

## IAASA Insights Podcast

## Episode #1: 'Understanding IAASA's Quality Assurance Reports'

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- Host** Welcome to "IAASA Insights," the podcast that explores the work we do at the Irish Auditing and Accounting Supervisory Authority to uphold quality corporate reporting and an accountable profession.
- I'm Eileen Townsend, Head of Standards, Policy, and Organisational Development here at IAASA.
- Today we'll be focusing on IAASA's role in the quality assurance review of the auditors of public interest entities. This week, IAASA published its 2024 Quality Assurance Reports on seven audit firms.
- And so, joining us today to explain the content of these reports and more, is Lisa Campbell, Head of Operations at IAASA.
- Welcome Lisa.
- Guest** Hi Eileen, it's great to be here.
- Host** **Q. So let's start by having you explain why these firms are under IAASA's supervision?**
- Guest** Yeah, so these firms are under our direct supervision because they audit entities which are known as public interest entities, eh, we call those PIEs for short. So, a PIE is defined as entities that are either listed on a stock exchange, they're a credit institution or they're an insurance undertaking. So, given the importance of these entities and the risk that's involved to the public – whether that be investors or indeed customers of the banks/insurance companies, European Law requires that we inspect those audits directly. Now all other audits are still covered by the accountancy bodies under our supervision. But for these important entities, we do that ourselves.
- Host** **Q. So then moving on to the 2024 reports, can you walk us through the content of a quality assurance report? So, what are the key components of a report, and what will an interested reader find there?**
- Guest** Of course. So each of the reports starts out with a quick snapshot, eh, and that covers both the firm, such as number of offices, partners and staff. And then you'll find two tables. And the first one shows the number of firmwide findings and our severity rating for those findings. And the second table will show how many audits we inspected and what grade we assigned to each of those. And then the rest of the report gives a bit more detail on exactly what procedures we did and then what the specific findings were.
- Host** **Q. And so for our listeners who might not be familiar, can you explain what you mean by firmwide findings?**

## IAASA Insights Podcast

## Episode #1: 'Understanding IAASA's Quality Assurance Reports'

**Guest** Yes, of course. So, both international and Irish auditing standards have a requirement for all audit firms to have a system in place to manage their audit quality. So, they are required to have controls covering lots of different things, such as ensuring they are independent, making sure they have enough staff to do the work they take on, that those staff are well trained, that they have good methodologies in place, and they have to do their own internal inspections rather than just relying on ours. There are also rules around how they compensate staff and partners. So, the firms are required to constantly monitor quality and take remedial action wherever they identify issues. So, we review and test all of these controls to make sure that they are working well and if we spot anything that needs improvement, we'll raise a finding. And then for each finding we'll assess it and see, you know, how big a problem do we think it is, if it's very severe, we rate it red, amber is a little less severe but, you know, pretty important, and yellow is still an issue but at the minor end of the scale.

**Host** **Q. And then you also mentioned that you assign grades to your audit inspections. So can you tell us a little more about those?**

**Guest** Yeah, we assign grades of 1 to 4 to each of the audits that we inspect. So, a grade 1 or a grade 2 is a good audit and either there's no issues or, we've, some fairly, you know, relatively minor issues. A grade 3 then is where we, we do think there's improvement required on a particular audit and a grade 4 is where we believe the issues were quite significant.

**Host** **Q. So many listeners might be wondering what happens then. So, when you identify one of those weaker grade 3 or 4 audits. Can you talk us through that?**

**Guest** Yeah, so anytime that we have a finding, so even if it's a grade 1 or 2, eh, and that's a minor finding, we'll always issue a recommendation, and the firms have to implement those recommendations within 12 months. And if they don't implement to our satisfaction, we are actually required in law to sanction them. But for a grade 3 or 4 audit, then we consider those on a case by case basis and we think about whether, in addition to our recommendations, whether they should be referred to our enforcement unit to investigate and potentially sanction either the firm, the individual partners or sometimes both.

**Host** **Q. So at a high level then, what were the results of IAASA's inspections in 2024?**

**Guest** So in 2024 we had firmwide findings in all of the 7 firms, there was 15 in total, and 11 of those were yellow and 4 were amber. This compares to 5 firmwide findings in 2023, but I'd note that the results aren't directly comparable because we do look at different aspects of, of, firmwide in each year.

And then, of the 31 audits we inspected, 25 of them (or 81%) were good audits, so they were graded a 1 or a 2. 5 audits were given a grade of 3 and 1 audit was graded 4. So, this is an improvement on last year, where 77% of the audits we

## IAASA Insights Podcast

## Episode #1: 'Understanding IAASA's Quality Assurance Reports'

inspected were good, but we're still a little bit behind 2022 results where 89% of audits were found to be good.

**Host**      **Q. Ok, so those are the high-level results of IAASA's inspections. So then, at a more individual topic level if you like, what were the most common issues that IAASA identified during the 2024 inspections?**

**Guest**      So maybe I'll start by saying that we pick particular focus areas in our inspections each year, so that might be due to you know, new standards, or a particular risk that we see, or sometimes we might pick areas that wouldn't typically be seen as high risk but we want to be unpredictable I guess, so we focus on particular areas.

So looking at firmwide then, one of the areas that we focused on in 2024 that resulted in a few findings is the area of independence testing. So audit firms have really robust requirements for staff and partners to record all of their financial interests, and the reason they have to do that is that if staff or partners have a financial interest in an audit client, that could compromise or be perceived to compromise their independence. So the firms all have quite strict rules on how quickly those changes in financial interests must be reported, and they do their own testing, and it's quite extensive on this part of their firmwide controls. So what we found in 2024 was that the error rate the firms identified in their own testing were higher than we would deem acceptable.

Now looking at the audits, there's less commonality on the findings eh, in 2024 but one common area, that I'll mention, and again this was an area that was a focus for us in 2024 was in relation to financial statement reviews. So this relates to deficiencies in the amount of audit evidence obtained on information in the financial statement - notes largely. So accounting standards have requirements for certain disclosures in the notes, and the auditors are required in auditing standards to get evidence in relation to them, so it is an area we believe is very important, and cropped up a few times this year.

**Host**      **Q. And then, where do those results stand in comparison to IAASA's international peers?**

**Guest**      So at the date that we're recording this, the 2024 IFIAR survey isn't out just yet. We're expecting it in the next couple of weeks. But if I look at the 2023 IFIAR survey, it showed that 32% of audits inspected globally had findings, and when you compare that to our 19%, that shows that we do have a good standard of audits in Ireland by comparison to our international peers.

**Host**      **Q. Well that's encouraging, but having said that, I know that we never rest on our laurels, so we're always in the business of continuous improvement. So, are there areas that you'd like to see improvements from audit firms and auditors themselves?**

## IAASA Insights Podcast

## Episode #1: 'Understanding IAASA's Quality Assurance Reports'

**Guest** Yeah, I think one area that we'd definitely like to see improve is the consistency in the execution of audits within firms. So I'll give you an example of that, on, I mentioned the financial statement review and findings that we had there, and, we see that within a single firm, we'll have some teams who actually do a very good job on this, and then other teams where there is improvement required. So we'd just, we'd like to see more consistency in how audits are carried out across the firm.

Thinking of firmwide then, there was a new standard on firmwide controls and that took effect in December 2022, so that's actually still relatively new. So, we'd like to see firms continue to assess those systems of quality management and work towards preventing quality issues, as well as detecting them.

And we always like to see that firms include information on our inspection findings, along with the results of their own testing, in their training for their audit staff.

**Host** **Q. Thank you for those insights, Lisa. I want to move on to ask you about the implications of audit inspections for financial statements themselves. So, I suppose, in essence, a listener might be wondering, does a lower-grade audit correlate with reduced financial statement reliability?**

**Guest** Yeah, it's a good question and it crops up. But financial statements I suppose in the first instance are prepared by the company in question, so it is the company that has the primary responsibility to make sure that they are accurate and reliable. So, if the company has done its job well and they have strong reporting function, then even if there is a deficient audit, the financial statements will still be reliable. The risk of course occurs where a company has failed in its duty to ensure that the financial statements are reliable and accurate, because the audit is designed to identify and address this.

**Host** **Q. And then, looking ahead, what emerging challenges do you see for audit quality? For example, you know, how are firms adapting to changes like increased automation and AI?**

**Guest** Yeah, so I suppose improvements in technology over the years have, you know, always caused significant changes to how audits are carried out – so for example, you know, we no longer have audit juniors spending a week totting up these really long computer printouts of ledgers, like I would have done in my early auditing days. And I would say for the most part, it has been good for audit quality, you know, it reduces the mundane tasks that might be prone to human error, but it is challenging for auditors because they constantly have to upskill and they also have to be sure that they fully understand exactly what the technology is doing, because that's what the auditing standards require. So generative AI definitely has the potential to significantly change what an audit looks like again moving forward, but the firms are still in the early stages of figuring out how best to apply that Gen AI in carrying out the audit. So they're

## IAASA Insights Podcast

## Episode #1: 'Understanding IAASA's Quality Assurance Reports'

working through concerns about bias, maintaining professional judgment in the humans, and also on the impact on the traditional training model.

Another thing that we have noticed is that there is an increase in the use of overseas delivery centres or centres of excellence. And they can be beneficial because they can remove admin work from the engagement teams, or they can centralise expertise and make those available to a wider audience, but the firms do need to ensure that the staff in those centres have the appropriate level of skills and training and they comply with all of the ethical requirements.

And the last thing maybe I'd mention is that the attractiveness of the audit profession is a challenge. So we're seeing that there are challenges in, not so much in recruitment but certainly in retention of the best candidates and being able to, you know, communicate why audit quality is important, and why the work of auditors is important and that it is quite rewarding as a career.

**Host**      **Q. Great, ok. So, Lisa, throughout the podcast you've mentioned the importance of, or IAASA's focus on, 'audit quality'. So here's your final question: Give me three words that, for you, sum up great audit quality?**

**Guest**      Oh, em, I think the three words that come to mind are independent, transparent, and challenge.

**Host**      **Q. Independent, transparent, and challenge. So, I suppose, highlighting not just technical skills and know-how but overarching ethical and professional principles at the core of auditing. I mean, the last one there, the word 'challenge', that makes me wonder - are you emphasising that audit is not just about following a procedure but about having the professional courage to ask difficult questions when necessary?**

**Guest**      Yeah, exactly, yeah, so, you know, it's a core part of the value of an audit is just that additional layer of consideration, you know, challenging management, and that'll just squeeze out any errors or bias that might exist. And they can be unintentional, and we have seen that, you know we see evidence of this when we look at the corrected misstatements that have been detected by audit teams. So it's the core of the value of audit.

**Host**      Ok, Great. Lisa. Thank you very much for sharing your insights with us today.

For any listeners who want to check out the 2024 Quality Assurance Reports, or indeed learn more about IAASA's role in audit oversight, please do visit our website at [IAASA.ie](https://iaasa.ie) where you can download the reports and access other resources of interest.

Thank you for tuning in to "IAASA Insights" today. And we look forward to having you back for our next episode.