

2022

Regulatory and Monitoring
Supervision

Good repute for statutory auditors and audit firms

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.

Disclaimer

The Irish Auditing & Accounting Supervisory Authority accepts no liability and disclaims all responsibility for the consequences of anyone acting or refraining from acting on the information contained in this document or for any decision based on it.

Every effort has been made to ensure the accuracy of the information contained in this document. However, the Irish Auditing & Accounting Supervisory Authority accepts no responsibility or liability howsoever arising from any errors, inaccuracies, or omissions occurring in this document.

Table of Contents

1. Introduction	4
2. Definitions	4
3. Objective and scope of thematic review	5
4. Key Observations	5
5. Definition of good repute	6
5.1 Individuals	6
5.2 Firms	7
6. Evidence.....	8
6.1 Individuals seeking approval as statutory auditors	8
6.2 Firms	10
6.3 Ongoing evidence	14
7. Escalation.....	14
7.1 Initial assessment	15
7.2 Ongoing approval.....	15

1. Introduction

Background

The Companies Act 2014 ('the Act') allows Recognised Accountancy Bodies ('RABs') to approve individuals as statutory auditors and firms as audit firms. There are three RABs in Ireland:

- Association of Chartered Certified Accountants (ACCA)
- Institute of Certified Public Accountants (CPA)
- Institute of Chartered Accountants Ireland (ICAI)

The Act says RABs can approve individuals or firms if they are of good repute but does not define good repute. The Act contains some examples of where good repute can be compromised, including cases of professional misconduct or want of professional skill on the part of a statutory auditor or audit firm. The RABs generally use the term '*Fit & Proper*' and '*Good Repute*' synonymously. The term good repute is used throughout this report.

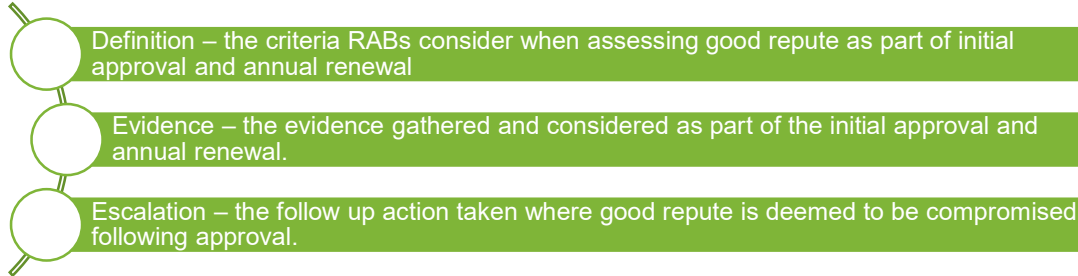
2. Definitions

Term	Meaning
The Companies Act 2014/the Act	The Companies Act 2014
Administrative or management board (of a firm)	The body of individuals who control and make decisions on behalf of the firm
Member (of a RAB)	A member of the RAB which is considering the good repute of the individual.
Non-member (of a RAB)	A non-member of the RAB which is considering the good repute of the individual. A non-member must be a member of one of the other RABs if seeking statutory audit approval
Principal (of a firm)	A partner (where a firm is a partnership), a company director (where a firm is a company) or an individual which is a sole practitioner (where the firm is a sole practice)
PAB	Prescribed Accountancy Body
RAB	Recognised Accountancy Body

3. Objective and scope of thematic review

This thematic review aims to understand how the RABs define and evidence good repute in relation to statutory auditors and audit firms as well as understanding the action taken by RABs where good repute is compromised following initial approval.

The review focused on:



The thematic review considered responses to the questionnaire issued by IAASA and the supporting information provided by the RABs.

IAASA would like to thank the RABs for their co-operation with the drafting of this thematic review on good repute.

4. Key Observations

The key observations from this thematic review are summarised below.

Definition

- All RABs include requirements in their constitutional documents that both statutory auditors and audit firms be of good repute.
- All RABs include similar criteria when considering an individual's good repute.
- RABs differ in the criteria included when considering a firm's good repute.
- All RABs consider that an audit firm's good repute comprises the good repute of the individual statutory auditors and of the principals of the firm.
- Some RABs include the good repute of the firm itself.

Evidence

- RABs obtain personal declarations from individuals, declarations from the firm, regulator to regulator checks, and inter-departmental checks.
- The RABs approach to how they assess individuals' and firms' good repute are not consistent with each other.
- Some RABs differentiate how they assess the good repute of individuals that are members versus non-members.
- Some RABs differentiate in what they assess for good repute at initial approval and annually thereafter.

- The RABs operate a memorandum of understanding ('MoU') for the sharing of information.

Escalation

- All RABs have escalation procedures in place to deal with matters arising where an individual or firm's good reputation may be deemed compromised.
- All RABs require audit firms to report promptly to them if matters arise that could affect the good reputation of the audit firm or the individual statutory auditors within the firm.

5. Definition of good reputation

5.1 Individuals

Table A lists matters which RABs consider may affect the good reputation of individuals applying for statutory auditor status.

Table A - Individuals:

- Financial integrity and reliability
 - Judgement debts
 - Compromise arrangements with creditors
 - Bankruptcy
 - Trust deeds with creditors

- Criminal and civil liabilities
 - Criminal convictions
 - Civil actions resulting in a finding or a settlement
 - Court disqualification from acting as a director

- Good reputation and character
 - Refused or restricted from carrying on a trade where authority is required
 - Formal complaint regarding misconduct or malpractice in connection with professional activities proved
 - Other findings, reprimands, etc. by a professional body
 - Dismissal or requested to resign from office or employment
 - Court order at instigation of a regulatory body
 - Excluded or refused entry from membership of a profession or vocation
 - Currently being investigated or disciplinary procedures
 - References/confirmation that the individual is of good repute (other RABs)

- Body Z also considers the financial integrity & reliability, civil liabilities and good reputation and character of any previous firms in which the individual was a principal as being relevant to good repute of the individual

- Body X considers whether any of the partners/directors has been a partner in an audit firm before and the reason for the cessation of that firm's approval.

5.2 Firms

All RABs consider that a firm's good repute comprises the good repute of the individual statutory auditors within the firm, in addition to the good repute of the principals of the firm. Body Y and Body Z also consider the good repute of the firm itself.

Table B lists matters which RABs consider could affect the good repute of firms.

Table B - Firms:

- All RABs
 - The good repute of all statutory auditors of the firm
 - The good repute of all principals of the firm
 - Findings, reprimands or public criticism of the firm by a professional body

- Bodies Y and Z additionally consider the following items, that could affect the good repute of the firm:
 - Financial integrity and reliability of the firm itself
 - Compromise arrangements with creditors or failed to satisfy creditors in full
 - Insolvency proceedings

 - Criminal and civil liabilities of the firm
 - Criminal convictions
 - Civil actions resulting in a judgement or finding or a settlement

 - Good reputation and character of the firm
 - Refused or restricted from carrying on a trade where authority is required
 - Formal complaint regarding misconduct or malpractice in connection with professional or business activities proved
 - Court order at instigation of a regulatory body
 - Excluded or refused entry from membership of a professional body or trade association or decided not to continue with an application (Body X & Body Z)
 - Currently being investigated or disciplinary procedures

- Where a new firm is formed due to a restructure, body Z also considers the following in relation to the previous approved firm
 - Financial integrity & reliability
 - Civil liabilities and good reputation

6. Evidence

6.1 Individuals seeking approval as statutory auditors

RABs consider various pieces of evidence including personal declarations, regulator to regulator checks, disciplinary and regulatory records and firm declarations.

6.1.1 Personal declarations

Personal declarations are a consistent method used by RABs for members seeking or renewing statutory auditor approval. Two of the RABs require personal declarations for non-members seeking statutory auditor approval. One of these RABs also require personal declarations for non-members renewing their statutory audit approval.

The format of the personal declarations varies across the RABs. Some RABs require responses to a series of direct questions with further information required for positive responses. Other RABs require an overall general declaration as to good repute.

Personal declarations and firm declarations

	Body X	Body Y	Body Z
Initial Applications			
Member - list of questions	Y	N	Y
Member - general declaration	N	Y	N
Non-member - list of questions	Y	N	Y
Non-member - general declaration	N	N	N
Firm confirms - specific to the individual	Y	N	Y
Firm confirms - general declaration within firm application about individuals being approved at same time as firm	Y	Y	Y
Annual renewal of approval			
Member - list of questions	Y	N	N
Member - general declaration	N	Y	Y
Non-member - list of questions	Y	N	N
Non-member - general declaration	N	N	N
Firm confirms - general declaration within firm renewal about all individuals	N	Y	Y

- Body X – members and non-members are required to respond to a series of direct questions at both initial application and annual renewal. In addition to the personal declaration, the firm’s compliance principal signs within the application form that the information provided is true and accurate.
- Body Y – only the members are required to complete at both initial application and annual renewal. This is a general declaration response where the individual declares their confirmation and understanding of a number of aspects of their approval for a practising certificate including good repute.
- Body Z – members and non-members are required to respond to a series of direct questions at initial application stage. At annual renewal it is only members that are required to complete a general declaration regarding their good repute. In addition to the personal declaration, the firm’s compliance principal signs within the initial application form that the information provided is true and accurate

6.1.2 Regulator to Regulator checks

All RABs carry out regulator to regulator checks on all individuals seeking approval as a statutory auditor who also have membership of other professional bodies. They also carry out the checks on an annual basis when renewing the statutory auditor's approval.

The RABs do not have a template or agreed wording for either the information requests made or the responses given.

6.1.3 Disciplinary and regulatory records

All RABs conduct inter-departmental checks to identify disciplinary or regulatory matters regarding the individual. Each RAB then considers whether the matter affects the good repute of the individual. This can be dependent on whether the matter has been concluded or whether sanctions and penalties have been imposed.

6.1.4 Firm declarations

In applying for approval, all RABs require firms to provide a general declaration of the good repute of all persons who will carry out statutory audits for the firm. Two of the RABs also require confirmation, within the individual's application form, of the good repute of an individual seeking approval as a statutory auditor.

Annually with the audit firm's renewal application, two of the RABs require firms to make a general declaration covering all statutory auditors who carry out audits on behalf of the firm.

6.2 Firms

RABs consider various pieces of evidence including firm declarations, regulator to regulator checks, disciplinary and regulatory records and declarations from members of the administrative or management board of the firm.

6.2.1 Firm declarations

Firm's declarations:

	Body X	Body Y	Body Z
Initial Applications			
List of questions about firm and about individual auditors in the firm and members of the administrative or management board	N	N	Y
General declaration about firm	N	Y	N
General declaration about individual auditors in the firm and members of the administrative or management board.	N	Y	N
Annual renewal of approval			
List of questions about firm and about individual auditors in the firm and members of the administrative or management board	N	N	N
General declaration about firm	N	Y	N
General declaration about individual auditors in the firm and members of the administrative or management board	N	Y	Y

- Body X - does not seek a declaration regarding the firm. The firm's good repute is assessed by considering the good repute of the statutory auditors approved in the firm and the individuals who manage the firm.
- Body Y - seeks a general declaration from the firm regarding its good repute at initial application and the annual renewal stage, that none of the matters referred to in the constitutional documents (relating to good repute) applies to the firm or to any of the principals or statutory auditors.
- Body Z - seeks a response from the firm to a series of specific questions relating to the firm's good repute at initial application. A declaration about the firm is not sought at annual renewal

6.2. 2 Regulator to regulator checks

All RABs conduct regulator to regulator checks with any other PAB which the firm was a member of or regulated by at any time. RABs also seek details of the last quality assurance review conducted by any RAB which formerly approved the firm for statutory audit. One RAB also carries out regulator to regulator checks with other PABs where a member of the administrative or management board is a member or regulated by that PAB.

6.2.3 Disciplinary and regulatory matters

All RABs conduct inter-departmental checks to determine whether there are any issues relating to disciplinary or regulatory matters regarding the firm. Each RAB then considers whether these matters affect the good repute of the firm. This can be dependent on whether the matter has been concluded or whether sanctions and penalties have been imposed.

All RABs also carry out inter-departmental checks regarding their members who are part of the administrative or management board.

6.2.4 Declarations from members of the administrative or management board of firm

Some RABs obtain declarations from individuals who are members of the administrative or management board of a firm. Some RABs obtain declarations from the firm about the members of the administrative or management board. This declaration can be specific to the individual and in other cases this is a general declaration to cover all members of the administrative or management board.

Personal declarations from members of the administrative or management board

	Body X	Body Y	Body Z
Initial joining administrative or management board			
Member – list of questions	Y	N	Y
Member – general declaration	N	Y (with RAB membership not at time of appointment to administrative or management board)	N
Non-member – list of questions	Y	N	Y
Non-member – general declaration	N	N	N
Firm confirms – specific to the individual	N	N	Y
Firm confirms – general declaration within firm application about individuals appointed at time of firm application	Y	Y	Y
Annual renewal of firm's approval			
Member – list of questions	Y	N	N
Member – general declaration	N	Y (with RAB membership renewal not with firm's renewal)	Y
Non-member – list of questions	Y	N	N
Non-member – general declaration	N	N	N
Firm confirms – general declaration within firm renewal about all individuals appointed at that date	N	Y	Y

- Body X – all members of the administrative or management board, are required to respond to a series of direct questions at both initial registration and annual renewal. The RAB does not seek confirmation from the firm about the individuals' good repute.
- Body Y - members of the administrative or management board are not required to provide personal declarations of good repute. However, if any are RAB members, declarations are sought as part of the individual's membership with the RAB. The firm is required to provide a general declaration that there are no matters relating to good repute of any principals at initial firm approval and annually thereafter. The RAB does not seek a declaration of good repute from the firm regarding new members joining the administrative or management board.
- Body Z – all members of the administrative or management board are required to respond to a series of direct questions at initial registration but not annually thereafter. The RAB seeks a detailed declaration from the firm when it first registers, about the good repute of the members of the administrative or management board and a general declaration annually thereafter.

6.3 Ongoing evidence

The Act requires the RABs to withdraw the approval of an individual's or a firm's approval in cases where their good reputation is seriously compromised.

All RABs require audit firms they have approved to notify them of any matters which could affect the good reputation of the firm, its employees or principals. Some RABs also place reporting obligations on individuals approved as statutory auditors.

Notification of matters affecting good reputation

Obligations on audit firms

- Body X – notifications to be made to RAB within 10 days
- Body Y - does not specify a timeline in their constitutional documents but expect this to be immediate
- Body Z – notifications to be made to RAB within 10 days

Obligations on individual statutory auditors

- Body X – notifications to be made to RAB within 10 days
- Body Y - does not specify a timeline in their constitutional documents but expect this to be immediate
- Body Z – does not place an obligation on the individual statutory auditor to report directly to the RAB

7. Escalation

Any matter identified that may impact the good reputation of an individual or firm is reviewed further by all RABs. In Body X the review is conducted by the oversight committee that deals with registrations, whereas in Body Y and Body Z the review is conducted by RAB staff.

In determining escalation of a matter that affects the good reputation of an individual or firm, the following are considered:

- circumstances and facts of the matter
- seriousness of the matter
- relevance of the circumstances to the audit approval of the individual or firm
- repetition and duration of the behaviour
- length of time passed since the matter occurred
- explanations offered by the individual or firm
- potential impact of the matter on the public interest and on the individual's or firm's ability to provide quality audit services
- how other PABs and regulators have considered the matter
- whether any remedies have been put in place to prevent a reoccurrence of the matter
- the regulatory and disciplinary history of the relevant party.

7.1 Initial assessment

Where the RAB has concerns about matters arising at this stage, they have the following options:

- refusal to approve the application from the individual or firm
- attach one or more conditions to the approval

7.2 Ongoing approval

Where a RAB is concerned about matters arising, to such an extent that action is warranted, they exercise one or more of the following options:

- refer the statutory auditor or audit firm to the disciplinary process of the RAB for further consideration
- refer the audit firm to the quality assurance department for consideration. This could result in an early monitoring review.
- withdraw the audit approval from the individual or firm
- suspend the approval of the individual or firm
- place conditions on the ongoing approval of the statutory auditor or audit firm

8. Conclusion

Each RAB has developed a detailed procedure in relation to assessing good repute of individuals and firms who are seeking approval to act as auditor. There is a lot of common ground in these procedures but some differences arising. IAASA is also analysing the practices in use in other European Member States. The results of both of these analyses will inform the development of Guidelines on Education and Licensing. This report may be of assistance to bodies in the interim period, providing information on alternative or additional steps they may wish to adopt to ensure that the good repute assessments are as effective as possible.



IAASA

Irish Auditing & Accounting
Supervisory Authority

**Irish Auditing & Accounting
Supervisory Authority**

Willow House
Millennium Park
Naas, Co. Kildare
W91 C6KT
Ireland

Phone: +353 (0) 45 983 600
Email: info@iaasa.ie

www.iaasa.ie