



# Chapter 1

Chairperson's Statement &  
Chief Executive's Review

# Chairperson's Statement

### Introduction

This is IAASA's ('the Authority') fifteenth Annual Report. It is with pleasure that I submit it to the Minister for Enterprise, Trade and 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 2020 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 implemented its new work programme covering the next three year period during 2020. This programme focuses on three core strands; regulation, promotion of high standards, and maximising our impact. The executive team has been tasked with translating these strands, supported in the work programme with strategies and enablers, into individual tasks and implementing them in its business plans. The board holds the executive to account against these plans, and this report also summarises how the Authority has performed in relation to the outcomes set out therein.

The board also reviews its own governance on an annual basis. This year's review reaffirmed the strong governance in place in IAASA, and set out recommendations to continue to develop board acumen. Board training is now a core element of that development.

### Impact of COVID-19

As set out more fully in the report, the Authority's response to the unprecedented events in 2020 allowed it to complete the vast majority of its plans. While no planning or risk analysis could possibly have predicted the unique challenges that the last twelve months have provided, IAASA's prior work to develop its resilience and flexibility allowed it to move quickly to new ways of working in response. Much of this involved working in conjunction with the entities it regulates, while making clear that regulatory standards would be maintained. As the rest of this report makes clear, the Authority was successful in this regard.

### UK departure from the EU

At 11pm on 31 December last the UK's transition period ended and its full departure from the EU became legally effective. The impact of this in audit is already evident. There are now practical impacts for auditors who wish to remain registered in both jurisdictions, and this has led to a very significant reduction in the number of statutory auditors based in the UK who are registered as statutory auditors in Ireland. The Authority sees this continuing in 2021 and beyond, as UK and EU requirements in statutory audit and elsewhere begin to diverge. The UK will remain an important partner in an international context for the Authority. Its auditing standards form the basis for Irish auditing standards, and the Financial Reporting Council ('FRC') is also the accounting standard setter for domestic financial statements in Ireland. The Authority continues to plan for, monitor, and respond to the manifold impacts of the UK's decision.

### International relationships

Audit and accounting are global professions, and increasingly regulation operates at the same level. IAASA has long recognised the importance of developing relationships with its peers internationally. In particular, this has taken place through the EU Committee of European Auditing Oversight Bodies ('CEAOB') and globally through membership of the International Forum of Independent Audit Regulators (IFIAR). In 2020 Ireland joined the CEOB Consultative Group, which manages the work of the CEOB on an administrative basis. It also worked on several European and global working groups and task forces, examining topical issues such as non-financial reporting, monitoring of the European market for audit, and reviewing internationally relevant developments in audit for IFIAR. This work gives the Authority an insight into how audit and audit regulation is continuing to develop, and how it responds to challenges across the world. That insight helps inform the plans the Authority makes for its own development, for example its recruitment of specialist expertise in data analytics and computer audit. The board continues to support the involvement of IAASA staff in this work.

# Chapter 1: Chairperson's Statement & Chief Executive's Review

## International developments

Accounting and audit regulation have continued to be the focus of international debate during 2020. In the UK, the Department of Business, Enterprise and Industrial Strategy is considering how best to implement the many recommendations arising from reports on the audit market published over the past few years. The collapse of Wirecard has highlighted very significant issues across the regulatory framework in Germany, issues to which the European Commission as well as the German government are responding. IAASA continues to monitor these debates and the proposals that result, to assess whether they are relevant in the context of Irish regulation. We note that many of the UK proposals for their new regulator mirror the Irish regulatory structure, with their new regulatory body ARGA to be established under law with a clear statutory remit and reporting obligations, as well as enhanced powers. At EU level, the Authority is contributing to the discussions as to how all EU regulators can improve. The Authority is confident that it will be well placed to respond to the outcome of these discussions.

## Innovation

In my 2019 statement I outlined the Authority's response to the reform initiative throughout the public service. In 2020 the Authority expanded its initiatives in this area. IAASA now has a dedicated function for Organisational Development, responsibility for which resides at leadership level. Innovation has been designed into the Authority's work programme and business plans. At all levels staff have been challenged and have responded to that challenge through changing processes and procedures, by creating new ways of working, and by constantly examining and questioning how the Authority undertakes its work, and in so doing, how it fulfils its statutory remit. This disruption, while undoubtedly a discomfort at times, is in the Board's view a necessity in order that IAASA is well placed to respond to the volatile and uncertain environment in which it operates.

## Board changes

The members of the board were saddened to hear of the untimely passing of our former colleague Caitriona Crowley during the year. Caitriona, the nominee of the Revenue Commissioners, left the Board at the end of 2019. Ar dheis Dé go raibh a h-anam dílis.

A number of long standing members left the board this year. David Devlin and Etain Doyle, both nominees of the prescribed accountancy bodies, left on the expiration of their terms of appointment. Clodagh Hegarty and Ronan Nolan have been appointed in their place. Nicole Lappin's term of

office (a Ministerial nominee) also expired in 2020. Aisling Kennedy has been appointed in her place. Kathleen Redmond was appointed on the nomination of the Revenue Commissioners to replace Ms Crowley. I would like to pay particular tribute to my immediate predecessor Conor O'Mahony, the ODCE nominee who acted for a period of time as Chairperson following the sudden death of Brendan Walsh in 2016. Conor has been replaced by David Hegarty. 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

This time last year IAASA was just beginning to come to terms with a radically different world. Now there are signs for cautious optimism, and by the end of this year some sort of normality will have returned. COVID-19 has brought about fundamental change in how we all live our lives and in particular how we carry out our work. Some of these changes will permanently influence long after the pandemic is left behind. As I have set out in my statement, IAASA operates in a complex environment where the only constant is change, and it is the responsibility of the Board to ensure the Authority is positioned to respond.

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. Virtual meetings do not allow for the opportunity for board members, especially newer ones, to get a full sense of their colleagues or indeed of the Authority as a whole, and I look forward to meeting them face to face, some of them for the first time, in the near future. I want to thank the Minister and his colleagues in the Department who have continued to maintain a positive relationship with the Authority, and whose support in particular in navigating the impacts of Brexit is greatly appreciated. My particular thanks go to the staff in IAASA, led by the Chief Executive, who coped exceptionally well with the unique challenges of a unique year. Their resilience and flexibility underscore the strengths of the Authority, and we as a Board are fortunate to have them.

**Martin Sisk**

*Chairperson*

30 April 2021

# Chief Executive's Review

### Introduction

The purpose of this review is to provide an overview of the activities of the Authority in 2020. IAASA's statutory responsibilities, primarily set out in the Companies Act as well as in EU law, are undertaken in accordance with its annual business plan, and how this has been achieved is set out in detail in the body of this report. COVID-19 brought unique and unprecedented challenges in 2020 and these are addressed in turn in each operational section of the report. The Authority's other 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 sets out these and other of the Authority's significant achievements in 2020.

### Key activities

IAASA has responsibility for the issuing of auditing and ethical standards for statutory auditors in Ireland. During the year the Authority issued a revised ethical standard for auditors, with application to all statutory audits. IAASA policy is to adopt standards as issued by the UK regulator, the FRC, and review them for consistency with Irish law as well as to assess whether there are distinctive characteristics in the Irish market that would require an amendment to the UK standard. The ethical standard ultimately issued included a number of amendments relating to the Irish market. This was amongst a range of revised standards issued in 2020. IAASA also issued a compendium of template audit reports which should greatly assist statutory auditors, especially those in small firms and sole practitioners. The Authority is awaiting the finalisation of the FRC's adoption of ISQM 1, a new standard on quality management which will have a significant impact on audit firms, and which forms part of a wider suite of quality management standards. ISQM 1 moves firms from a compliance based approach to quality control to a quality management framework requiring a risk-based, proactive and tailored approach to managing the quality of audit engagements.

As part of the Authority's oversight of prescribed accountancy bodies, IAASA is developing a range of guidelines that the regulated bodies will be expected to demonstrate compliance with. These are in addition to the requirements set out in law, and reflect the Authority's ultimate responsibility for the regulatory activities in relation to statutory audit, and its oversight of quality assurance and investigation and discipline across all regulated accountants. They will form the basis for the Regulatory and Monitoring Supervision Unit ('RMS') in undertaking this function. RMS is also the Unit that engages

with the recognised accountancy bodies on the impact of the UK's non EU status. For those bodies who have members operating as statutory auditors in both jurisdictions there will be an increasing requirement to operate effectively parallel regulatory structures, and IAASA continues to work with the recognised accountancy bodies ('RABs') as they identify their options in a post Brexit world. The unit also completed four supervisory reviews of accountancy bodies and approved 48 constitutional documents.

The Financial Reporting Supervision Unit (FRSU) was extensively involved in discussions at European level on the impact of COVID-19, and the related supports and reliefs put into place by national governments, on corporate reporting. The unit also discussed the proposed implementation of the new European Single Electronic Format (ESEF) and the preparedness of issuers and regulators for this new reporting format. At year end the proposed application date of 31 December 2020 was under review by the Commission. The Unit also examined 44 annual reports and three half yearly reports, and issued ten financial reporting decisions and two thematic reports.

The Authority published its first round of audit quality reports in March 2020, with eight reports on individual audit firms issued on its website. 71% of individual audits were assigned a grade of 2 or higher, meaning that audit quality is of a good standard. While this is ahead of our international comparators, there is still room for improvement, and in particular, the Authority was disappointed at the number of audits graded at 4, the bottom of the quality scale. In 2020 eight firms were subject to inspection by the Authority, and the results of that work were to issue in March 2021. IAASA also hosted a virtual conference for audit committee members, highlighting the importance of their role in the audit quality environment. It is anticipated that such conferences will become a regular part of the Authority's outreach.

Another important first for the Authority in 2020 was the conclusion of its first investigation under section 934 of the Companies Act, arising from failures identified in its audit inspection regime. The penalties and sanctions handed down to the individuals and the firm send an important message about the seriousness with which IAASA views non-compliance with regulatory standards. At the year end a further two cases were under investigation. In addition one enquiry into a recognised accountancy body's application of its investigation and disciplinary procedures was under way at the end of 2020.

## Chapter 1: Chairperson's Statement & Chief Executive's Review

IAASA has signed up to the Declaration on Public Service Innovation and in 2020 gave effect to that in the creation of an Organisational Development Unit at leadership level. The Head of Organisational Development drives the innovation agenda throughout the Authority, working to ensure all staff are engaged in seeking continuous improvement to the operations of the Authority, both frontline and support. The Authority hosted a number of virtual training and innovation events to support this workstream, and to embed it into business as usual. This work, which was well underway from late 2019, proved invaluable when the Authority was forced to adjust to the impacts of COVID-19 from March onwards.

Those impacts were felt throughout IAASA, but in the first instance they fell on the Finance and Administration Unit, which had to move from an office and paper based system to a remote and virtual system almost overnight. It was also responsible for ensuring that the rest of the Authority could continue to function as all staff moved to working from home. This was achieved without significant impact on the operations of IAASA as a whole.

IAASA's commitment to its international work continued in 2020, albeit that this moved to a virtual environment. While not ideal in most respects, there are certain aspects which may continue virtually into the future. IAASA enhanced its role in the CEAOB through membership of the Consultative Group, and also took on the role of vice chair of the Emerging Regulators Group in the global body IFIAR. IAASA views these roles as providing the Authority with greater insight into international developments in audit, as well as personal development opportunities for its staff. It will continue to pursue such opportunities as they arise.

### Concluding remarks

The above summary and indeed the full report give a snapshot of the work of the Authority in 2020. IAASA carries out many day to day activities in engaging with stakeholders, in supporting the Department on audit issues, in responding to consultations, and in assisting regulated entities to promote compliance with the high standards it sets. This work is essential in maintaining high audit and accounting quality. As I write these words, it is over a year since I have seen most of my colleagues in person. While technology has replaced face to face contact in many ways, it cannot replicate the value of personal contact. It also makes regulatory work more challenging in many respects. My colleagues working in IAASA have shown huge commitment in very difficult circumstances in the past year. While for some working from home has been a positive experience, equally there are many for whom this is far from ideal, yet nevertheless the Authority has delivered on its business plan for the year while addressing all of the new and unexpected challenges that came with COVID-19. I would like to take this opportunity to express my gratitude to them. I would also like to thank the Chairperson and the Board for their support during this challenging year. The achievements of the Authority in 2020 are a testimony to the hard work of all concerned.

**Kevin Prendergast**

*Chief Executive*

30 April 2021