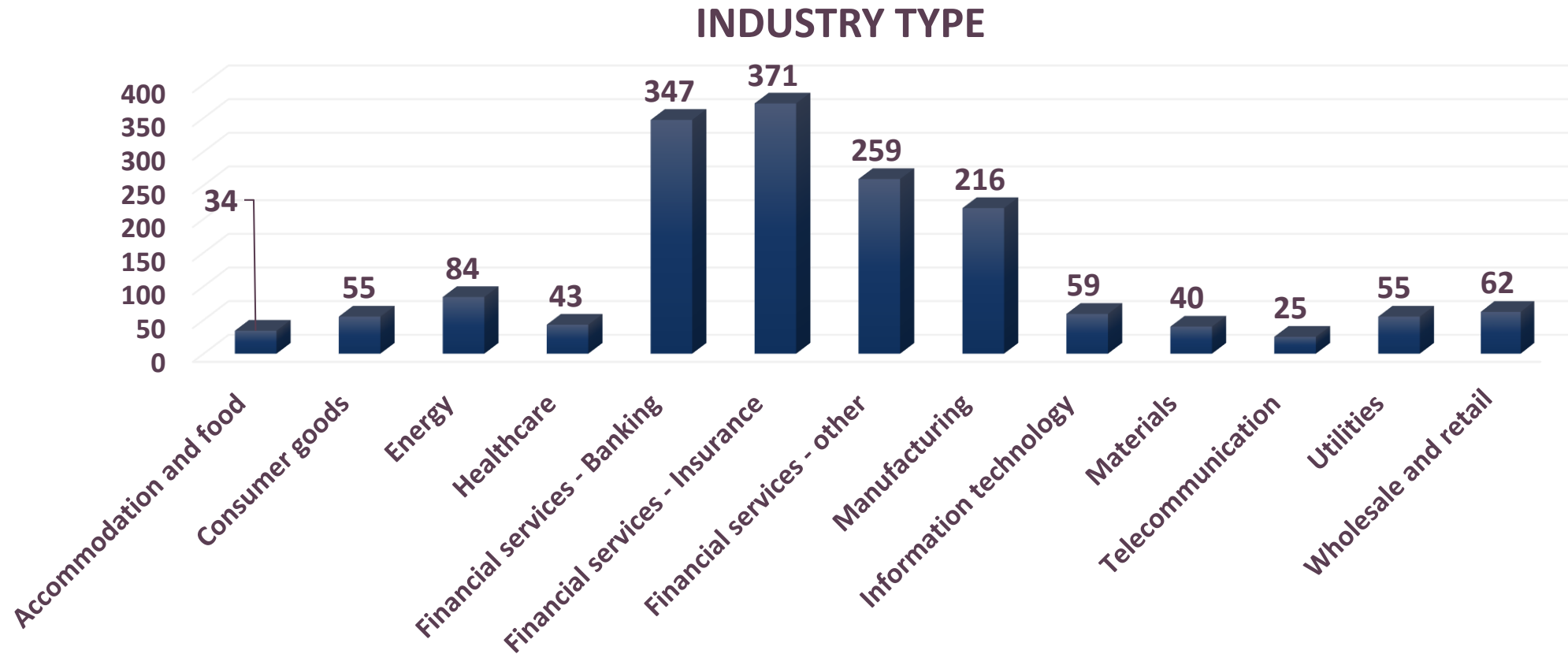
Audit Committee – Current Requirements

- Audit Committee – European Questionnaire
- Questions based on the requirements of the Audit Regulation and Directive
- 2770 questionnaires were sent out, 1695 responses received across 26 of the 28 EU member states

Audit Committee – Current Requirements

- The questionnaire was divided into the following sections:
 - Audit committee composition and skills
 - Interaction with the administrative or supervisory body (board)
 - Independence including the prior approval of permitted non-audit services
 - Auditor selection process
 - Oversight of the audit function
 - Oversight of the financial reporting process
 - Oversight of internal quality control and risk management systems

Audit Committee Questionnaire – Results – Industry Breakdown



Audit Committee Questionnaire Results

Section	Low or Medium level of occurrence of non-application of regulation
Audit Committee Independence	Low
Monitoring of fees paid to statutory auditors	Low
Non-examination of requests for the provision of non-audit services by Audit Committees	Low
Audit Tenders – Invitation to Tender	Medium
Audit Tenders – non-discriminatory process	Low
Audit oversight – auditor meetings	Low

- Limitations to interpretation of results

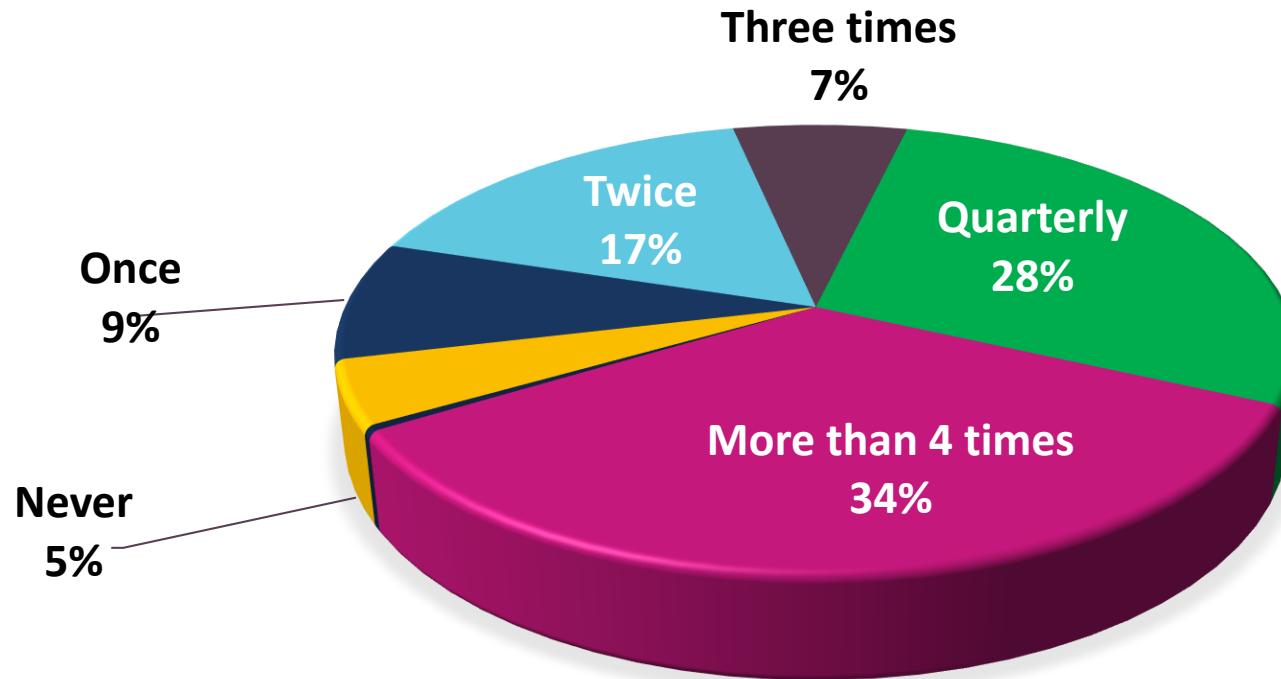
Audit Committee – Committee Composition & Interaction

Key requirements

- one member of the committee to have competence in accounting and/or auditing
- members as a whole, have experience relevant to the sector in which the audited entity is operating
- majority of members independent of the audited entity
- inform the board of the outcome of the audit
- explain how the statutory audit contributed to the integrity of financial reporting
- explain the role of the audit committee in the process

Audit Committee Questionnaire Results

NUMBER OF MEETINGS WITH ADMINISTRATIVE OR SUPERVISORY BODY (BOARD)
HELD DURING THE PERIOD



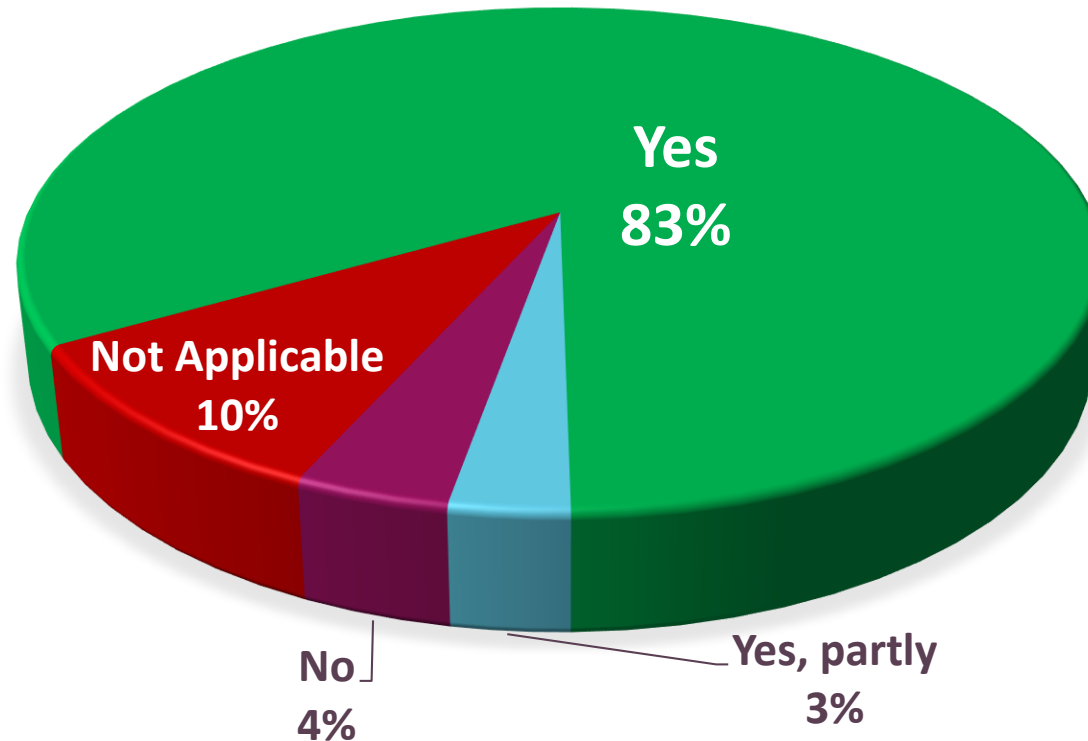
Audit Committee – Non-audit services

Key requirements

- Requirement to monitor the amount of fees paid to the statutory auditor (NAS fee cap)
- review and monitor the independence of the statutory auditors (particularly in respect of NAS)
- discuss with the audit committee the threats to auditor independence and the safeguards applied (auditor requirement)
- approve non-audit service requests

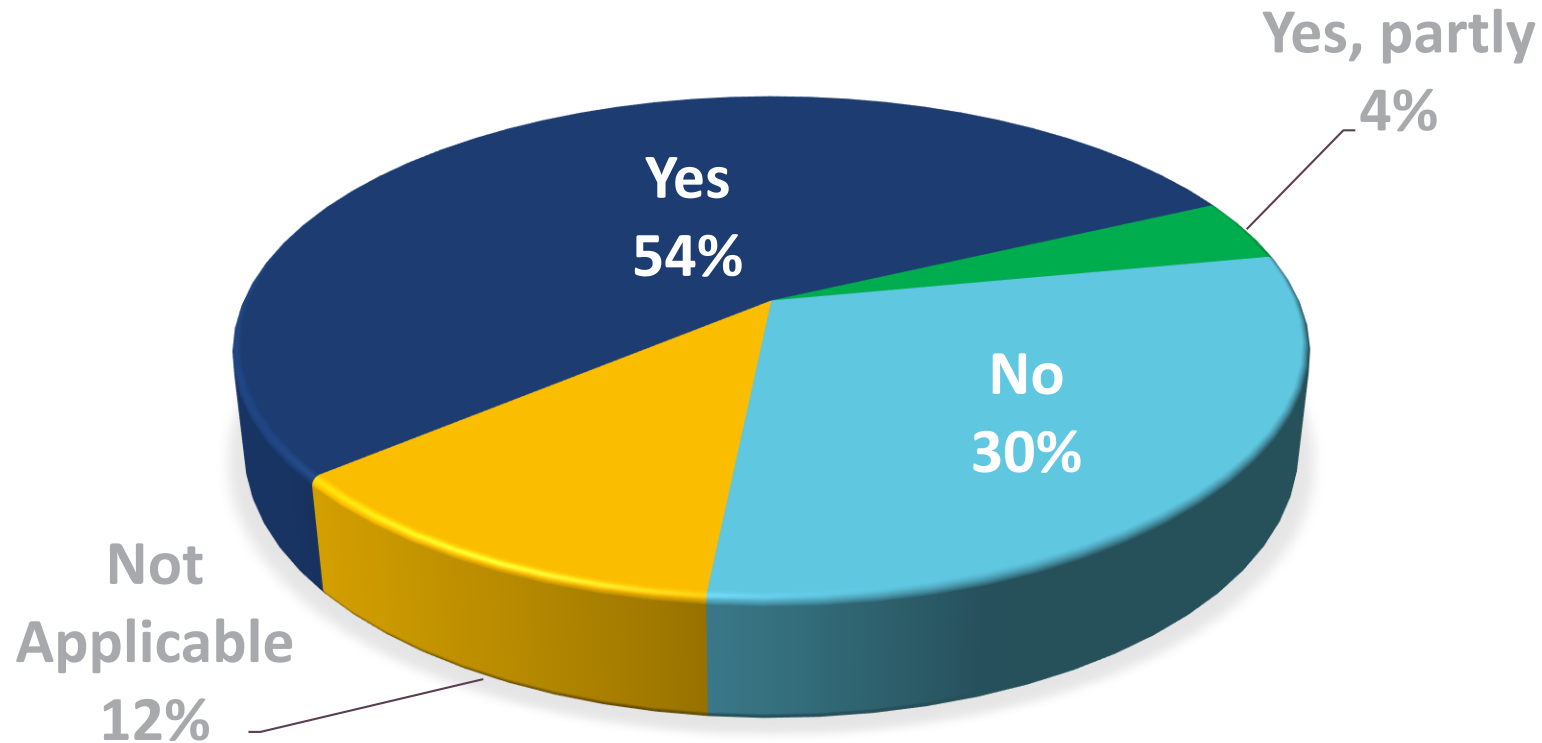
Audit Committee Questionnaire Results

MONITORING OF NON-AUDIT FEES PAID TO STATUTORY AUDITORS



Audit Committee Questionnaire Results

TENDERS SUBMITTED FOR NON-AUDIT SERVICES



Audit Committee – Auditor Selection

Key requirements

- assume responsibility with regard to the selection procedure of the statutory auditor
- transparent and non-discriminatory selection criteria
- Criteria does not preclude firms with less than 15% of PIE SAFI of member state to tender
- sufficient information in tender to allow invited statutory auditor to understand the business of the entity
- validate the report prepared by the entity on the conclusion of the selection procedure
- identify at least two candidates for appointment (and preference for 1)
- Be able to demonstrate that the selection procedure was conducted in a fair manner

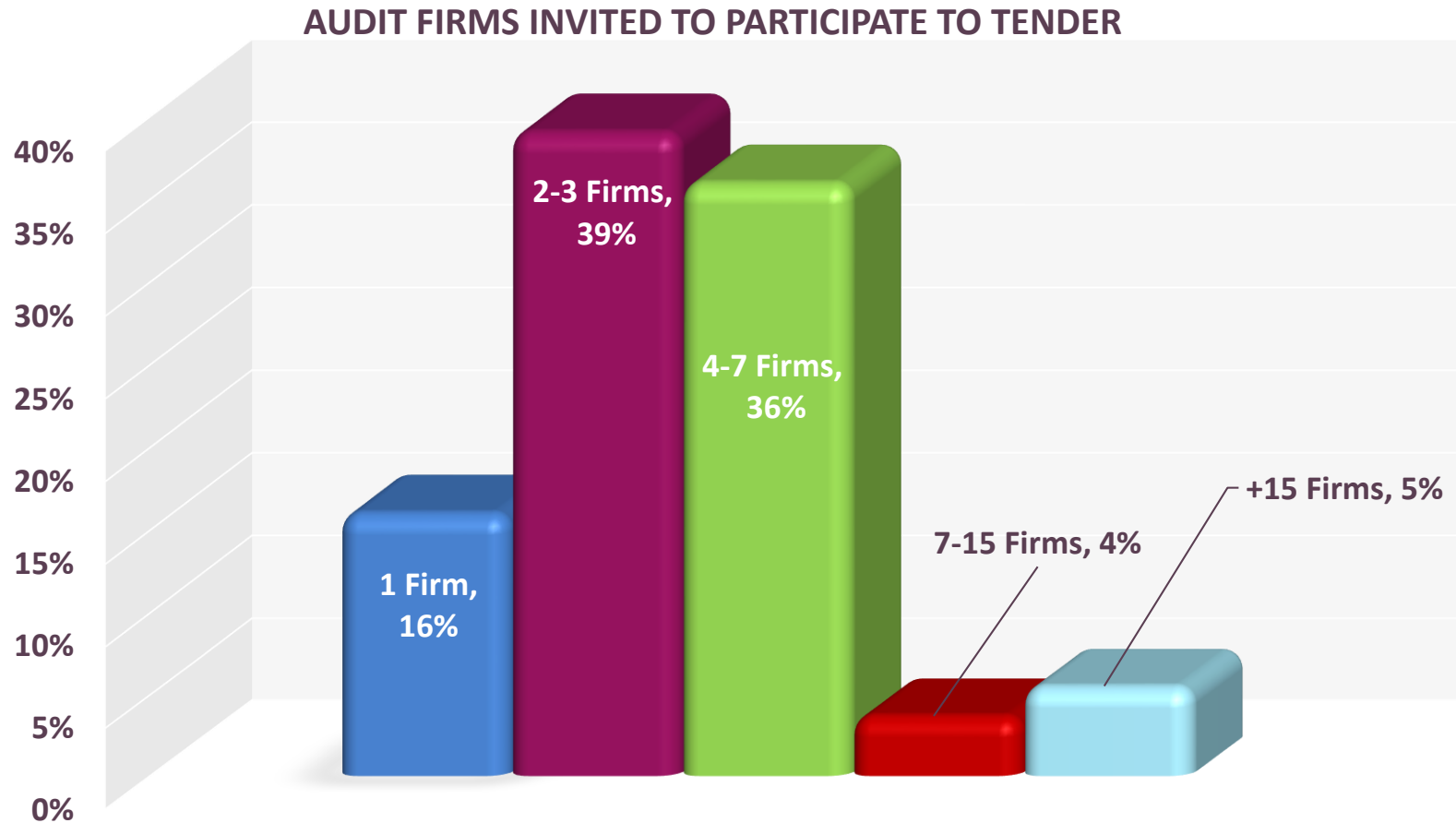
Audit Committee – Auditor selection

15% of PIE Audit Fee income requirement –

tender process allow for the participation in the selection procedure of 'firms which received less than 15 % of the total audit fees from public-interest entities in the Member State concerned in the previous calendar year.

- Make sure a selection criterion is not based on PIE fee income
- 56% of audit committees confirmed they did not apply this criterion

Audit Committee Questionnaire Results



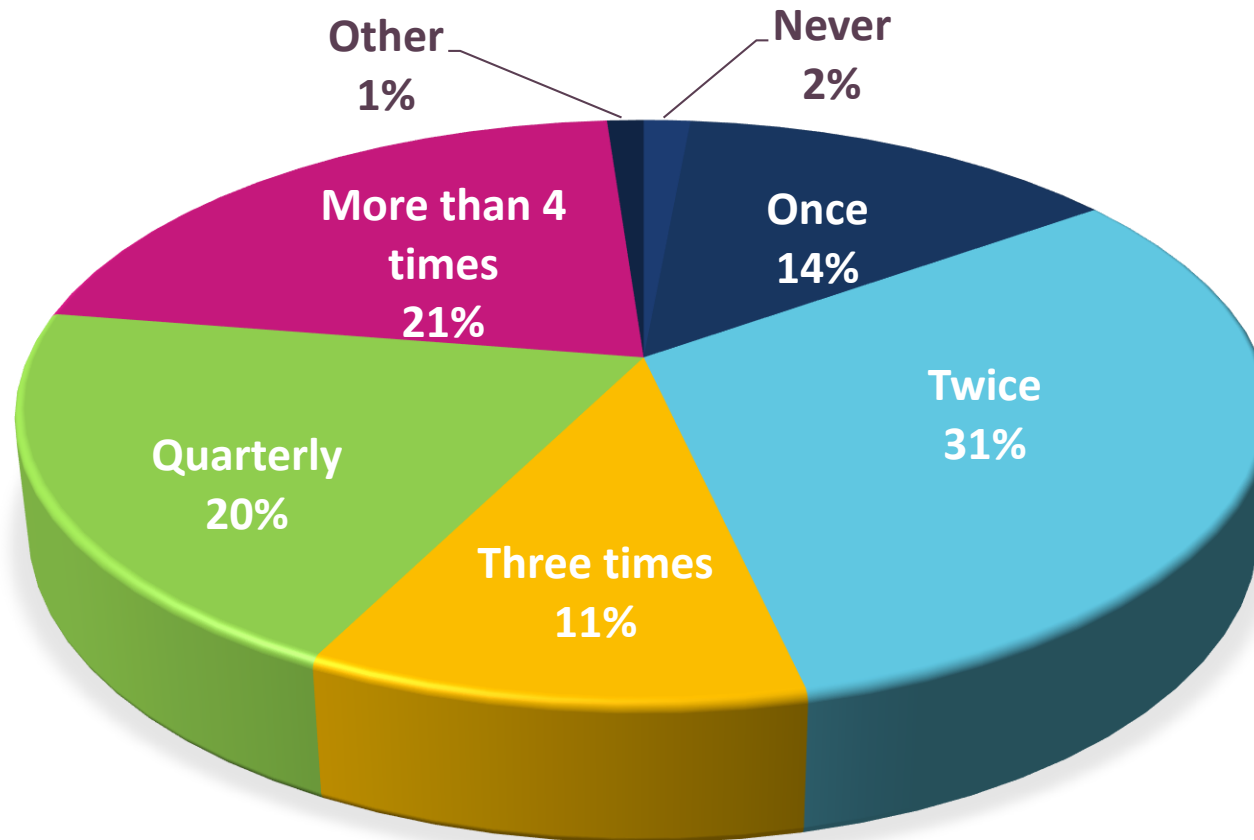
Audit Committee – Oversight

Key requirements

- monitor the performance of the statutory audit of the annual and consolidated financial statements of the entity
- consider the findings (if any) and conclusions made by IAASA during their last inspection of the statutory auditor
- monitor the financial reporting process of the entity
- submit recommendations or proposals to ensure the integrity of the financial reporting process of the entity
- monitor the effectiveness of the entity's internal quality control and risk management systems and, where applicable its internal audit regarding the financial reporting of the audited entity

Audit Committee Questionnaire Results

FREQUENCY OF MEETINGS BETWEEN AUDIT COMMITTEE AND STATUTORY AUDITOR



Audit Committee – Irish Results

Results appear to indicate no significant findings on:

- Audit Committee composition
- Interactions with the board
- Non-Audit Service approvals
- Audit oversight
- Oversight of internal QC and risk management

Areas of potential further investigation

- Auditor Selection process

Audit Committee Regulation – Key Takeaways

- Broad degree of understanding of the requirements
- Auditor selection process – area that may require further attention
- IAASA point of contact for any audit quality related questions

Audit Committee Regulation – Request

- 2020/2021 audit committee survey on materiality
- Questionnaires will be sent to PIEs who have a separate audit committee
- Please complete the survey if your PIE is selected

Questions?

5. Audit Committee perspectives through a European lens

Tim Volkmann
Partner, EMEIA Public Policy and
Regulatory Relations at EY



Questions?

6. Audit committee chair interactions with the Regulator

Stuart Bridges
Audit Committee Chair, Caledonia
Investments



Questions?

Audit Inspections

- Audit Committee Chair interview process
- New Audit Inspection Step
- Implementation in the short term

7. Closing Comments

Kevin Prendergast
Chief Executive



Closing Comments

- Please complete the feedback survey at following link:

[IAASA Audit Committee Breakfast Briefing – Feedback Survey](#)