

2018

# Annual Audit Programme and Activity Report

### **Disclaimer**

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

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## **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.

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The background is a solid dark blue color. It features several large, overlapping, curved shapes in various shades of blue, ranging from a very dark navy to a bright cyan. These shapes create a sense of depth and movement, with some appearing as if they are layered on top of others. The overall effect is modern and professional.

# Chapter 1

Audit Inspections

# Chapter 1: Audit Inspections

## 1.1. Introduction

### 1.1.1. Functions

This Chapter details the key functions of the audit inspections team. The functions largely fall within two areas: quality assurance and international cooperation. These functions are explained further below, with details of the 2018 activities and 2019 priorities.

### 1.1.2. Structure and Recruitment

The audit inspections team reports to the Head of Statutory Reporting Quality. The team consists of two Senior Audit Inspectors, four Audit Inspectors and one Administrative Executive.

The current complement of Senior Audit Inspectors and Audit Inspectors have all been recruited from Public Interest Entity ('PIE') audit firms and have all operated in senior management roles in those firms. It is important that Audit Inspectors are independent of the firm they are inspecting and that they have sufficient specialist skills in auditing PIEs in various industries in order to appropriately challenge the audit firm being inspected. Audit Inspectors have come from a variety of firms and have a variety of industry backgrounds.

At 31 December 2018, three of the Audit Inspector roles were vacant and one Administrative Executive role was vacant. Recruitment for the Administrative Executive is on hold while the team evolves. The Authority is currently actively recruiting the remaining inspectors, though given the specific nature of the skills required and the current market conditions, this is expected to take some time to complete. IAASA must maintain the balance of skills to ensure it has sufficient coverage in all skill areas. Furthermore, it must maintain a balance in the firms from which the inspectors have come to ensure that it has sufficient staff who are independent of each firm. The Authority utilises the services of a specialist recruiter for the Audit Inspector roles and interviews candidates as they are identified. From time to time, the Authority runs additional advertising campaigns for these posts on selected recruitment websites.

During 2018, the Financial Reporting Supervision Unit ('FRSU') of IAASA was restructured to report to the Head of Statutory Reporting Quality to take advantage of the overlap in areas of interest and benefit from synergies between the teams. The two teams coordinate and share information in respect of training, technical accounting matters, entities within both remits and trends noted in both teams.

### 1.1.3. Funding

The Minister for Business, Enterprise & Innovation ('the Minister') approves IAASA's overall budget. The functions of IAASA are funded in a variety of ways. Audit inspections are funded by a statutory levy, which is proposed by IAASA and approved by the Minister. There are two parts to the levy. The first part is a standing charge of €3,500 for each PIE auditor. This recognises the fact that there is a base level of work involved in inspecting a PIE auditor, regardless of how many PIE clients they audit. The remainder of the budget is allocated amongst the PIE audit firms based on the PIE statutory audit fees earned by the firms.

## 1.2. Quality Assurance

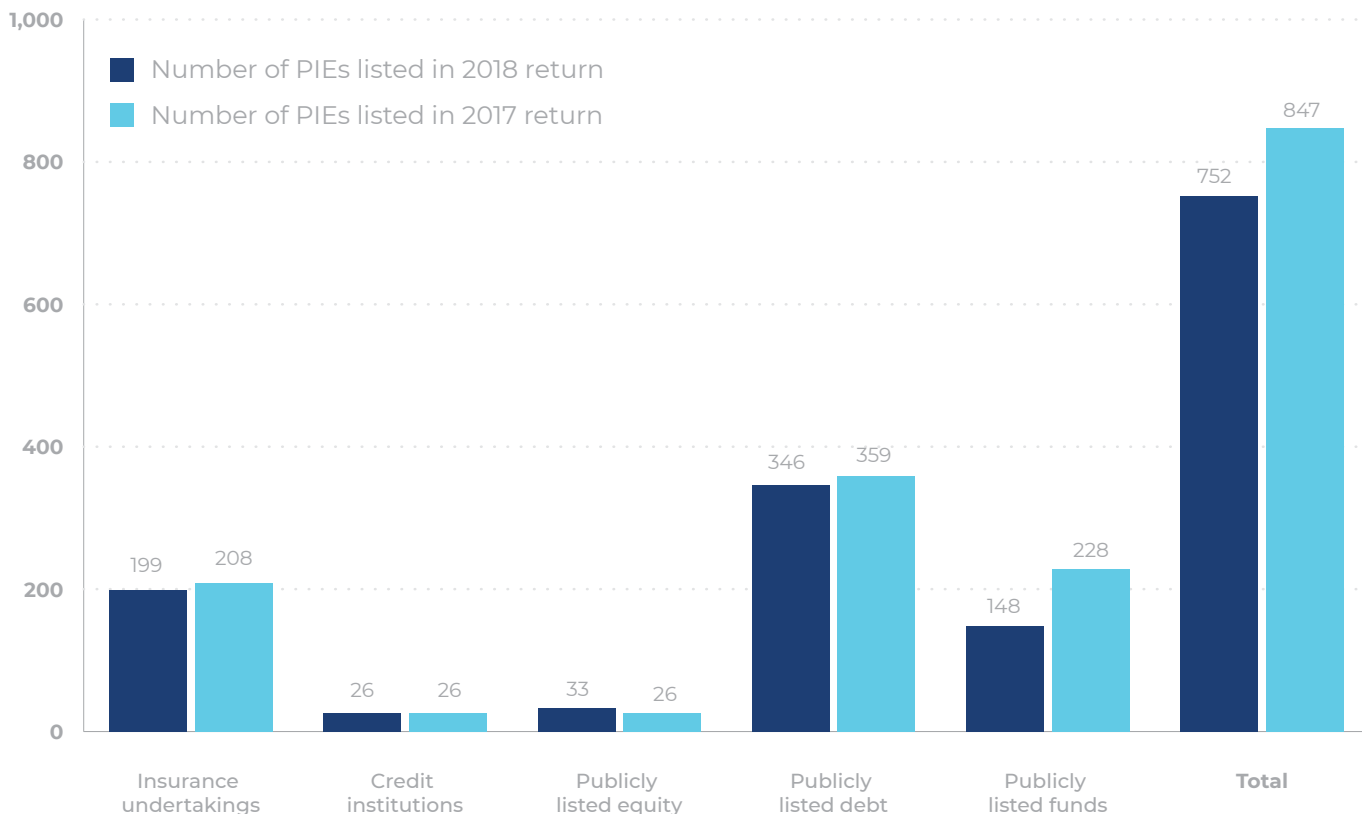
### 1.2.1. Public interest entities and their auditors

The term PIE is defined in the Companies Act 2014 ('the Act') and includes entities with securities listed on an EU regulated stock exchange, credit institutions and insurance undertakings. Further specific guidance on the definition of a PIE is available on the IAASA website. PIE auditors are individual auditors or audit firms that audit a PIE. Auditors are required by law to inform IAASA the first time they are appointed as auditors to a PIE.

At 31 December 2018, IAASA was notified of nine (2017: nine) PIE auditors, auditing 752 (2017: 847) PIEs. PIE audit firms are required to provide an annual return which sets out details on the PIEs audited in the year. The annual return is a useful tool for tracking the movement of the PIE population and assessing the impact of the audit regulation both in terms of competition amongst audit firms and in terms of the number of PIEs within Ireland. Based on the most recent PIE audit firm returns the population of PIEs is detailed in the table below.

# Chapter 1: Audit Inspections

**Table 1.1: PIE population**



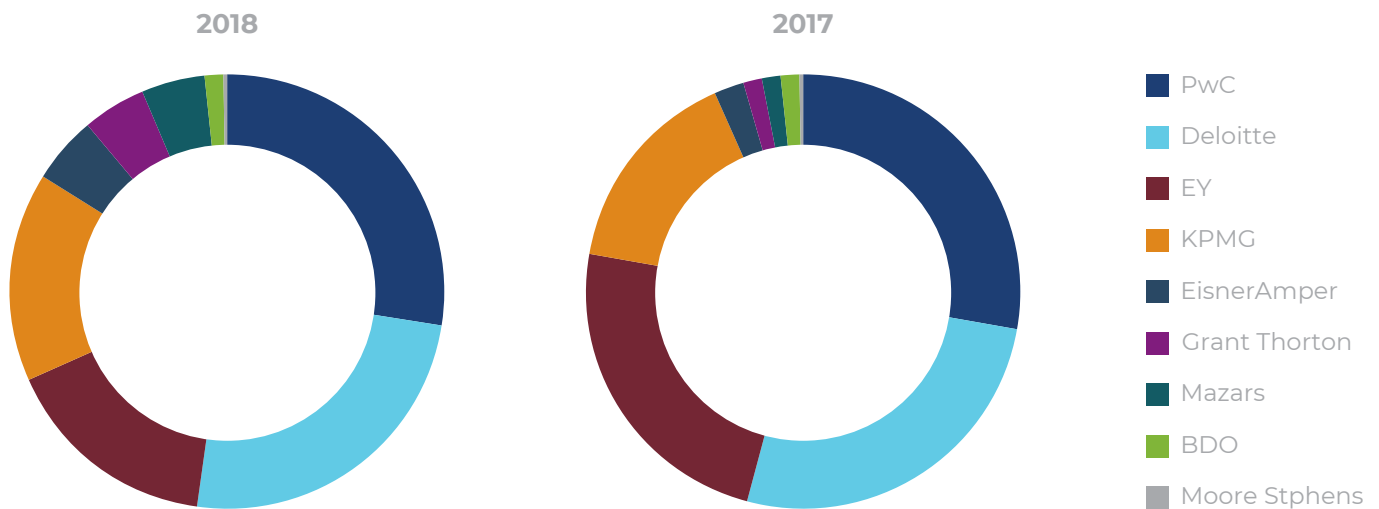
The number of PIEs recorded in the above table is based on the number of audit reports signed by PIE auditors in the 2018 calendar year. This will vary slightly to the number of active PIEs at year-end given the dynamic nature of the PIE population. The number of publicly listed equity issuers does not include listed credit institutions.

At 31 December 2018, there were 4,568 (2017: 4,745) statutory audit firms approved in the State, any of whom can be appointed as auditor to a PIE. A full list of auditors can be obtained from the Companies Registration Office ('CRO'). There are currently nine audit firms in Ireland who audit PIEs. These are (in alphabetical order); BDO, Deloitte, EisnerAmper Ireland, EY, Grant Thornton, KPMG, Mazars, Moore Stephens

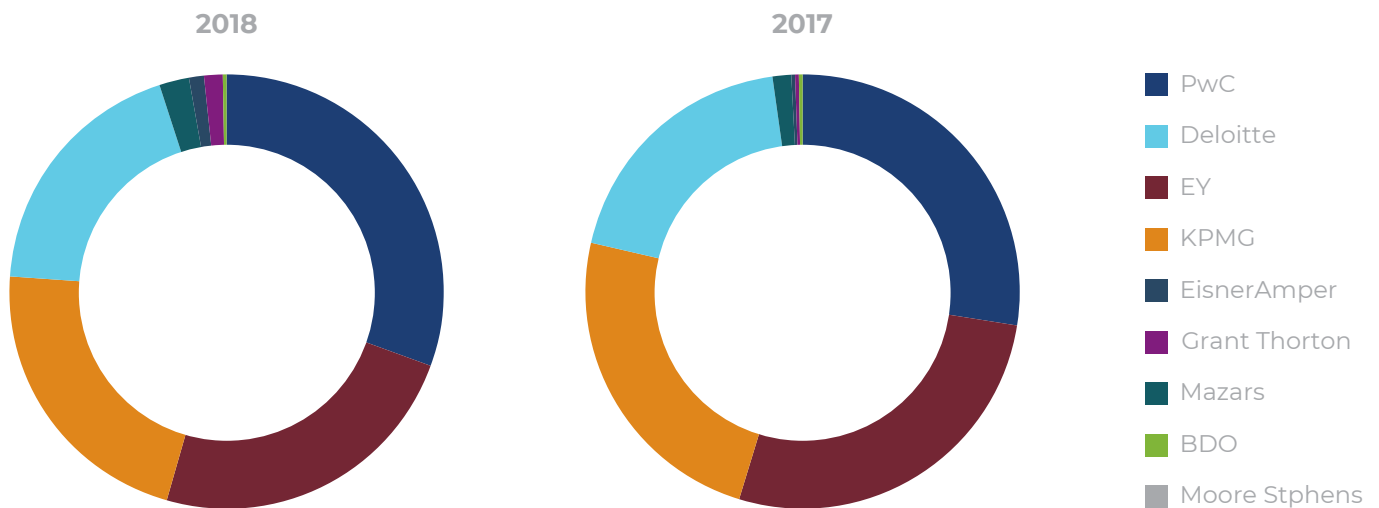
and PwC. These include what are commonly known as the "Big 4 auditors"; Deloitte, EY, KPMG and PwC. The tables below show the market share of each PIE auditor, both of number of PIEs audited as well as the share of PIE audit fees. There has been a downwards shift in the proportionate share of statutory audits of PIEs completed by the Big 4 auditors. In 2018, the Big 4 auditors audited approximately 84% of PIEs (2017: 93%) and earned approximately 95% of the fees associated with the provision of statutory audit services to PIEs (2017: 98%).

# Chapter 1: Audit Inspections

**Table 1.2:** Proportionate share in total number of PIEs audited



**Table 1.3:** Proportionate share in total PIE statutory audit fees





# Chapter 1: Audit Inspections



## 1.2.2. Inspection process

### 1.2.2.1 Overview

The graphic above sets out key phases in a quality assurance review, also known as an inspection.

### 1.2.2.2 Risk based selection

Ultimate responsibility for audit quality rests with the individual statutory auditor issuing any given audit opinion. Additionally, firms are required by auditing standards to put in place appropriate policies and procedures with the aim of either preventing or detecting poor quality audit work. Inspection by a regulator is not a substitute for such procedures. The quality assurance review process is designed to assess the effectiveness of the statutory auditor or the audit firm's internal quality control system through assessment of the design of the internal quality control system, compliance testing and review of individual audits of public interest entities. The assessment of the design of the internal quality control system of the audit firm and compliance testing involves inspection of the firm's policies and procedures and consideration of the impact of these policies and procedures on audit quality. Further to this, a sample of audits of PIEs are selected for inspection. A number of audit areas are selected as part of each audit inspection, which are selected at the discretion of IAASA, taking into consideration specific risks pertaining to the entity as well as areas of interest to IAASA.

### 1.2.2.3 Recommendations

Auditors are required by law to implement recommendations made by IAASA within 12 months of the date of the final inspection report. IAASA is required to impose a sanction on auditors who fail to do so. IAASA makes recommendations to ensure that matters noted are appropriately dealt with. In doing so, IAASA liaises with the firm concerned to take account of any concerns the firm has with their ability to implement the recommendations within 12 months. While not required, IAASA welcomes engagement with the firms concerned during the 12 month period to understand what actions the firm is taking to ensure these actions are sufficient.

### 1.2.2.4 Follow-up procedures

In addition to the inspections carried out, the inspection team carries out follow up reviews. Firms provide a written submission to IAASA within 12 months of the date of the inspection report. The submission sets out detail of the actions taken by the firm to implement the recommendations made by IAASA. These submissions are reviewed and the inspection team may visit the firm to verify information contained in the submission. Recommendations on individual audit inspections are reviewed for implementation on the next audit completed following the date of inspection.

# Chapter 1: Audit Inspections

## 1.2.2.5 Referral for investigation

For those audits where the audit inspections team suspects possible significant breaches of a Recognised Accountancy Body's ('RAB') standards by a statutory auditor or possible contraventions of legislation by a statutory auditor, the matter is referred for investigation. In these cases, the inspection team issues recommendations in the usual manner, which are required to be implemented within 12 months. The inspection team will perform follow-up visits to review implementation. Furthermore, the Authority expands the number of audits inspected in response to issues identified where appropriate. Finally, audit firms with matters referred for investigation are given a higher risk weighting and visit schedules and sample sizes will be impacted accordingly.

## 1.2.3. Inspections 2018

### 1.2.3.1 Overview

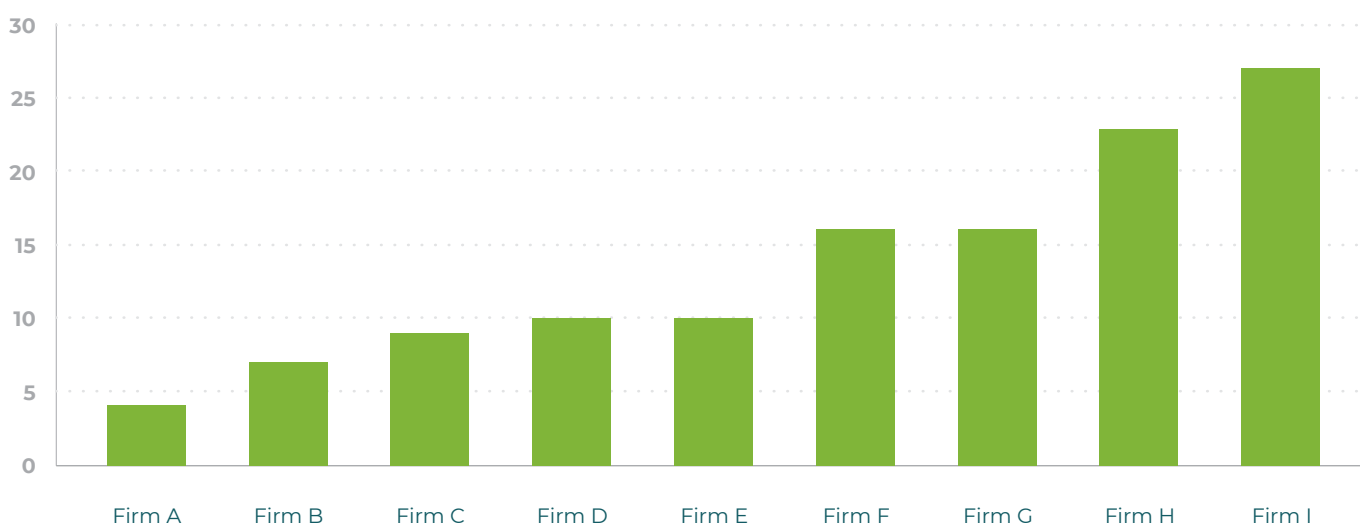
During 2018, the inspection team completed all fieldwork pertaining to the first round of inspections on all PIE audit firms. All nine PIE audit firms have been subject to one quality assurance review between 2016 and 2018. Each inspection consisted of an assessment of the internal quality control systems of the firm as well as compliance testing. Further to this, the inspections team reviewed 25 individual audits of PIEs across the nine PIE audit firms. The number of individual engagements reviewed in each firm varied between one and four. This number was intentionally small in the first round as the audit inspections team was building in size and the first round focused more attention on the internal control systems to ensure that any recommendations required in this area would be identified and resolved as early as possible in the regime.

### 1.2.3.2 Firmwide Procedures

Auditing standards require that firms be able to demonstrate the policies and procedures, and how they are complied with, to the Authority. In every PIE audit firm inspected, IAASA raised findings regarding the firms' quality control systems. Based on IAASA's inspections to date, there were significant variances in the level of formality of controls and the consistency of the application of the firms' respective policies between the PIE audit firms inspected.

As can be seen from the chart below, the number of findings and recommendations raised in each firm varied significantly. However, it is important to note that no conclusions can be drawn from the number of findings raised because, in the first round of inspections, the Authority did not assign an indicator of severity to the findings in relation to the effectiveness of the design or implementation of the firm's quality control system. By way of example, a finding may be raised where a small number of instances of non-compliance with a policy are identified, equally a finding could be raised where a required policy does not exist in a firm. From 2019, IAASA will rate the severity of findings and reports will be made public. Notwithstanding this, the range in the number of findings reflects the variance in the design of the control systems across firms. It is expected that the number of findings in relation to the internal control systems will be lower in future years following the implementation of recommendations from this round of inspections.

**Table 1.4:** Number of recommendations raised – round 1



## Chapter 1: Audit Inspections

The table below includes significant and/or recurring findings identified in inspections of the quality control systems of the firms. This findings focus on the controls in place in a firm to prevent or detect breaches of legal requirements or requirements of auditing standards, therefore a finding relates to the control and does not suggest a breach has occurred. Any suspected significant breaches of those requirements are referred for investigation.

**Table 1.5: Significant and/or recurring findings – quality control systems**

Finding and Observation areas	Recommendations
<b>Ethics and independence</b>	<ul style="list-style-type: none"> <li>• Insufficient procedures to adequately safeguard against the provision of prohibited non-audit services.</li> <li>• Insufficient monitoring procedures in relation to the independence of personnel.</li> <li>• Insufficient procedures to adequately safeguard against breaches of partner rotation requirements.</li> </ul>
<b>Acceptance and continuance</b>	<ul style="list-style-type: none"> <li>• Non-compliance with the firm's acceptance and continuance policies.</li> </ul>
<b>Partner and staff evaluation and compensation</b>	<ul style="list-style-type: none"> <li>• Failure to adequately evidence link between audit quality related performance measures and compensation.</li> <li>• Failure to comply with Firm's own policies relating to evaluation.</li> </ul>
<b>Audit methodology</b>	<ul style="list-style-type: none"> <li>• Non-compliance with archiving policies.</li> <li>• Failure to tailor template documents to the specific circumstances of the audited entity.</li> </ul>
<b>Audit quality reviews</b>	<ul style="list-style-type: none"> <li>• Failure to appoint an Engagement Quality Control Reviewer to the statutory audit of a PIE.</li> <li>• Insufficient evidence of the procedures performed by Engagement Quality Control Reviewer and timing of same.</li> </ul>
<b>Off-shoring</b>	<ul style="list-style-type: none"> <li>• Insufficient communication between the engagement team and the team performing work at an off-shore location.</li> </ul>

# Chapter 1: Audit Inspections

## 1.2.3.3 Individual Audit Inspections

Findings were raised for individual audit inspections where non-compliance with standards or firm policies was noted.

As can be seen from the below, the number of findings and recommendations raised in each firm varied significantly. However, it is important to note that no conclusions can be drawn from the number of findings raised, for the reasons noted above.

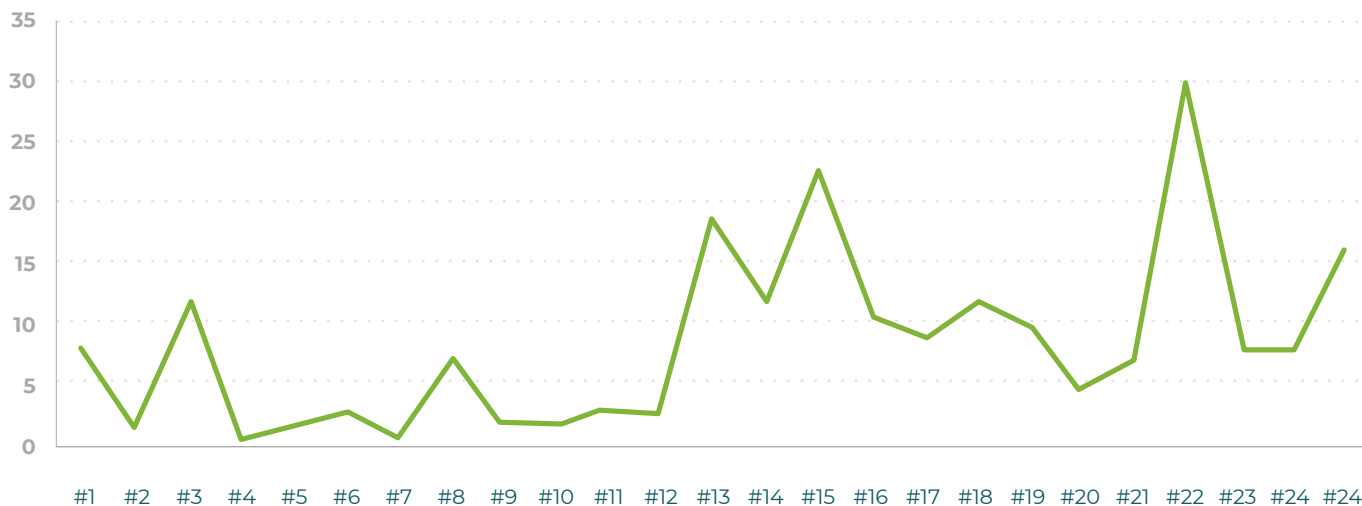
The table below shows each of the nine firms inspected in the period, detailing the average number of inspection findings raised. As noted above, the number of audits inspected in each firm varies between one and four.

**Table 1.6:** Average number of findings in individual audits inspected



The table below shows each of the 25 audits inspected and shows the number of findings raised in each of those audit inspections.

**Table 1.7:** Number of findings in individual audits inspected



## Chapter 1: Audit Inspections

The list below is a list of significant and/or recurring findings identified as part of the inspections individual PIE audit engagements. As noted elsewhere in this report, no inference can be made that audit findings indicate a misstatement in the audited financial statements. Where the inspection team has concerns regarding the overall sufficiency of work performed to support the audit opinion, a referral for investigation is made.

**Table 1.8: Significant and/or recurring findings – quality control systems**

Finding and Observation areas	Recommendations
<b>Planning an audit and responding to assessed risks</b>	<ul style="list-style-type: none"> <li>• Inconsistencies between risks identified at planning stage and audit procedures completed.</li> <li>• Insufficient precision in identifying significant risks.</li> </ul>
<b>Auditing accounting estimates</b>	<ul style="list-style-type: none"> <li>• Failure to test input data.</li> <li>• Insufficient challenge of assumptions.</li> <li>• Insufficient procedures regarding work of experts/specialists used in the audit of significant estimates.</li> <li>• Failure to address the risk of management bias.</li> <li>• Failure to demonstrate appropriate professional scepticism.</li> <li>• Failure to evidence the independence of experts/specialists used in the audit of accounting estimates.</li> </ul>
<b>Audit evidence</b>	<ul style="list-style-type: none"> <li>• Failure to assess the completeness and accuracy of information provided by the audited entity.</li> <li>• Failure to comply with firms' own policies regarding sample selection.</li> <li>• Failure to obtain sufficiently reliable evidence.</li> </ul>
<b>Communication with those charged with governance</b>	<ul style="list-style-type: none"> <li>• Failure to communicate required information.</li> <li>• Inconsistency between the matters communicated and the audit procedures on the audit file.</li> <li>• References to out of date legislation and/or standards.</li> </ul>
<b>Fraud</b>	<ul style="list-style-type: none"> <li>• Failure to make required inquiries with regard to fraud.</li> <li>• Failure to sufficiently address the risk of management override.</li> </ul>
<b>Audit documentation</b>	<ul style="list-style-type: none"> <li>• Editing of files after archive date.</li> <li>• Insufficient evidence of review .</li> <li>• Insufficient evidence of the timeliness of review.</li> </ul>

### 1.2.3.4 Referral for investigation

Two audits from one audit firm inspected were referred for investigation during 2018. The Authority does not reperform audit procedures or seek to determine whether there are issues with the financial statements. As such, there should be no inference that the financial statements of these entities are misstated.

### 1.2.3.5 Follow-up procedures

In addition to the inspections carried out, the inspection team commenced follow up procedures in relation to three firms during 2018. Four written responses were received from two firms, setting out the actions taken by the firms in response to the recommendations arising out of one firmwide review and three audits that had been inspected. The audit inspections team commenced its inspection of actions taken in respect of these four reviews and in respect of one further firmwide review at a third firm. At the year-end, follow up procedures had been fully completed for two audits and the audit inspections team was satisfied with the actions that had been taken in respect of these audits.

## Chapter 1: Audit Inspections

### 1.2.4. Priorities 2019

2019 is the start of the second round of the inspection regime. Each firm's system of quality control will be inspected in full over the course of this second round which will be three years long. The Authority intends to significantly increase the number of individual audits inspected in this round. A risk based approach will be applied in selecting audits for inspection and in determining the quantity of audits to inspect in each firm, i.e., firms with a higher number of PIE audit clients, or firms with significant findings in previous reviews, will be subject to a higher proportion of audit inspections.

The Authority will commence rating of individual audit inspections and firmwide findings and will publish the results of inspections. A full public consultation was issued in late 2018 on the system of rating and publishing. Responses were received from seven PIE audit firms and from two RABs. Responses were mainly supportive of the proposal to publish audit quality inspection reports. Responses were supportive of the proposed mechanism of indicating the severity of findings in relation to the effectiveness of the design or implementation of a firm's quality control system, whilst noting concerns with regards to potential interpretation differences due to the breadth of the severity indicator descriptions. Responses were also mainly supportive of the proposed mechanism of assigning a grade to the individual PIE audits inspected as part of the quality assurance process, although some respondents emphasised the need to ensure that there is consistency in the application of this process and in the language used to describe findings. A second consultation, seeking views of non-practitioners was also launched, and the responses to this consultation were supportive of the proposals and highlighted the need to protect the anonymity of the audited entity. Both consultation papers, together with feedback papers, can be found on the Authority's website.

The audit inspection team will continue its engagement with FRSU and they will consider the possibility of joint thematic reviews as well as increasing coordination on reviews of those entities within the remit of both teams.

The audit inspection team will also continue to progress the follow-up procedures in relation to the first round of inspections.

## 1.3. International Cooperation

### 1.3.1. Cooperating with peers

IAASA believes that cooperating with international audit regulators is fundamental to its success. As the entities and firms within the Authority's remit often operate within global structures, it is vital that regulators cooperate effectively to share knowledge, experience and be consistent if possible. Such activities contribute to regulators achieving their aim of effectively and efficiently contributing to continuing improvements in audit quality.

IAASA actively participates in both the Committee of European Audit Oversight Bodies ('CEAOB') and the International Forum of Independent Audit Regulators ('IFIAR'). IAASA has representatives on all CEAOB sub-groups as well as a number of task forces and colleges. IAASA is the chair of the CEAOB sub-group on market monitoring.

### 1.3.2. Third country regulators

In June 2018, IAASA entered into a cooperative agreement with the Jersey audit regulator, the Jersey Financial Services Commission ('JFSC'). The cooperative agreement allows for cooperation between IAASA and the JFSC in the oversight of audit firms subject to the regulatory jurisdiction of both organisations.

### 1.3.3. Priorities 2019

IAASA will continue to engage with relevant third country regulators to enter into cooperation agreements. IAASA will consider developments relating to Brexit and the impact this may have in terms of third country auditors. The team will continue to actively participate in the international fora of regulators and support the activities of these groups by moderating and presenting at meetings and workshops. The team will also consider hosting further meetings or workshops in future years.

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# Chapter 2

Enforcement

## Chapter 2: Enforcement

### 2.1. Introduction

#### 2.1.1. Functions

This Chapter outlines IAASA's activities in respect of conduct of investigations into possible contraventions by statutory auditors. There are two types of enforcement directly against auditors available to IAASA. These functions are explained further below, with details of the 2018 activities and 2019 priorities.

#### 2.1.2. Structure and Recruitment

As at 31 December 2018, staffing in the unit consisted of a Senior Conduct Manager. The Regulations and procedures governing the investigation procedures are under review as at 31 December 2018 in light of changes to the relevant sections of the Act<sup>1</sup> which conferred additional powers to IAASA in this regard. Once this review is finalised, IAASA will consider what, if any, additional staffing requirements there are within the unit.

#### 2.1.3. Funding

The Conduct function is funded 60% by a levy on the Prescribed Accountancy Bodies ('PABs') and 40% by the Exchequer. The levy on the PABs allocates the costs on the basis of the number of members and audit firms.

### 2.2. Types of enforcement against auditors

#### 2.2.1. Breach of RAB standards

Section 934 of the Act provides that IAASA may undertake investigations of possible breaches of a RAB's standards by a statutory auditor. IAASA may investigate a suspected breach if IAASA is of the opinion that it is appropriate or in the public interest to do so. An investigation may include an investigation into matters where a RAB decided not to withdraw an auditor's approval as a statutory auditor. If IAASA determines that a breach of a RAB's standards has occurred, IAASA may impose any sanction to which a statutory auditor would have been liable under the constitution and byelaws of the RAB.

#### 2.1.2. Contravention of legislation

Section 934 of the Act also provides that IAASA may undertake investigations of possible contraventions of legislation by a statutory auditor. IAASA may investigate suspected contraventions and has a range of powers including requiring a person to produce documentation, attend before it and give IAASA any other assistance in connection with an investigation which that person is reasonably able to give. Sanctions which may be imposed include, but are not limited to, temporarily banning a statutory auditor from carrying out statutory audits, declaring an audit report does not meet certain requirements and imposing financial sanctions. This power was formerly housed in Section 935 of the Act, which was repealed and replaced by amendments to Section 934 of the Act in late 2018.

### 2.3. Activity 2018

The Authority worked extensively on preparations for the new powers of investigation and enquiry that were eventually assigned to it under the Companies (Statutory Audit) Act 2018 ('the 2018 Act'). Subsequent to its enactment, work was commenced on the processes and procedures that will be necessary for the Authority's powers. These will need to be legislated for by Statutory Instrument and that drafting process was ongoing at the year end.

Two audits from one audit firm inspected were referred for investigation during 2018. As at 31 December 2018, a Preliminary Investigation Committee had been established by the Board to consider these matters.

The Authority did not impose any sanctions during the year.

### 2.4. Priorities 2019

The Authority intends to finalise procedures and draft relevant regulations regarding investigations in light of the changes to the Act. Additionally, IAASA intends to progress any investigations ongoing or commenced in the year. Further, as in other areas of IAASA, the Conduct Unit staff will continue to engage with international peers to share experience and knowledge.

<sup>1</sup> The Companies Act 2014 was amended by the Companies (Statutory Audits) Act 2018, which commenced on 21 September 2018



# Chapter 3

Recognised Accountancy Bodies

## Chapter 3: Recognised Accountancy Bodies

### 3.1. Introduction

#### 3.1.1. Functions

This Chapter details the key functions of IAASA as they relate to oversight of the five RABs and their performance of their functions assigned in relation to the oversight of auditors. These functions are explained further below, with details of the 2018 activities and 2019 priorities.

#### 3.1.2. Structure and Recruitment

The Regulatory and Monitoring Supervision Unit ('RMS') is responsible for oversight of the RABs' activities. It comprises a Head of Unit, a Senior Supervision Manager, three Project Managers, two Project Executives and an Administrative Executive.

#### 3.1.3. Funding

The oversight function is funded 60% by a levy on the PABs and 40% by the Exchequer. The levy on the PABs allocates the costs on the basis of the number of members and audit firms.

### 3.2. Functions performed by the RABs

#### 3.2.1. Overview

The Act assigns the performance of certain functions in respect of statutory auditors to the RABs subject to oversight by IAASA, namely:

- approvals and registration;
- continuing education;
- quality assurance reviews of statutory auditors and audit firms in relation to audits of entities that are not PIEs; and
- investigations and discipline in relation to audits of entities that are not PIEs.

The RABs' activities in these areas during the year are summarised in this section. More detail will be available on IAASA's website in a separate publication *Profile of the Profession 2018* which provides further information on the RABs' performance of these functions and provides details of their non-audit activities.

At 31 December 2018, there were five RABs recognised to undertake the above functions:

- Association of Chartered Certified Accountants ('ACCA');
- Institute of Certified Public Accountants in Ireland ('CPA');
- Institute of Chartered Accountants in England and Wales ('ICAEW');
- Institute of Chartered Accountants in Ireland ('ICAI'); and
- Institute of Chartered Accountants of Scotland ('ICAS').

During 2018, IAASA revoked the recognition of a sixth RAB, the Institute of Incorporated Public Accountants. Further details about this matter are available in IAASA's 2018 Annual Report.

IAASA has relied on the RABs to provide the information set out in Tables 3.1 to 3.4 below. In analysing this data, it is important to bear in mind that, in addition to differences in the structure and operations of the five RABs, there may be differences in their interpretation of the data requested. Consequently, care is required in interpreting the information presented below and direct comparison may not be meaningful in some cases.

#### 3.2.2. Approval and registration of statutory auditors

Given the importance of the statutory audit of a financial report, the significant responsibility entrusted to the auditor and the expertise required to undertake the role, it is vital that only those individuals with adequate skills and experience and who are of good repute are authorised to provide audit services in the State. Under law, the RABs are authorised to approve their members/member firms and other qualified individuals as statutory auditors/statutory audit firms in accordance with the criteria for approval set out in the Act. Furthermore, each RAB sets out additional requirements in relation to that approval and requires members, member firms and authorised non-members to comply with those requirements on an ongoing basis.

As at 31 December 2018, there were 4,568 statutory audit firms registered to carry out statutory audits in the State, a decline of 177 firms from 4,745 at the end of 2017. There were 10,000 individuals in those firms authorised to act as statutory auditors in Ireland, an increase of 434 from the year ended 2017. There were 1,260 registered statutory audit firms with offices in Ireland at 31 December 2018. Table 3.1 reflects the movement in statutory audit firms and auditors during 2018.

## Chapter 3: Recognised Accountancy Bodies

**Table 3.1: Movement in statutory audit firms and auditors during 2018**

	Total	ACCA	CPA	ICAEW	ICAI	ICAS
Statutory Audit firms registered to audit in Ireland at 1 January 2018	4,745	416	388	2,948	810	183
<i>During the year:</i>						
New applications granted	199	57	16	84	35	7
Applications not renewed or voluntarily surrendered	-368	-41	-31	-219	-60	-17
Registrations withdrawn	-8	-2	-2	-1	-2	-1
Statutory audit firms registered to audit in Ireland at 31 December 2018	4,568	430	371	2,812	783	172
Statutory audit firms with offices in Ireland at 31 December 2018	1,260	290	371	3	596	-
Statutory auditors registered to audit in Ireland at 31 December 2018	10,000	591	450	7,021	1,412	526
Statutory auditors registered to audit in Ireland, located <sup>2</sup> in Ireland, at 31 December 2018	1,956	388	450	3	1,115	-

### 3.2.3. Continuing education

To ensure that statutory auditors maintain their competence at a sufficient level, the Act sets out standards for statutory auditors requiring them to complete sufficient continuing education to maintain their theoretical knowledge and skills at an appropriate level, particularly in relation to auditing.

The RABs adopt a number of approaches to ensure that auditors complete sufficient audit relevant Continuing Professional Development ('CPD'), including but not limited to:

- completion of a CPD annual compliance declaration;
- desktop reviews of auditors' CPD records, on a random and/or risk basis; and
- review of auditors' CPD records as part of quality assurance reviews.

Where a RAB identifies that the CPD completed by an auditor is insufficient, they may require the auditor to take remedial action. In more serious cases, they may take disciplinary or regulatory action against the auditor. Table 3.2 provides a summary of the CPD reviews of auditors undertaken by the RABs during 2018.

<sup>2</sup> "Located" refers to the primary address used for correspondence by the statutory auditor.

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**Table 3.2:** Monitoring by RABs of CPD undertaken by statutory auditors in 2018

	Total	ACCA	CPA	ICAEW	ICAI	ICAS
Risk based desktop reviews	92	20	24	-	48	-
Random desktop reviews	24	-	-	24	-	-
Onsite reviews of CPD records as part of quality assurance reviews	1,319	98	59	880	155	127
Other monitoring activities	894	78	443	365	8	-
Total number of CPD reviews completed	2,329	196	526	1,269	211	127
Number of CPD records found to be non-compliant after follow up action has been taken	43	14	1	17	8	3
Number of statutory auditors subject to regulatory action <sup>3</sup>	20	-	-	17	-	3

### 2.3.4. Quality assurance systems

Where a RAB's monitoring programme identifies deficiencies the RAB must ensure that appropriate and timely remedial action is undertaken. The Act confers a statutory responsibility on the RABs to operate a system of quality assurance of statutory audits (with the exception of the audits of PIEs that are directly inspected by IAASA as described in Chapter 1 above).

In 2018, a total of 901 quality assurance reviews to audit firms were concluded by the RABs, following which 153 firms had conditions, restrictions and/or penalties imposed to address deficiencies identified. The conditions imposed ranged from a requirement to provide additional information to suspension or withdrawal of audit registration. Table 3.3 summarises the RABs' quality assurance activities during the year.

**Table 3.3** Quality Assurance activities 2018

	Total	ACCA	CPA	ICAEW	ICAI	ICAS
Quality assurance reviews open at 1 January 2018	108	11	2	84	9	2
Quality assurance reviews carried out during 2018	893	99	80	567	100	47
Quality assurance reviews concluded during 2018	-901	-100	-75	-593	-92	-41
Quality assurance reviews open at 31 December 2018	100	10	7	58	17	8
Quality assurance reviews that resulted in regulatory action	153	7	25	64	33	24

<sup>3</sup> In the cases where no regulatory action was taken, the statutory auditors concerned were either scheduled for an early follow-up review, automatically included in the following year's selection for review, or required to make good the shortfall within a specific period of time.

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### 3.2.5. Investigative and administrative disciplinary systems

The Act requires the RABs to institute and maintain arrangements to ensure that they have effective systems of investigations and penalties. In 2018, the RABs opened 171 new cases concerning statutory auditors and a total of 140 cases were closed. The nature of complaints can vary and may relate to audit or non-audit work. The majority of new complaints arose under the categories of poor work/unsatisfactory professional service/conduct, alleged breach of a body's code of ethics or an alleged breach of a body's rules or regulations. Table 3.4 shows the movement in complaints relating to statutory auditors for 2018.

**Table 3.4:** Movement in complaints relating to statutory auditors during 2018

	Total	ACCA	CPA	ICAEW	ICAI	ICAS
Complaints open at 1 January 2018	248	27 <sup>4</sup>	13 <sup>5</sup>	113	94	1
New cases arising during the year	187	16	8	104	50	9
<i>Outcome of cases closed:</i>						
Adverse finding was made (including consent order)	-49	-7	-8	-21	-12	-1
No case to answer found	-80	-6	-5	-53	-12	-4
Closed as out of scope	-16	-2	-	-	-14	-
Closed by rest on file	-4	-3	-1	-	-	-
Closed by conciliation	-4	-2	-2	-	-	-
Other	-3	-1	-	-	-2	-
Total closed in 2018	-156	-21	-16	-74	-40	-5
Complaints open at 31 December 2018	279	22	5	143	104	5

<sup>4</sup> ACCA amended the opening balance of complaints by 1, this was previously considered out of scope.

<sup>5</sup> CPA amended their opening balance of complaints as the auditors status changed during the lifecycle of the complaint.

## Chapter 3: Recognised Accountancy Bodies

### 3.3. Activities 2018

#### 3.3.1. Overview

The following is a summary of the oversight carried out by IAASA on the functions carried out by the RABs during 2018:

- Revocation of the recognition of the IIPA following orderly transfer of IIPA members to CPA in 2017;
- Four final supervisory reports were issued which focused on quality assurance processes and the approval of statutory audit firms and statutory auditors. Work also continued on the review of the system of CPD in the PABs;
- Periodic meetings were held with the RABs. Items discussed included but were not limited to: status updates on open action points and recommendations arising from review meetings and supervisory visits; implementation of the provisions of the 2018 Act; and discussions on relevant regulatory matters and developments;
- Approval of changes proposed by the RABs relating to 41 constitutional documents;
- Engagement with the RABs and the Department of Business Enterprise & Innovation regarding the 2018 Act;
- Issued general guidelines for the RABs when performing regulatory functions in respect of statutory auditors effective from 1 April 2019; and
- Issued Guidelines on matters to be considered by the

RABs when granting exemptions from one or more of the subjects in the test of theoretical knowledge for approval as an auditor effective from 1 April 2019.

The UK's decision to leave the EU will have implications for the audit sector in Ireland due to the cross border operations of four of the five RABs and the significant number of statutory auditors and firms licensed to operate in both jurisdictions. Engagement took place with the Department, the Financial Reporting Council and the UK Department for Business, Energy & Industrial Strategy in relation to Brexit implications for audit.

#### 3.3.2. Overview of supervisory visits

The RAB's Quality Assurance system ('QA') was the primary focus area of the four supervisory visit reports issued during the year (to ACCA, ICAEW, ICAI and ICAS). Three reports included a follow up on the implementation of previous recommendations and two also included a second focus area on the RABs' system for approval and registration of statutory auditors and statutory audit firms. The recommendations arising are summarised in Tables 3.5 and 3.6 below.

It is important to note that the recommendations provide an overview of the types of risks identified from all reports and cannot be considered to reflect the findings in an individual RAB.

**Table 3.5: Summary of types of recommendations issued on the RABs' Quality Assurance systems**

Finding and Observation areas	Recommendations
<b>Irish matters in the QA process</b>	<ul style="list-style-type: none"> <li>• Ensure QA systems and the monitoring processes remain up to date in Irish audit matters including Irish legislative changes e.g. that the quantity and quality of resources spent and the audit fee charged are assessed when performing QA inspections.</li> <li>• Ensuring QA audit testing packs appropriately reflect Irish matters.</li> </ul>
<b>Resourcing</b>	<ul style="list-style-type: none"> <li>• Ensure adequate resourcing of the QA function.</li> </ul>
<b>QA visit approach</b>	<ul style="list-style-type: none"> <li>• Ensure that all QA reviews take place on the basis of an analysis of risk and consider significant changes in an audit firm's profile and changes in the audit and regulatory landscape.</li> <li>• Ensure appropriate follow up and documented assessment of the firm's actions taken to address previous issues identified.</li> <li>• Enhance the QA policies and processes for postponement of QA visits.</li> <li>• Ensure appropriate regulatory responses are applied in a timely manner where there are unsatisfactory visit outcomes and the management of any associated risks.</li> </ul>
<b>Information systems &amp; management information</b>	<ul style="list-style-type: none"> <li>• Enhance management information systems and reporting.</li> </ul>

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**Table 3.6:** Summary of types of recommendations issued on the RABs' systems for approval and registration of statutory audit firms and statutory auditors

Finding and Observation areas	Recommendations
<b>Irish matters in the licensing process</b>	<ul style="list-style-type: none"> <li>Ensure systems for the approval and registration of statutory audit firms and statutory auditors are updated and in line with Irish legislation on an on-going basis.</li> </ul>
<b>Approval process</b>	<ul style="list-style-type: none"> <li>Ensure there are appropriate controls in place to mitigate the risk of any statutory auditor / firm approvals being granted that are not in compliance with Irish legislative obligations. Where instances are identified of non-compliance with requirements ensure that these are communicated to the impacted party and rectified in a timely manner.</li> <li>Update correspondence issued to parties relating to approval and registration and ensure clarity on Irish approval status and obligations.</li> <li>Review the delegation of licencing decisions to staff and ensure appropriate reporting on delegation is provided to the relevant committee with responsibility for licencing.</li> </ul>
<b>Public register</b>	<ul style="list-style-type: none"> <li>Ensure there are appropriate controls in place to ensure complete, accurate and timely information is reported on the public register which is maintained by the CRO and correct any inconsistencies identified.</li> </ul>

### 3.4. Priorities 2019

During 2019, IAASA intends to carry out on-site supervisory visits to three of the RABs focusing mainly on investigation and disciplinary functions and auditor approval and registration processes. The Authority will also undertake periodic review meetings with all five RABs focused on their regulatory plans and performance of key tasks. The Authority also intends to follow up on prior-year recommendations and agreed actions in respect of investigation and disciplinary processes, licensing processes, CPD and QA. IAASA will also develop CPD and investigation and disciplinary guidelines to be issued to the bodies relating to their audit regulation responsibilities. During 2019 IAASA will also continue its work relating to Brexit and the impact this may have including cooperating with the RABs, the relevant Irish and UK government departments and the UK Financial Reporting Council ('FRC').

## Chapter 3: Recognised Accountancy Bodies



# Chapter 4

Other Activities

## Chapter 4: Other Activities

### 4.1. Introduction

This Chapter outlines IAASA's other activities arising from the duties conferred on it by EU Regulation 537/2014, namely third country auditors and adoption of auditing standards.

### 4.2. Third country auditors

#### 4.2.1. Registration

A third country auditor is an auditor who issues an opinion in relation to an entity not registered within the EU, which is listed on an EU regulated stock exchange. In Ireland, such auditors must make an application to register with IAASA following which a detailed assessment is undertaken to ensure that such auditors meet the relevant criteria. During the year, IAASA renewed the full registration of eight (2017: eight) third country audit firms. IAASA is also responsible for updating the register of third country auditors (which is available on the CRO website: [www.cro.ie](http://www.cro.ie)) for approved applications and notifying any changes to the CRO. The register of transitional third country auditors is available on the IAASA website.

#### 4.2.2. Quality Assurance

Third country auditors are subject to IAASA's system of inspection. EU and Irish legislation allows audit regulators to exempt a third country auditor from inspection where the inspection regime of the third country has been deemed equivalent by the EU. In order to avail of this exemption, the third country must reciprocate by relying on IAASA's inspection regime.

Availing of the above exemption also requires the audit regulators to enter into an agreement with each other. At 31 December 2018, IAASA had entered into such agreements with Canada, Switzerland, Jersey and the US. The agreements with Canada, Switzerland and Jersey allow for mutual reliance. The agreement with the US allows the US and Ireland to carry out joint inspections of Irish firms.

#### 4.2.3. Priorities 2019

IAASA will process third country auditor applications as they arise. IAASA is a member of a group that assesses countries wishing to be deemed equivalent by the EU, and which makes a recommendation to the EU in that regard. IAASA is also monitoring Brexit and considering the implications of it for the registration of third country auditors.

### 4.3. Adoption of auditing standards

#### 4.3.1. Auditing Framework in Ireland

The Auditing Framework in Ireland is based on the FRC's Auditing Framework for the UK, which in turn is based on the international standards issued by the International Auditing and Assurance Standards Board ('IAASB'). This policy is kept under review on an ongoing basis to ensure it remains the most effective and efficient solution for the Irish market.

During the year, IAASA published a Statement on Scope and Authority of Audit and Assurance Pronouncements, which provides more detail on the Auditing Framework in Ireland.

#### 4.3.2. Adoption process

Through its observer status at the Audit and Assurance Council of the FRC and participation in the International Auditing Standards sub group of the CEAOB, IAASA monitors developments in auditing standards both at FRC and international level on a continuing basis.

A Technical Advisory Panel was appointed during the year to advise the Authority at various stages of the development process of the Auditing Framework in Ireland, including:

- identifying areas where standards or guidance are needed;
- advising on any Irish specific amendments; and
- drafting of standards and guidance.

Revised standards, reflecting Irish requirements, are issued to ensure the Auditing Framework in Ireland continues to reflect international best practice. Where the changes are substantive, a public consultation on the draft standard is issued prior to amendment of the Auditing Framework. Appendix 4 of the Authority's 2018 Annual Report lists the publications issued by IAASA in 2018, including revisions to and updating of the Auditing Framework in Ireland.

#### 4.3.3. Guidance and Supplementary Standards

In addition, IAASA intends to issue guidance and supplementary standards relevant to Ireland to support the work of statutory auditors in Ireland. In this context, a feedback paper outlining IAASA's response to the views expressed in response to the November 2017 consultation on guidance and supplementary standards was issued and two working groups were established to advise on the development of guidelines on particular topics.

## Chapter 4: Other Activities

### 4.4. Priorities 2019

During 2019, IAASA will continue to monitor developments at both FRC and international level and adopt revised standards in line with the UK and IAASB standards, modified for Irish requirements where necessary. Areas of focus are anticipated to include quality management at firm and engagement level, the Ethical Standard, going concern and risk assessment. IAASA will also commence the issuance of guidance for auditors focused on Credit Union audits and on the duty of auditors to report to the Office of the Director of Corporate Enforcement.



**IAASA**

Irish Auditing & Accounting  
Supervisory Authority

**Irish Auditing & Accounting  
Supervisory Authority**

Willow House  
Millennium Park, Naas  
Co. Kildare, Ireland

Phone: +353 (0) 45 983 600

Fax: +353 (0) 45 983 601

Email: [info@iaasa.ie](mailto:info@iaasa.ie)

**[www.iaasa.ie](http://www.iaasa.ie)**