

# Chapter 2

Chairperson's Statement &  
Chief Executive's Review

# Chairperson's Statement

### Introduction

This is IAASA's ('the Authority') fourteenth Annual Report. It is with pleasure that I submit it to the Minister for Business, Enterprise & Innovation, 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 2019 to fulfil its mission. The remainder of this Annual Report gives details of this work. In my statement, I would like to focus on the strategy and governance of the Authority, and in particular on the significant factors that will influence IAASA's work in the future.

### Governance

2019 marks the end of the Authority's current three year Work Programme, as provided for under section 910 of the Act. During the year the Authority devised a new Programme covering the period 2020-2022. This Programme was approved by the Board in late 2019 and is available on the Authority's website. The new Programme focuses on three core strands. These are Regulation, Promotion of High Standards, and Maximising our Impact. It sets out a number of strategies by which these strands are translated into strategic priorities. In turn the strategies are analysed into a series of tasks that detail specifically how the strategies will be achieved. The Programme also sets out the Enablers that will be critical to the Programme being successfully realised. These are Our People, Financial Resources, Technology, Government, Peers and Stakeholders. Again these are analysed into a set of tasks. Together, our Strands, Strategies and Enablers form the basis for the Authority's annual business plans, and the first such plan for the year 2020 under the new Programme has been devised and is now being implemented.

The Board continues to review its own governance, and undertook an externally facilitated analysis of its own performance. This review noted the robust governance in place. The recommendations from such reviews, which take place annually, are incorporated into Board training plans. During 2019 the Board continued its series of separate training and strategy days in addition to its regular Board meetings.

### PIE Audit Firm Reports

As I outlined in my statement last year, the Authority will be publishing the results of its second round of inspections of the audit firms auditing Public Interest Entities ('PIEs'). At the year end the field work on these inspections was

substantially complete and attention had turned to the reports themselves. I am pleased to note the extensive drafting work and consultation processes that the Authority has undertaken in preparing for the issue of these reports in early 2020. All stakeholders, including the Authority, audit firms, company directors, and audit committees who play an important role in the relationship between the auditor and the company, will need to prepare for and adjust to the new reality of transparency when these reports are issued. The Authority hopes that in the future these reports will become an important part of the audit landscape year on year.

### Enforcement

The Authority has significantly enhanced its enforcement capacity through revised statutory instruments which establish an executive led preliminary enforcement phase. This will allow for a much more efficient preliminary stage. Tied in with an enhanced settlement procedure as set out in guidelines issued by the Authority in 2019, these changes should result in more efficient investigations and a quicker route to resolution, which benefits all parties. One outcome of this will be that more preliminary investigations and enquiries will be launched than has been historically the case. This will be driven partly by the enhanced procedures but also by the Authority's role in directly inspecting PIE audit firms, and the investigations that may result from that work. This is already evident in the two investigations ongoing at the year end.

### Innovation

During 2019 the Authority, supporting the drive from the Department of Public Expenditure & Reform, set about creating a culture of innovation within the Authority. The response from everyone working in the Authority has been overwhelming, and new projects are already coming on stream arising from in-house workshops. Having started on this process, the challenge for the Authority will be maintaining momentum and ensuring that selected projects have sufficient backing to drive them through planning, design, testing and implementation. The Board strongly supports this initiative and is examining how best it can work with the leadership team to ensure its continued success.

Innovation and change are of course not just a matter for the Authority and the public service, but for the entire accounting and auditing profession. Audit is continuing to change as a result of the impact of technology on what were previously routine and administrative elements of audit. While this allows for audit firms to focus on areas of more significant risk, it also introduces challenges in terms

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of ensuring that audit work is properly completed and evidenced as well as creating even greater expectations of what audit can accomplish. While IAASA has ensured that it has staff with technical expertise to undertake its work, it is a challenge for the profession as a whole how best to utilise technology to enhance auditing and accounting.

Looking to the future, both technology and society will no doubt generate even greater changes in audit. IAASA actively works with its peer regulators around the world to monitor these developments, to ensure that it has adequate foreknowledge and where necessary, to allow it to prepare.

### Brexit

As set out in the rest of this Annual Report, Brexit preparations continued throughout 2019 and at the year end the Authority had contingency plans in place to deal with the impending UK departure. Brexit preparations also encompass dealing with the UK's future status as a third country, in the context of both the historic and ongoing business links between the jurisdictions and of course the interaction on a shared island. This has been an integral part of the Authority's work in this area over the past three years and continues to be a focus. IAASA is liaising with all stakeholders to ensure all necessary procedures and processes will be in place. Of course a significant element of that new relationship will be dependent on the UK's relationship with the EU, and Authority staff, working with their colleagues in the Department of Business, Enterprise & Innovation, continue to remain apprised of developments at that level.

### Board changes

Two directors resigned during the year. Aileen O'Donoghue had been the nominee of the Irish Stock Exchange since 2014 and was one of the Authority's long standing Board members. The Irish Stock Exchange nominated Aisling McArdle as its new nominee and she joined the Board in August. The Revenue Commissioners' nominee, Caitriona Crowley, tendered her resignation in December 2019 and at the year end a new nominee had yet to be nominated. On behalf of the Board I would like to extend my gratitude and best wishes to both Aileen and Caitriona.

### Concluding remarks

As I write these words, the Coronavirus is creating a radically changed working environment, and indeed world. Like every organisation, IAASA is coming to terms with circumstances where we can no longer meet and carry out our work in the

way that has historically been taken for granted. For some parts of our work the impact is limited, for others profound. Our thoughts are of course with all those who are suffering, and our heartfelt thanks go to those frontline workers, in so many areas, who are doing all they can to keep us safe and well.

I wish to thank my Board colleagues for their very valuable ongoing contribution and all of the hardworking staff who continually go above and beyond in their work. I want to thank the Minister and her Departmental colleagues who have greatly assisted the Authority in 2019. IAASA remains focused on delivering on its statutory remit and in my view and the view of the Board remains well placed to do so.

**Martin Sisk**  
*Chairperson*

30 April 2020

# Chief Executive's Review

### Introduction

The purpose of this review is to provide an overview of the activities of the Authority in 2019. IAASA carried out a range of different regulatory roles as set out in detail in the body of this Annual Report. The Authority continued to address the challenges and uncertainty posed by Brexit during the year. The second round of audit inspections undertaken in 2019 will pave the way for the first publication of reports on PIE firms in 2020. Significant work was undertaken to streamline the Authority's enforcement procedures. My review sets out these and other of the Authority's significant achievements in 2019.

### Key activities

The Authority has been preparing for the impacts of Brexit throughout 2019. Following on from the work to publicise those impacts in the previous year, the Authority met with all stakeholders, nationally and internationally to prepare for the UK becoming a third country, and the impact on the audit profession in particular. Arising from this work, the Authority is in a position to deal with the changes that will impact when the UK's transition period set out in the Withdrawal Agreement comes to an end.

2019 was the first full year in which the five RABs undertook their regulated activities under the revised oversight model brought into force by the Companies (Statutory Audits) Act 2018. IAASA engaged with the RABs to ensure that they were complying with their obligations, including obtaining statements of compliance. In undertaking the Authority's supervision of the eight PABs, review meetings were held with all bodies, during which the Authority sought updates on current regulatory matters including PAB regulatory governance structures, regulatory compliance updates, amendments to constitutional documents, status updates on open recommendations and issued action points arising from the engagement. The thematic review of continuing professional development arrangements in the eight PABs was concluded. Also, a supervisory review of an individual RAB's investigative and disciplinary arrangements was concluded. The Authority concluded on-site work for three further supervisory reviews with reports to be finalised in 2020. Part of the Authority's responsibilities include approving the constitutional documents of the PABs. 41 such documents were approved in 2019 and 18 documents were under consideration at year end.

The Authority's auditing standard setting process is now fully up and running. It works primarily through an in-house team, supported by a Technical Advisory Panel. Where necessary and appropriate sub-groups are established

to support the drafting of specific guidance. Two revised auditing standards, and related conforming amendments to other standards, and two guidance notes for auditors were issued during the year.

During 2019 the Authority completed 40 examinations of issuers' financial reports, with a further nine in progress at the year end. Staff also completed one thematic examination on the impact of the transition to the new leasing accounting standard, IFRS 16, and published four information notes: (i) IFRS 15 disaggregation of revenue; (ii) proposed dividends; (iii) key areas of focus for 2019 half-yearly reports; and (iv) liquidity analysis in half-yearly and annual reports. The results of these examinations are published to provide useful information to both preparers and readers of financial statements. Key issues which arose in the context of the Authority's reviews included the initial application of IFRS 15 *Revenue from Contract with Customers* and IFRS 9 *Financial Instruments*, and the use and prominence of Alternative Performance Measures. At European level these issues have also given rise to debate, and the Authority has contributed actively to that debate.

During 2019, the Authority directly carried out quality assurance reviews on eight firms, including joint inspections with the PCAOB. These constituted the second round of inspections for these firms, and will form the basis for the inspection reports that will be published by the Authority in 2020. In preparation for this, the Authority consulted with both auditors and non-auditors on the proposed publication and grading process. Work was well advanced on these publications at the year end.

During the year, IAASA carried out extensive and detailed work in drafting statutory instruments to implement its new executive led preliminary enforcement strategy. This work led to the Authority issuing public consultations on revised procedures for the operation of its enquiry and investigation processes. Following those consultations, revised statutory instruments were drafted. Section 933 Regulations were brought into effect by statutory instrument in November 2019 (S.I. 567 of 2019). Section 934 Regulations were at near final draft at year end. During the year, one preliminary investigation under section 934 was commenced and one open preliminary investigation moved to investigation stage.

As part of its strategic commitment to international engagement, IAASA continued its policy of active membership of EU and international fora in 2019. Staff are now members of six committees under the auspices of ESMA's Corporate Reporting Steering Committee, including the CRSC itself. We are also an observer on both the FRC Corporate Reporting Council and Audit & Assurance Council, and participate on the EU Accounting

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Regulatory Committee ('ARC'). IAASA staff are on nine separate committees as part of CEAOB, and a further two as part of the global audit regulation forum IFIAR. IAASA also continuously engages with its wider stakeholder base. This includes meetings, presentations and also a wide range of publications as set out in Appendix 4 to this report.

### Concluding remarks

As is evident, 2019 was another busy year for the Authority. While its regulatory work makes up much of its visible output, the Authority also carries out a range of other activities, both mandatory and voluntary, which ask a huge amount of everyone working here. I remain deeply grateful to them for their contribution, and they represent everything that is good about public service. I would also like to thank the Chairperson and the Board for their support and guidance during the year. The Authority remains focused on addressing the multiple challenges in regulating the auditing and accounting profession in a volatile and uncertain environment and all of these parties contribute to its success in that endeavour.

Kevin Prendergast  
*Chief Executive*

30 April 2020