

Audit Committee Briefing 2021

13 October 2021



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 now built into Virtual Platform – see right hand sidebar
- Respond to the questions posed for each session
- Ask your own questions

Slido questions

Pre-event questions

- What do you hope to get from the this year's briefing?
- Going forward what format will audit committees meetings take?
(all physical, all virtual, hybrid)

Agenda

- | | |
|--|--------------------|
| 1. Welcome & Introduction | 8:30-8:40 |
| 2. General update on the Irish Regulatory landscape | 8:40-9:00 |
| 3. Audit Reports – Overview of the audit report | 9:00-09:20 |
| 4. Audit reporting, Audit Expectation & the Annual Report | 09:20-10:10 |
| Break | 10:10-10:25 |
| 5. Audit Quality Unit Update | 10:25-10:55 |
| 6. European Regulation and Financial Reporting | 10:55-11:25 |
| 7. Closing Comments | 11:25-11:35 |

Slido questions

- What do you see as the greatest challenge facing audit committees in 2022?

2. General update on the Irish Regulatory landscape

Lisa Campbell
Head of Operations



Slido questions

- Which of these IAASA publications have you read?
 - FRSU observations
 - FRSU decisions
 - AQU Quality Assurance Review reports
 - Thematic reviews
 - Annual audit programme and activity report (AAPA)
 - Annual report
 - Profile of the profession

Irish Regulatory Landscape

Session Overview

- Financial reporting priorities
- Changes to auditing standards
- Derecognition of accountancy bodies
- Other Irish legislative developments
- Other global development

Financial reporting priorities

- Two key documents that set priorities
 - IAASA Observations document
 - ESMA Common Enforcement Priorities
- Common high priority themes
 - COVID-19
 - Climate change

Changes to auditing standards

- Current IAASA consultation on Quality Control standards
 - Will impact every audit firm, focuses on proactive quality management
 - Move away from policies to integrated, iterative approach
- ISA 240 – Auditors' responsibilities for fraud
 - Set clearer requirements for auditors
- IAASB Exposure Draft – Less Complex Entities
 - Proposals to have a single standard for auditing LCEs
 - Concerns about impact on expectation gap

Derecognition of accountancy bodies

- ICAEW derecognised in July 2021. ICAS expected to be derecognised in December 2021.
- Means that ICAEW and ICAS cannot give audit licenses in Ireland and members are not regulated in Ireland
- Questions for audit committees
 - Are auditors registered in Ireland?
 - Are any company employees or advisors no longer regulated in Ireland?

Other Irish legislative developments

- Corporate Enforcement Authority
 - New authority to replace ODCE
 - Increased functions and powers to investigate corporate crime
- Senior Executive Accountability Regime
 - Financial services companies will need to assign responsibilities to individuals
 - Interacts with CBI fitness and probity systems

European audit environment

- EU study on the application of the Audit Directive and Audit Regulation.
- Harmonise reporting – ESEF & CSRD
- Areas of audit interest: Joint audits, NAS, Big 4 concentration
- Other strands – Audit Committees, Enforcement

Other global development

- BEIS consultation – restoring trust in audit and governance
 - Significant reforms proposed to audit
 - Proposes entities reporting on their corporate governance
 - Proposals being monitored globally
- PCAOB – Holding Foreign Companies Accountable Act
 - If PCAOB cannot inspect an audit for 3 years, implications for the company
 - Ultimately, company may be required to change auditor

Useful links

- [FRSU Observations document](#)
- [Quality management standards consultation](#)
- [IAASB - less complex entities](#)
- [EC market monitoring report](#)

Questions?

3. Audit Reports – Overview of the audit report

Martin Kelly
Senior Inspector

Audit Reports – Overview of the audit report

Session Overview

- Structure of the audit report
- What an audit report does – mandatory requirements
- Examples of good practice
- IAASA findings identified
- Key questions to ask

Slido questions

- Do you read and understand all sections of the audit report?
- Do you find that the long form audit report has led to increased understanding in the work of the auditor?

Audit Reports – Overview of the audit report

- 17 June 2016 - introduction of long form audit opinions for PIEs
- Make the information provided in the auditor's report more relevant to users
- Allow for better dialogue between auditor and Those Charged with Governance
- Explain further audit process and work performed.

Audit Reports – Overview of the audit report

- Opinion
- Basis for opinion
- KAMs
- Materiality
- Scope of Audit
- Going concern
- Responsibilities of Management and Those Charged with Governance
- Auditors Responsibilities
- Legal and Regulatory Requirements

Audit Reports – Overview of the audit report

Opinion

- We have audited the financial statements of ABC Company ... In our opinion, the accompanying financial statements present fairly, in all material respects, (or give a true and fair view of)

Basis for Opinion

- We conducted our audit in accordance with International Standards on Auditing (ISAs). ... We are independent of the Company ... We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit Reports – Overview of the audit report

KAMs

- Key audit matters - matters of most significance in the audit of the financial statements

Materiality

- Materiality Threshold, performance materiality
- Judgements made in determining materiality

Scope of audit

- Overview of the scope of the audit

Audit Reports – Overview of the audit report

Conclusions relating to going concern

Required disclosures:

- No material uncertainty exists
- Going concern basis of accounting appropriate
- How management's assessment of going concern was evaluated
- Nothing to report on director's going concern statement (UK Corporate Governance Code)

Audit Reports – Overview of the audit report

Responsibilities of Management and Those Charged with Governance

- Management is responsible for the preparation and fair presentation of the financial statements
- internal control as is necessary to enable the preparation of financial statements that are free from material misstatement
- Assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting
- Responsible for overseeing the Company's financial reporting process.

Audit Reports – Overview of the audit report

Auditors Responsibilities

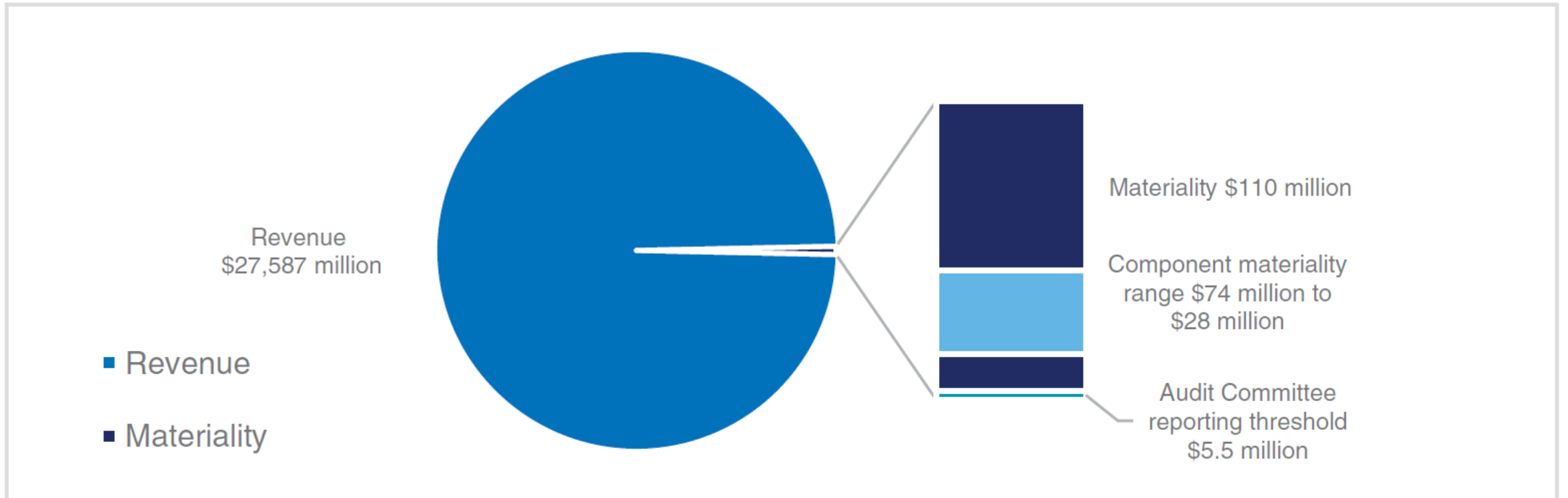
- Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement
- To issue an auditor's report that includes their opinion.
- Reasonable assurance is a high level of assurance, but is not a guarantee that an audit will always detect a material misstatement when it exists.
- Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements

Audit Reports – Overview of the audit report

What can auditors do to make audit reports more readable:

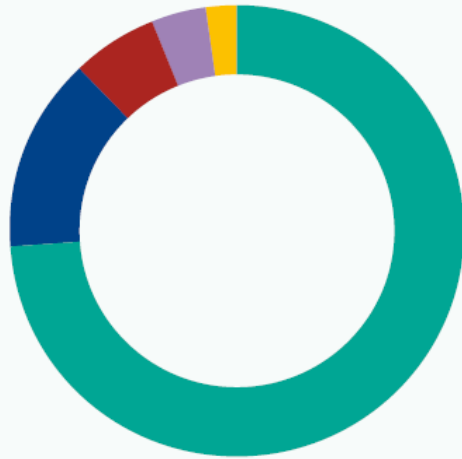
- Constraints on some language used
- Clear descriptions, no boiler plate language
- Use of infographics

Audit Reports – Overview of the audit report



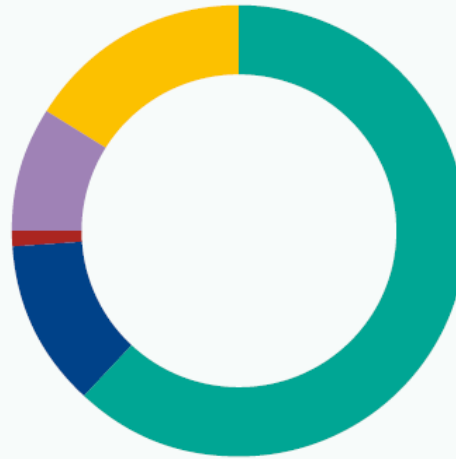
Audit Reports – Overview of the audit report

Profit before tax from continuing operations



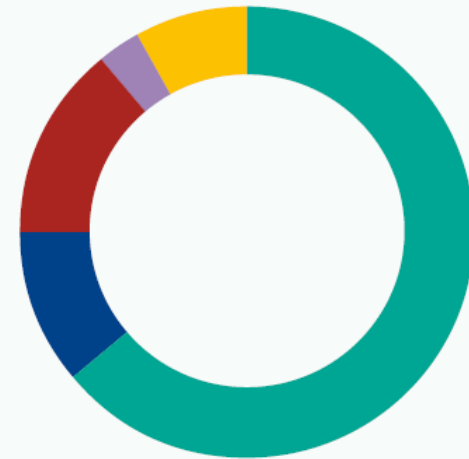
74%	Full scope
14%	Specific scope
6%	Specified procedures
4%	Review scope
2%	Other procedures

Revenue



62%	Full scope
11%	Specific scope
1%	Specified procedures
9%	Review scope
17%	Other procedures

Total Assets



64%	Full scope
11%	Specific scope
14%	Specified procedures
3%	Review scope
8%	Other procedures

Audit Reports – Overview of the audit report

KAMs, Materiality, Scoping

- How many KAMs should there be?
- Is the KAM sufficient granular and does not contain generic language, especially around the description of the risk?

Observed the following

- Detailed, specific descriptions of the nature of the risks, how the matter was addressed and key observations?
- Key observations presented in the body of the KAM
- specific reporting on how materiality was applied, including thresholds such as performance materiality and the threshold for reporting unadjusted differences.
- specific, granular details of how the scope was influenced by each KAM and how it was influenced by materiality.

Audit Reports – Overview of the audit report

44 findings in relation to the audit report over the past 5 years

27 in relation to ISA 700, 17 in relation to 701

Findings included

- The stated work performed not describing the actual work performed
- Non-identification of a significant matter (which should have been reported as a KAM)
- Including KAMs in the audit report that were not in the report to TCWG
- Not including reference to the relevant financial disclosures in the KAM
- Assessment of what should be Key audit matters not on the file

Audit Reports – Overview of the audit report

- KAMs presented where the language was not clear and unambiguous
- Basis of materiality not correct

General audit report findings:

- Audit work undertaken does not support statements made in the audit report
- Not having the required disclosures in the audit report (as required by ISA/Company Law)
- Backdating an audit report
- Incorrect name of the Entity on the audit report
- Date of initial appointment not correct

Audit Reports – Overview of the audit report

Key Questions

- Have the KAMs been satisfactorily explained to the audit committee?
- Is the audit opinion consistent with the additional report to the audit committee?
- Do I understand the basis of materiality, has the auditor clearly explained it?
- Non-audit services disclosure
- Does the audit report make sense to you?

Audit Reports – Overview of the audit report – Further Reading

- Compendium of Auditors Report
- Thematic on ISA 701
- ISA 700
- ISA 701

Questions?

4. Audit reporting, Audit Expectation & the Annual Report

Panel Session

Slido questions

- How do you rate the quality of written auditor communications you receive from your auditor? Are there any areas you would like more information on?
- Do you believe the statutory audit should be more forward looking as well as focus on the financial statements?
- What you know about the CSRD (Corporate Sustainability Reporting Directive)?

Questions?

5. Audit Quality Unit Update

Barry Murphy
Senior Inspector

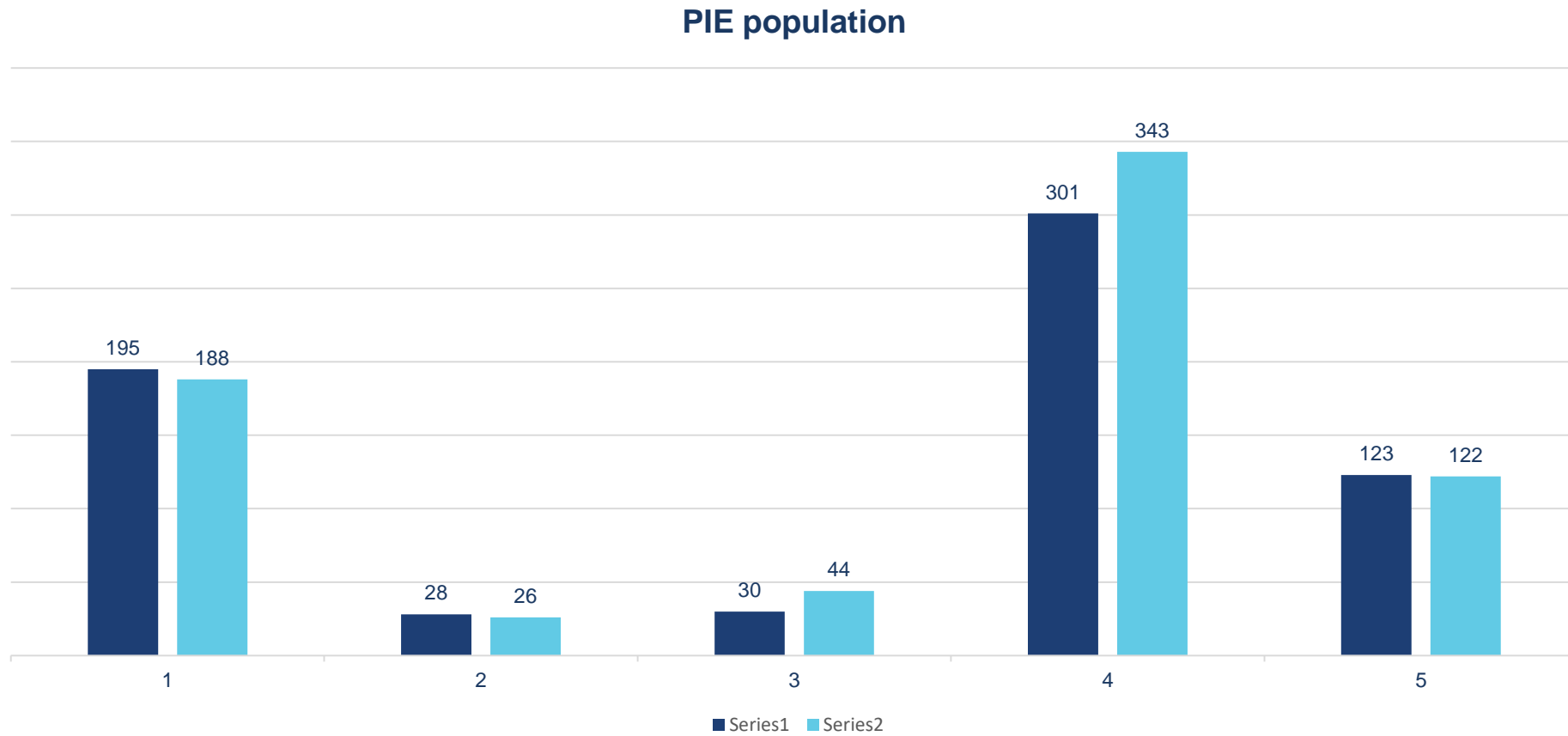
Overview of presentation

1. Audit Inspection results
2. Audit Committee Interview
Inspection Process
3. Audit Committee Questionnaire
4. Materiality Questionnaire

Audit Quality Unit update

- Inspection Cycles
- Number of PIE audit firms: 7
- Risk selection model

PIE Population



Audit inspections – grading

Individual Audit Inspections: 1 → 4 Grading

Grading of PIE audits



Audit Committee – new initiatives

Audit committee chair interview – Inspection work step

- How it worked, agenda topics
- Results
- Plans for 2022

Audit Committee – new initiatives

Audit Committee Questionnaire Sections

- Interaction with the board
- Independence
- Auditor Selection Procedures
- Monitoring the audit
- Monitoring the financial reporting process

Materiality Survey

Ciaran Leddy

Audit inspector



Materiality in Audits survey

- CEAOB survey on materiality in audits and thematic – IAASA participation
- Objectives of the Survey
 - Stakeholders – Provide explanation of materiality concept, how it affects scope/extent of audit work, and provide overview of current practice.
 - Big 4 Firms – Review how firms determine audit materiality for PIE audits in practice, any discrepancies in assessment/practice
 - Audit Committees – Collect AC views on materiality, and understand level of discussion/exchange with auditors

What is Materiality in the context of an audit and why is it important?

- Applied in planning and performing the audit, evaluating the effect of identified misstatements, and forming an audit opinion (ISA 320)
- Material misstatement - influence the economic decisions of users
- Professional judgement
- Drives the scope, nature and extent of audit work,

Materiality Assessment

- Overall Materiality
- Performance Materiality

Materiality Assessment

- Clearly trivial threshold
- Materiality for particular classes of transactions, account balances and disclosures

Benchmarks used to determine Overall Materiality

Benchmark selected to determined Overall Materiality	%
Net assets / Total equity	70%
Total revenues	13%
Profit before tax	5%
Profit before tax (average 2-4 year)	5%
Total assets	3%
Other	5%
Total	100%

- 38% - change in benchmark and/or % applied from prior year
- Benchmark used vs most suitable benchmark per Audit Committee

Overall Materiality: % applied to benchmark

Benchmark selected	% applied to calculate Overall Materiality (Range)
Profit before tax	5%
Profit before tax (average 2 – 4 year)	5%
Total revenues	0.9% - 1%
Net assets / Total equity	0.4% - 3%

- Net Assets / Total Equity:
 - Credit Institutions: 0.4% - 1%
 - Insurance / Reinsurance: 1% - 3%
 - Variances across firms

Initial Observations and Findings

- AC understanding of the materiality concept is generally strong.
- AC generally place a moderate or high importance on materiality
- AC generally satisfied with the levels used by their auditor

Initial Observations and Findings

- Areas identified for improvement:
 - Understanding of factors considered in setting Overall and Performance Materiality
 - Understanding Performance Materiality – application and impact
 - Enhanced communication, discussion and challenge

Key Messages for Audit Committees

- Have you understood and challenged the basis for the materiality levels set and the benchmark used including, in particular, how these reflect the needs and expectations of users of the entity's financial statements.
- Do you understand how materiality levels are expected to affect the level of audit work performed, particularly in relation to areas of significant risk.
- Do you understand those balances considered immaterial and therefore not tested by the audit team.
- Have you considered whether it would be valuable and appropriate to have a separate materiality level for a specific financial statement line item.

Key Messages for Audit Committees

- Have you understood any changes to materiality basis from prior year?
- Do you understand any changes to the materiality from the initial assessment and communication from the audit team? Was the change appropriate and adequately communicated?
- Have you discussed with management the level of materiality used when preparing the financial statements. How does this compare with audit materiality?

6. European Regulation and Financial Reporting

Alain Deckers
DG FISMA, European Commission



Questions?

7. Closing Comments

Kevin Prendergast
Chief Executive

Closing Comments

- Please complete the feedback survey at following link:

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