FEEDBACK PAPER

The future auditing framework for Ireland

03 April 2017

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

On the 15 June 2016, the Minister for Jobs, Enterprise and Innovation made the European Union (Statutory Audits) (Directive 2006/43/EC, as amended by Directive 2014/56/EU, and Regulation (EU) No 537/2014) Regulations 2016 (S.I. No. 312 of 2016) (the 'Regulations'). The Regulations are effective since the 17 June 2016.

The effect of the Regulations is that the Irish Auditing and Accounting Supervisory Authority (IAASA) is now responsible for the adoption of an auditing framework in Ireland.

On 27 October 2016, IAASA issued a consultation paper, which can be found here. The Consultation Paper outlined the following three options, which IAASA could adopt/adapt as a future auditing framework for Ireland:

1. Option 1 – adapt the UK Financial Reporting Council (FRC) audit framework for the Irish market;
2. Option 2 – adopt the international audit framework; or
3. Option 3 – develop domestic standards.

The matters on which views of interested parties were sought were-

No.	Matter on which views are sought
1.	Please indicate your preferred option for the development of an auditing framework to be adopted by IAASA for the Irish market and provide a detailed rationale for your preference
2.	Do you believe that another option not outlined in the Consultation Paper should be considered? If so, please outline this alternative option and specify your reasons for its use
3.	Please provide your observations as to the phases and timelines for implementation of your preferred option
4.	Please provide any additional observations you may have on the proposals set out in the Consultation Paper.

2. Responses to the Consultation

Comment letters were received from nine parties. The respondents were:

a) ACCA;

b) The Association of International Accountants ('AIA');

c) Chartered Accountants Ireland ('CAI')

d) Deloitte;

e) Ernst & Young ('EY');

f) The Institute of Certified Public Accountants in Ireland ('ICPAI');

g) Irish Stock Exchange;

h) KPMG;

i) PricewaterhouseCoopers ('PWC');

In summary, the responses indicated that:

a) there was no support for option 3 – the development of domestic standards;

b) four Respondents (KPMG, Irish Stock Exchange, PricewaterhouseCoopers, Association of International Accountants (AIA)) preferred option 1 (FRC);

c) three Respondents (Deloitte, CPA and ACCA) preferred option 2 (IAASB); and

d) two Respondents (CAI and EY) did not specify a preferred option

The main responses to the matters raised in the Consultation paper are set out below:

Respondent	*Comments*
ACCA	a) ACCA indicated that option 2 (IAASB) is its preferred option for the development of an audit framework for Ireland. However, recognising the need to achieve certainty in the short term and to effect an uncomplicated transition to a new framework the ACCA believe that IAASA must initially base its framework on the UK FRC Standards (option 1). b) ACCA believes that in the short-term option 1 (FRC) is the only practical solution. However, the ACCA noted that in the longer-term option 1 would have a number of disadvantages including the fact the UK standards may start to diverge from the European Standards and Ireland may be forced to move away from the FRC standards. c) ACCA recommends that the FRC standards are adopted as a matter of urgency. ACCA also note that the transition to 'localised' IAASB standards should be completed expeditiously. d) ACCA also noted that within the transition period, a 'Standards Board' should be established within IAASA for the purpose of developing the 'localised' IAASB standards. e) ACCA indicated that IAASA must issue a clear statement of its plans ('*direction of travel*'). These plans should be set in the context of the legal considerations including licenses (from the FRC and IFAC) and the implementation of the Audit Reform Directive ('ARD').
Association of International Accountants (AIA)	a) AIA indicated that in the short term it is preferable to maintain the status quo to some extent with the implementation of option 1 as this will ensure a smoother transition for firms and businesses as their current operating models are reliant on the current FRC standards and auditing framework. The AIA noted that the uncertainty created by Britain's exit from the European Union is also a reason for continuing in the short term with adaption of the FRC framework.

Respondent	*Comments*
	b) The AIA indicated that in the longer term there is a clear trend towards convergence of International standards and it is to be assumed at some point that Ireland will be forced to implement its own 'homegrown' audit framework. Until that point AIA recommends maintaining option 1.
Chartered Accountants Ireland (CAI)	a) CAI did not specify a preferred option. CAI noted that the Consultation Paper provided a high level overview of the options envisaged by IAASA for the future audit framework but there were a number of areas where CAI felt that the information provided was insufficient or lacked clarity b) CAI indicated that it was difficult to see how IAASA could adopt the IAASB Standards without also adopting the IESBA Code. c) CAI referred to the Brexit Referendum in that decisions made now may need to be re-visited and reconsidered in the light of the final terms agreed for the UK's withdrawal from the EU or for the potential for the European Commission to adopt ISA as issued by the IAASB. d) CAI noted that option 1 (FRC) or option 2 (IAASB) would involve the use of high quality, internationally recognised set of standards as a basis for the Irish Framework. CAI further noted that there was a lack of clarity in the Consultation Paper as to what exactly is envisaged for option 3 (Domestic). CAI indicated that they would not favour option 3 if IAASA were to develop standards from first principles. e) CAI considers that the cross jurisdictional recognition should be maintained and recommends that IAASA considers this issue and takes the potential impacts in to account in making its decisions. f) CAI indicated that there are aspects of the decision which need careful consideration, for example, (a) avoiding conflicts in language between the standards adopted and the Irish Legislation (b) the current lack of infrastructure and resources available to IAASA and (c) the challenges posed by two different sets of standards for both audit firms and educators such as the Institute. g) CAI also indicated that the FRC's Ethical Standard was developed to include the provisions arising from the requirements of the ARD, together with additional FRC ethical requirements and gold plating. CAI indicated that additional requirements will need to be identified and addressed in developing audit procedures.
Deloitte	a) Deloitte indicated that option 2 (IAASB) is its preferred option for the development of an auditing framework in Ireland. b) With regard to option 1, Deloitte indicated that Ireland has no control over the development, issuance or agreement to use the FRC standards in Ireland.

Respondent	Comments
	c) Deloitte also highlighted that the timing and terms of the UK's withdrawal from the EU is uncertain and as a result, they believe that UK law and standards are likely diverge from EU law. d) With regard to option 2 (IAASB) Deloitte indicated that ISAs issued by the IAASB are legislative neutral and therefore can be adopted without the creation of a standard setting process in Ireland. e) Deloitte noted that the infrastructure required to set standards as would be required under option 1 should not be underestimated. They believe it would require significant funding and knowledgeable resources. Deloitte noted that this cost is minimised under option 2. f) Deloitte referred to the ARD where it envisages a situation where the EU Commission mandates the use of ISAs as issued by the IAASB for all EU Countries. Deloitte indicated that Ireland now has the opportunity to transition to ISAs as issued by IAASB in a timeline of our own choosing. g) Deloitte also noted that ISAs are recognised by users of financial statements as a high quality framework of auditing standards. It was further noted that international users may not understand that standards referred to as ISA (Ireland) under option 1 are effectively the same and in areas more onerous than the IAASB Standards. This could be concerning to Irish entities listed on exchanges outside of Ireland. h) With regard to the Ethical Standards, Deloitte indicated that there is no need for modification to implement the member state options taken as the 2016 Regulations automatically overrides any conflicting guidance in the ethical standards. i) Deloitte noted that the 2016 Regulations was prepared with Irish interests in mind. However the FRC developed the Ethical Standards to the same EU law reforms and then gold plated some independence requirements by making them extraterritorial. Deloitte indicated that if these are implemented in Ireland, it could have a significant competitive disadvantage for FDI investment compared with other EU nations. j) Deloitte also referred to the question of mutual recognition, whereby Irish auditors are recognised as registered auditors by certain bodies. In this regard, Deloitte believes that the adoption of ISAs as issued by IAASB would not impact the mutual recognition issue.
Ernst & Young (EY)	a) EY did not conclude on a preferred option. However EY specifically indicated that they do not support option 3 (Domestic). b) On option 1 (FRC) EY indicated that no details are presented in the consultation paper in respect of the key provisions of the license agreement with the FRC. c) EY noted that it was important that the license terms give IAASA unfettered right to make necessary amendments both on initial adoption and in the future. EY considers that such provisions

Respondent	Comments
	are essential to ensure that the IAASA auditing framework remains fit for purpose. d) EY indicated that there are differences in how certain rules within the ARD have been implemented in the UK and Ireland and these differences will need to be reflected in the IAASA auditing framework. e) EY considers that option 1 would likely provide benefits due to the closer consistency of standards applied in Ireland and the UK. f) EY noted that the FRC auditing framework is supported in development and maintenance by an authority which has significant experience and resources dedicated to the standard setting process which includes engagement with stakeholders. EY indicated this is an area that IAASA would need to consider in the context of going forward with this option. g) EY also noted the possibility of divergence between the UK and Irish audit frameworks in the future due to the Brexit vote. h) On option 2 (IAASB), EY included a FEE survey which was conducted in April 2015 showing that 16 of the 28 Member States had adopted the IAASB framework without amendment. i) EY noted that the Consultation Paper was not clear on whether IAASA would be adopting the IESBA Code of Ethics. EY noted that they are unsure as to how it would be feasible or workable to adopt the International ISAs and ISQC 1 and not also adopt the IESBA code as a base framework. j) EY indicated that if IAASA adopted the International Framework without amendment it could pose challenges for auditors complying with a framework which sits separately from a suite of other important Irish legislative and regulatory requirements. k) EY suggested that IAASA should incorporate the requirements of the ARD into the international standards. EY further noted that this would be dependent on appropriate resource and skill set being available to IAASA. l) EY also indicated that the absence of an auditing framework in Ireland for statutory audits whose years commenced on or after 16 June 2016 is now becoming critical and will soon begin to impact on the operation of statutory auditors and audit firms. EY welcomed IAASA's proposal to implement an interim framework as it provides an important temporary measure until the consultation process is completed.
Institute of Certified Public of Accountants (CPA)	a) CPA indicated that option 2 (IAASB) is its preferred option for the development of an audit framework for Ireland. b) It is CPA's view that the IAASB standards are globally acceptable and understood throughout the profession and such a move would put Ireland on a level playing pitch with many of its European neighbours.

Respondent	Comments
	c) CPA also indicated that there are substantial concerns that the Irish and UK auditing frameworks will diverge over time following Brexit. d) CPA noted that in entering a license with the IAASB, it may be appropriate to provide for the amendment of the ISA's for the Irish market e) CPA also indicated that there would be a need to develop a separate IAASA Ethical Standard that would meet the requirements of the IESBA standard, Irish law and EU requirements on ethics.
Irish Stock Exchange (ISE)	a) The ISE are of the view that option 1 (FRC) should be pursued as the audit framework for Ireland. b) The ISE consider option 1 (FRC) to be the most straightforward approach and would deliver continuity of existing practice for audit firms, listed companies, investors and other stakeholders. c) The ISE also note that any Brexit related amendments can be decided at a later date when there is clarity on whether or not the FRC auditing standards remain in full compliance with EU law. d) The ISE requested IAASA to consider maintaining the existing standards and guidance for Investment Circulars and the UK Corporate Governance Code.
KPMG	a) KPMG indicated that option 1 (FRC) is its preferred option for the development of an auditing framework for Ireland. b) KPMG believes that the adaptation for Ireland should remove all 'UK augmentation' of ethical requirements over and above the requirements of 2016 Regulations on the basis that this 'UK augmentation' is not required by Irish or EU law and places unnecessary cost and burden on Irish business. c) KPMG indicated that options 2 and 3 may put the continuation of mutual recognition of both Irish and UK auditors in respective markets at serious risk. d) A KPMG is also the auditor of UK entities, the response noted that it would be of significant benefit to have the auditing framework in Ireland as closely aligned to that of the FRC as possible. e) KPMG indicated that it believes the best approach for Ireland is for IAASA to adapt the FRC's auditing framework, which would provide a single set of ethical, quality control and auditing standards to be applied in Ireland. KPMG believes that this would avoid increasing the complexity and cost of audits for Irish businesses and the auditing profession. f) KPMG indicated that in the event that IAASA decides to go above and beyond the requirements of the Irish and EU law and

Respondent	Comments
	apply the same requirements around non-audit services as currently set out in the FRC Ethical Standard, they would strongly support the inclusion of the FRC's relaxation of non-audit services restrictions for SME listed entities as appropriate (i.e. non-EU PIE entities with a market cap of less than €200m). g) With Irish listed entities applying the UK Corporate Governance Code, KPMG believe that such entities would be very sensitive to having the auditor's report in their financial statements being the same as their peer entities in the UK. (FRC ISAs include specific audit report requirements for entities applying the UK Corporate Governance Code). h) KPMG indicated that the continued availability of other standards and guidance (i.e. Practice Notes and Bulletins) would support the audit profession. i) KPMG believes that it should be possible to complete the adaption of the FRC auditing framework in quarter 1 of 2017. j) KPMG suggested that following the Brexit referendum, IAASA should monitor developments closely over the next number of years, as it may become untenable to continue basing the auditing framework for Ireland on that of the FRC at some point in the future.
PricewaterhouseCoopers (PWC)	a) PWC indicated that option 1 (FRC) is its preferred option as an audit framework for Ireland. b) PWC outlined that the auditing and ethical standards under option 1 are based on the existing standards that have been developed by the FRC and the adoption of these standards would minimise the disruption to business and audit firms. c) PWC believe that the FRC Ethical Standard contains clearer and more detailed guidance than the IESBA Code. d) PWC noted that the FRC Ethical Standard will need to be amended for use in Ireland to take account of differences in Member State options taken between Ireland and the UK. PWC outlined that the FRC Auditing Standards include all the requirements of the IAASB Standards (option 2) but also the additional requirements relating to the UK Corporate Governance Code. PWC referred to the Brexit referendum and noted that the FRC framework may not remain in full compliance with EU laws in the future. However, PWC consider that now is not the right time to make any changes to the future audit regime as the form of Brexit is not known e) PWC indicated that it expects that option 1 could be completed in a short time frame and they consider that it is essential that the transitional arrangements should be finalised as soon as possible and should not be delayed as a consequence of this consultation..

Respondent	Comments
	f) PWC referred to the mutual recognition and indicated that it is their view that the auditing framework in Ireland should support continuing recognition of Irish audit firms under UK company law and this is likely to be impacted by how closely aligned the audit framework remains to the UK and the extent to which the training and qualification of Irish members covers both frameworks.

3. Conclusion

IAASA noted the points raised in the responses in its consideration of the appropriate auditing framework to be adopted in Ireland. IAASA has concluded that the Auditing Framework for Ireland will be based on the FRC Auditing Framework for the UK. The reasons for this include the following;-

- The FRC standards provide in certain areas more detail than the international equivalents, and particularly in relation to ethical matters. This additional detail provides clarity for stakeholders and reduces the possibility of significant differences in application.
- The FRC Standards, while based on International Standards, have led in certain areas, for example extended audit reports for companies complying with the Corporate Governance Code; and
- At this time, this approach results in minimal disruption to businesses and auditors, particularly those who operate in both jurisdictions. It is also the case that FRC Standards are the standards by which Irish auditors have operated and have been trained in; .

IAASA's policy in relation to amendment of the Framework for use in Ireland is to have minimal amendments to the UK regime. Amendments will be considered where there is a conflict with Irish or EU law or where there are clear, distinct differences between the Irish and UK market, which impact upon the applicability of standards. A number of responses indicated that any requirements that are not contained in law should be removed. IAASA notes that the legislation sets out the minimum standards that must be applied and that the standards adopted can impose additional restrictions and requirements.

On 14 July 2016, IAASA announced its intention to obtain a licence from the FRC and tailor the FRC's Auditing Framework, which, as a temporary measure, would be issued for use prior to IAASA consulting on which audit framework to adopt in the longer term. On 31 January 2017, IAASA concluded this and adopted the Auditing Framework for Ireland. Amendments made to this Framework were carried out in accordance with the policy set out above. As such, this Auditing Framework remains the Framework for use going forward.

IAASA thanks the respondents to this consultation for their valuable input and welcomes engagement from all stakeholders in relation to any aspect of the Auditing Framework going forward.