

Chapter 1

CHAIRPERSON'S STATEMENT & CHIEF EXECUTIVE'S REVIEW

CHAIRPERSON'S STATEMENT

Introduction

This is IAASA's ('the Authority') sixteenth Annual Report. It is with pleasure that I submit it to the Minister for Enterprise, Trade & Employment, in accordance with section 928(1) of the Companies Act 2014 ('the Act'). The Chief Executive's Review summarises the principal activities undertaken by the Authority during 2021 to fulfil its mission. The remainder of this Report gives details of this work. In my Statement, I would like to focus on the strategic aspects that are the focus of the board of the Authority, and how the Authority has positioned itself to address the challenges both current and prospective.

Governance

The Authority recommenced a limited number of in person board meetings and held an in person away day during 2021. The ability to meet and discuss strategic issues in person greatly enhances the capabilities of the board, notwithstanding the technological advances that allowed remote meetings to take place over the last two years. This was especially the case as many of the Authority's board had not met face to face since their appointment. Unfortunately the Authority was forced to revert to remote meetings at the end of the year but in person meetings will be the norm going forward.

Values

The Authority undertook a review of its values during the year. This process, which incorporated the board and the staff and which was undertaken through various fora and working groups, has resulted in three core values of excellence, independence and integrity, each supported by four behaviours. A number of operational changes have been made to incorporate the values into the day to day work of the Authority. I would like to pay tribute to the staff who contributed so fulsomely to this important process.

Risk

For much of the last few years the Authority's risk register has been dominated by two items, firstly Brexit and more recently COVID-19. The first has effectively been addressed and is no longer a significant risk area for the Authority, while the second, although continuing to be a significant burden across the community, has not impacted on the Authority's capacity to carry out its full statutory remit. Accordingly the board has had the opportunity to reflect on risk in 2021. The board had a useful externally facilitated session on risk appetite, and has challenged itself and the executive on the identification of the key risks facing the Authority. As COVID-19 has shown, not all risks are predictable. The key to successfully addressing these risks is creating a resilient organisation. Through its values project and the various other support activities of the board and the executive, IAASA believes it has been successful in doing that.

UK departure from the EU

Audit regulation is underwritten by EU law, and therefore it is vitally important that all auditors on the Irish register have appropriate training and experience in Irish/EU regulatory and statutory requirements. With the UK no longer being a member of the EU, the Authority clarified that this had implications for what had been a significant number of UK based auditors who were simultaneously registered in both jurisdictions. Ultimately a large number of dual registered auditors opted to be removed from the Irish register as they could no longer satisfy Irish regulatory requirements. In turn, this led to the decision by two recognised accountancy bodies, the Institute of Chartered Accountants in England and Wales and the Institute of Chartered Accountants of Scotland, to withdraw from the regulated market in Ireland. This was a significant decision, but one which the Authority respected. In practice its impact on the Irish market was minimal. The Authority continues to work with its European colleagues on the issues that arise in treating the UK as a third country under EU audit legislation.



Following a competitive election process I am pleased to report that IAASA has also joined the board of IFIAR, the International Forum for Independent Audit Regulators, for a four year term.

International relationships

Last year I noted in my statement that Ireland had joined the consultative group of the CEAOB, the European body through which EU regulators work together for audit quality. IAASA staff were to the fore as CEAOB revisited its mission and set out ambitious plans to engage with the Commission on proposals to revise the EU Audit Regulation and Directive. The Commission has also commenced work on the Corporate Sustainability Reporting Directive, which will impact issuers and auditors under the Authority's remit. The Authority is engaging and supporting this initiative across a number of European committees as well as through supporting the Department in its consideration of policy. The proposals put forward by the Commission while aimed primarily at company disclosures have the potential to radically reshape the purpose and function of statutory audit, with resultant impacts for audit regulation. The Authority will continue to contribute to these discussions to ensure that the ultimate proposals will be effective in

achieving the aims of the Commission. It will also monitor and plan for any potential impact on the Authority itself.

Following a competitive election process I am pleased to report that IAASA has also joined the board of IFIAR, the International Forum for Independent Audit Regulators, for a four year term. This is a recognition of the contribution Ireland has made to the work of IFIAR over several years, both at plenary and across a number of IFIAR working groups. Board membership gives Ireland greater insight into developing policy at global level as well as a greater opportunity to engage with our global peers. It also further underscores the previously announced Authority policy of greater engagement internationally.

Board changes

The Central Bank nominee Mary Burke's term of appointment expired in early 2021 and the Bank nominated Brendan Sheridan in her place. Kathleen Redmond, the nominee of the Revenue Commissioners completed her short term with the Authority and was replaced by Daniel Sinnott also in early 2021. I would like to thank both for their service, in particular Mary who had been on the board since 2015.

Towards the end of the year our Chief Executive Kevin Prendergast was reappointed to the Authority for a further five year period. The board unanimously supported his reappointment and we look forward to him continuing his work leading the executive and staff of the Authority. And just before the year end I was pleased to also be reappointed to my role as Chairperson for a three year period. I am honoured to remain on the board of the Authority.

On behalf of the board I wish to extend my thanks and appreciation to all those who have served the Authority with distinction, and I extend my personal gratitude to those who have joined in the past year.

Concluding remarks

Notwithstanding the challenges the Authority along with much of society has faced during this past year, I am pleased to report another strong showing in terms of performance this year. The Authority's quality assurance review reports into the PIE audit firms are now a recognised element of the audit sector, the standards it issues are similarly recognised and acknowledged as of a high standard. As the rest of this report shows, we continue to develop and enhance our approach to regulation across the breadth of our remit as we respond to a relentlessly changing and challenging environment. Its capacity to respond to these challenges is built on the work that the Authority has undertaken in building an innovation culture,

and an openness to change, along with a clearly understood set of values that guide us in how we undertake our work.

As I mentioned in my opening remarks, it was only late in 2021 when I had the opportunity to meet many of the board members face to face for the first time. Their contributions to the board's deliberations on strategy, risk and governance were as ever insightful and astute, and the board as a whole carries out its task of holding the executive to account in a robust yet supportive manner. Each year the board undertakes an externally facilitated review of its performance, and this review corroborates that assertion. I would like to thank all of my colleagues on the board of IAASA for their dedication and contribution to the work of the Authority in the year. I want to thank the Tánaiste, the Minister of State with responsibility for Trade Promotion, Digital and Company Regulation and their colleagues in the Department who support the Authority through policy consideration and also through practical assistance where necessary. As ever, my particular thanks go to the Chief Executive, the leadership team who appear and contribute at board meetings, and to the entire staff in IAASA. I look forward to continuing to support the work of the Authority during my next term as Chairperson in maintaining high standards in the audit and accounting profession.

Martin Sisk
Chairperson
12 April 2022

CHIEF EXECUTIVE'S REVIEW

Introduction

The purpose of this review is to provide an overview of the activities of the Authority in 2021. IAASA works to a three year work programme, the current version of which covers the period 2020-2022. Each year it sets out a business plan in line with that programme. Its statutory responsibilities are set out in the Companies Act and in EU law. Full details of how the Authority has succeeded in reaching the targets in its plan are set out in the body of this report. The Authority's key achievements are highlighted in the report as well as examples of how the Authority has carried out its work during the year. My review provides a summary of these achievements and of the work of the Authority in 2021.

Key activities

IAASA has responsibility for the adoption of auditing and ethical standards for statutory auditors in Ireland. Globally, auditing standards are drafted, approved and adopted by the IAASB. The UK regulator, the FRC, adopts these standards, and where deemed appropriate it may add further requirements. IAASA's policy is to take the UK standards in turn and then assess whether there are distinctive characteristics in the Irish market that would require an amendment to the UK standard.

During 2021 IAASA issued a new suite of standards on audit firm quality management. ISQM (Ireland) 1 and 2 and ISA (Ireland) 220 will require all audit firms to adopt a more proactive approach to client engagement, risk assessment and ongoing monitoring of quality. These standards will apply from December 2022. IAASA also adopted ISRE (Ireland) 2410 which provides guidance on the review of interim financial information issued by listed entities. Internationally the IAASB have been developing a proposed standard on the audit of less complex entities an IAASA was pleased to host an Irish roundtable on the IAASB proposals, the first such public outreach event undertaken on this issue by the IAASB.

IAASA's oversight of the accountancy bodies includes both those recognised bodies ('RABs') whose members may apply to join the register of statutory auditors and a wider list which also includes prescribed bodies ('PABs') who have their quality assurance and disciplinary functions regulated by the Authority. As the UK is no longer a member of the EU, the training and ongoing experience of UK based auditors cannot be recognised as based on EU law and requirements, albeit that for the moment the two standards are effectively the same. Accordingly most UK based auditors of the recognised bodies opted to be deregistered from the Irish audit register. For bodies recognised in both jurisdictions, this has also meant that the separate regulatory requirements in both jurisdictions have come

more sharply into focus. Accordingly, two of those bodies applied to be both derecognised and deprescribed as regulated bodies. This means that their members can no longer be registered in the State as auditors, or operate as liquidators, and also has implications for a range of occupations where membership of a regulated body is a contractual requirement. The Authority revoked the recognition of ICAEW in July 2021 and of ICAS in December 2021.



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Following on from the previously announced range of guidelines for the regulated accountancy bodies, IAASA issued further guidelines on continuing education and investigation and disciplinary functions. These guidelines set out the principles that all bodies are expected to comply with in carrying out regulatory functions.

The Financial Reporting Supervision Unit ('FRSU') examined 37 annual reports and six half yearly reports. 19 issuers provided 86 undertakings relating to improved disclosures going forward. The main areas for undertakings were related to financial instruments, but other areas included the presentation of information, the use of alternative performance measures, operating segment disclosures and fair value measurement. FRSU also worked with its European colleagues in identifying the impacts of COVID19 for corporate reporters.

The Authority continued its inspections of PIE audit firms, inspecting eight firms in 2021. As well as examining firmwide policies, the Authority reviewed a sample of 30 audits of PIEs undertaken by these firms. In March the second round of quality assurance review reports were issued. The results of these inspections show a continued

upward trend in the quality of audits reviewed. Since the Authority first published the results of its inspections, the proportion of audits graded at 1 or 2, (meaning the audit is of a good standard) has risen from 71% to 93%. The Authority's published reports had no grade 4 (lowest grade) audits, where significant improvement is required. IAASA hosted its second audit committee briefing event during the year at which a range of speakers provided insights for audit committee chairs and members. At international level IAASA was honoured to be elected to the board of IFIAR, the international forum for independent audit regulators. The Authority supports its European and international colleagues in increasing the quality of audit regulation through active participation in international fora where appropriate. All of these engagements continued in a virtual format during 2021. However it must be acknowledged that this is not ideal and reduces the value of this engagement. It is hoped that in person events can recommence in 2022. Engagement at European level focussed on both the proposed revisions to the Audit Regulation and Directive and also the new proposals for a Corporate Sustainability Reporting Directive. IAASA works with its peers and the European Commission in resolving some of the many challenges these ambitious proposals will provide.

On the enforcement front, the Authority entered into two settlement agreements in 2021. One of these was with an audit partner in Mazars in relation to the audit of the National Asset Management Agency for the year ended 31 December 2016. The second settlement was with Chartered Accountants Ireland in relation to their operation of their investigation and disciplinary procedures in a particular case. The Authority continues to pursue a number of enquiries and investigations at the year end.

The Authority restructured and expanded its finance and administration function in 2021, creating a new corporate service functional unit with a dedicated HR function. This was a long overdue process recognising the significant increase in the size of the Authority in recent years. As well as complying with its many statutory and regulatory requirements as a public agency and a company, the Authority also revised how it supported staff in their performance and development, tying in with the values revision project undertaken with the support of the organisational development unit. The Authority also updated its innovation strategy, in the context of the public sector innovation strategy but with due regard to the specific remit and scope of the Authority's work. The strategy is now linked to the Authority's three year work programme. The Authority continues to expand its social media footprint, with enhanced engagement on LinkedIn and a new YouTube channel. Each of these provide further avenues by which the Authority can publicise its work in promoting audit quality.

In responding to the challenges and also the opportunities for reflecting on our working policies brought by COVID19, the Authority implemented a flexible working policy in 2021. The policy acknowledges the lived experience of the Authority continuing to operate at a very high level in a remote working environment, and seeks to maintain the advantages identified to the benefit of both staff and the Authority.

Concluding remarks

This review provides a summary of the Authority's work during 2021. More details of how the Authority fulfilled its mandate are contained in the rest of this report, including details on how each part of the Authority achieved targets set under the annual business plan. What these demonstrate is the very wide range of activities, both core and support, that the staff of the Authority undertake on an annual basis. In 2021 this continued under a wholly virtual format, which presented its own unique challenges. The Authority carried out significant work in supporting its staff, through the values project, through virtual training sessions, and by continuing to provide challenging and rewarding opportunities for its staff through the day to day work of the Authority. In turn our staff provide exemplary service to the Authority in the service of the wider community who place reliance on the audit and accounting profession. I would like to thank them for again achieving so much during these uniquely difficult times. I would also like to express my gratitude to the board for their support during 2021. It remains a privilege to lead the executive team and staff of the Authority, and I look forward to the challenges that lie ahead.

Kevin Prendergast
Chief Executive
12 April 2022