

2019

Annual Audit Programme and Activity Report

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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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Chief Executive's Introduction

In accordance with section 930B of the Companies Act 2014, I am pleased to present IAASA's 2019 Annual Audit Programme and Activity Report. It provides a summary of the activities performed by the Authority during 2019 in its oversight of the audit profession in Ireland.

The Irish Auditing & Accounting Supervisory Authority ('IAASA/the Authority') is the competent authority in Ireland responsible for the public oversight of statutory auditors in accordance with the EU Audit Directive and related Regulation (537/2014). Its statutory functions include the quality assurance review of auditors of public-interest entities ('PIEs') as well as oversight of the recognised accountancy bodies ('RABs') who supervise auditors of non-PIEs.

Key outcomes of the Authority's work on the public oversight of statutory auditors in 2019 include:

- completion of the second round inspection of eight PIE firms by the audit quality unit, reviewing 24 audits and four internal control areas;
- publication of a *Guide to IAASA's Reports on the Quality Assurance Reviews of PIE Firms*;
- initiation of a statutory investigation into poor quality audit work identified on two audits by the audit quality unit;
- completion of on-site work on three supervisory visits to the RABs and the issue of a thematic report to them setting out supervisory expectations in respect of their regulation and oversight of continuing professional development.

This report provides useful insights into the Authority's work on oversight of the audit profession and will be of value to stakeholders seeking an enhanced understanding of audit and its regulation. Further information about the full range of our regulatory and supervisory activities is set out in our various publications which are available on our website.

Kevin Prendergast
Chief Executive Officer

June 2020

Chapter 1

Quality assurance review of PIE firms

Chapter 1: Quality assurance review of PIE firms

Introduction

This chapter outlines the Authority's work in the quality assurance review of statutory auditors and audit firms that perform statutory audits of public-interest entities ('PIEs') in Ireland. It also summarises the Authority's international cooperation related to audit as well as its oversight of third country auditors in Ireland. Work programme priorities for 2020 for each of these areas are also outlined.

Resources

In 2019, there were nine people in the audit quality unit: a head of unit, seven audit inspectors and one administrative executive.

At 31 December 2019, the Authority had vacancies for two audit inspectors and one administrative executive. One of the vacant audit inspector roles was filled in early 2020.

Funding

The audit quality unit is funded by a statutory levy on firms that perform statutory audits of PIEs ('PIE firms'). There are two parts to the levy. The first part is a standing charge for all PIE firms to reflect the base level of work involved in inspecting a PIE firm, regardless of how many PIEs it audits. The remainder of the levy is allocated across the PIE firms based on their market share of the statutory audit fees for all audits of PIEs.

Further details about the 2019 levy and its allocation across the PIE firms are provided in the Authority's financial statements, which will be available on its website.

Quality assurance review of PIE firms

Statutory audit

A statutory audit is an audit of financial statements required by European Union ('EU') law or by national law as regards small undertakings. Its purpose is to enhance users' confidence in the financial statements and involves the expression of an opinion by the auditor on whether the financial statements are prepared in accordance with the relevant reporting framework.

Individuals and firms must be approved to be statutory auditors or audit firms and then registered on the public register. The Companies Registration Office ('CRO') maintains the register of statutory auditors and audit firms in Ireland, which is available on its website (www.cro.ie). At 31 December 2019, there were 4,341 audit firms approved in Ireland. Further details on the approval of statutory auditors and audit firms is set out in chapter 3.

Chapter 1: Quality assurance review of PIE firms

Public-interest entities and their auditors

The term public-interest entity ('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 (www.iaasa.ie).

Any statutory auditor or audit firm listed on the CRO register may be appointed as an auditor to a PIE. Under law, auditors are required to inform IAASA the first time they are appointed as an auditor to a PIE. At 31 December 2019, IAASA was notified of nine (2018: nine) PIE firms, auditing 723 (2018: 752) PIEs. These firms were:

- BDO
- Deloitte
- EisnerAmper Audit Limited
- EY
- Grant Thornton
- KPMG
- Mazars
- PricewaterhouseCoopers Ireland
- BDO LLP (see note)

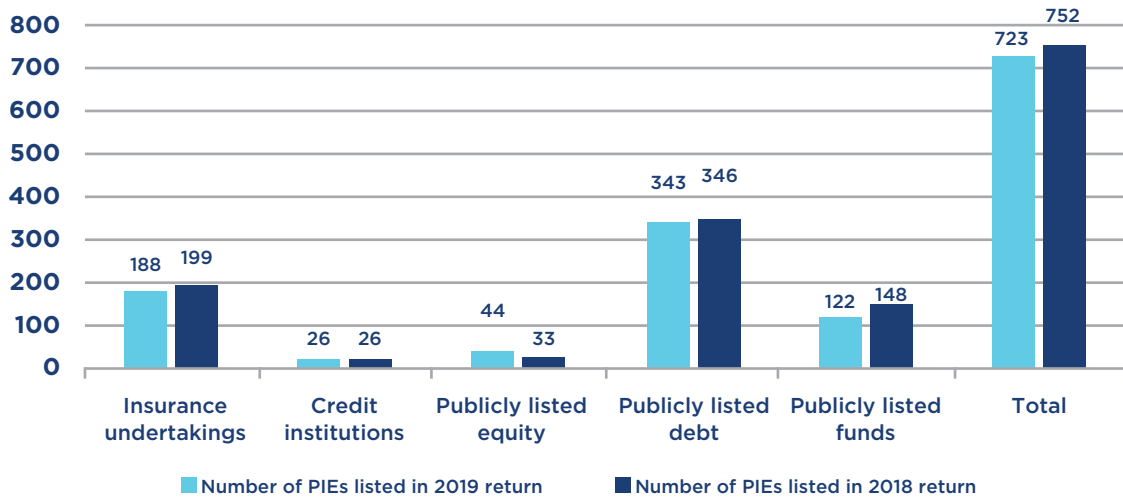
Note: BDO LLP is statutory auditor to one PIE in Ireland. It is based in the UK and is subject to oversight by the UK competent authority. It did not provide the Authority with an annual return in 2019 and information about this PIE firm is not included in the remainder of this chapter.

During 2019 two PIE firms failed to inform the Authority of their appointment as statutory auditor to a PIE. The Authority referred these two matters to the relevant RABs and to the Office of the Director of Corporate Enforcement.

PIE firms are required to provide an annual return to the Authority setting out details of the PIEs audited by the firm in the year. The annual return is used by the Authority to track changes in the population of audits of PIEs. The composition of the population of audits of PIEs is considered in determining which audits of PIEs are selected for inspection. The chart below shows details of the PIE population based on the PIE firms' most recent annual returns.

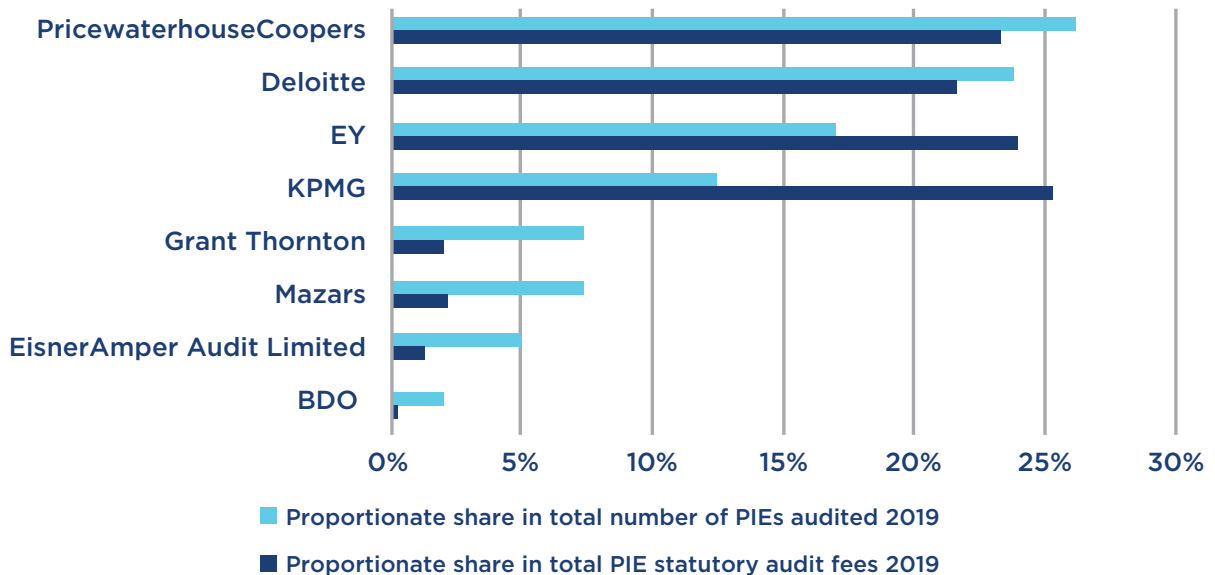
Chapter 1: Quality assurance review of PIE firms

Chart 1.1: Population of audits of PIEs



The chart below shows the market share of each PIE firm, in terms of the number of audits of PIEs and the share of audit fees earned in respect of audits of PIEs. In 2019, four audit firms (Deloitte, EY, KPMG and PricewaterhouseCoopers Ireland) audited approximately 79% of PIEs (2018: 84%) and earned approximately 94% of the related fees (2018: 95%).

Chart 1.2: PIE firms' % share of PIE audits and PIE audit fees



Chapter 1: Quality assurance review of PIE firms

Quality assurance review process

The purpose of the quality assurance review process is to assess the effectiveness of a PIE firm's system of quality control. This involves an assessment of the design of the system of quality control, performance of compliance testing around the implementation of the PIE firm's policies and procedures, together with inspection of a sample of audits of PIEs.

The quality assurance review process is not designed to identify all weaknesses which may exist in the PIE firm's policies and procedures or in the implementation of those policies and procedures. Ultimate responsibility for audit quality rests with the statutory auditor issuing an audit opinion.

Firmwide procedures

The Authority's assessment of the design of a PIE firm's system of quality control involves inspection of the PIE firm's policies and procedures across 13 areas over a three year period. A full list of these areas is included in the *Guide to IAASA's Reports on the Quality Assurance Review of PIE Audit Firms* available on the IAASA website.

Compliance testing around the implementation of the PIE firm's policies and procedures involves a review of evidence to corroborate the implementation of these policies and procedures.

Risk-based selection of audits of PIEs

IAASA takes a risk-based approach to the selection of PIE audits for inspection, with a focus on audits of PIEs that are deemed by IAASA to be higher risk. The samples chosen by IAASA are, therefore, not representative of the population and results cannot be extrapolated to make inferences about audits not inspected.

Inspection of audits of PIEs

An inspection of an audit of a PIE involves a review of the sufficiency and quality of audit evidence across a number of selected audit areas. The areas reviewed are selected at the discretion of IAASA, taking into consideration specific risks related to the PIE as well as areas of interest to IAASA.

The Authority may expand the number of audits or audit areas inspected in response to issues identified.

Reporting

Following completion of an inspection, IAASA issues a report to the PIE firm on the quality assurance review. The purpose of the report is to communicate the deficiencies identified and the recommendations arising from the quality assurance review.

The findings arising in relation to the effectiveness of a PIE firm's quality control system have their significance indicated by way of a colour-coding system as follows: red (significant deficiency), amber (improvement is required) and yellow (minor deficiency).

Chapter 1: Quality assurance review of PIE firms

Each of the audits of PIEs inspected as part of the quality assurance review is assigned a grade as follows: 1 (good audit), 2 (limited improvements required), 3 (improvements required) and 4 (significant improvements required).

The Authority makes recommendations to ensure that matters noted are appropriately dealt with. PIE firms are required by law to implement recommendations made by IAASA within twelve months of the date of the report on the quality assurance review. The Authority is required to impose a sanction on PIE firms that fail to do so.

Follow-up procedures

In addition to the inspections carried out, the Authority undertakes follow-up procedures. PIE firms provide a written submission to IAASA within twelve months of the date of the quality assurance review report. The submissions detail the actions taken by the PIE firm to implement the Authority's recommendations.

Referral to the enforcement unit

For those audits where the Authority suspects possible significant breaches of standards or possible contraventions of legislation by a statutory auditor, the matter is referred to the enforcement unit for consideration for investigation. In these cases, the audit quality unit issues recommendations in the usual manner, which are required to be implemented within twelve months. PIE firms with matters referred to the enforcement unit are given a higher risk weighting and quality assurance review schedules and sample sizes are impacted accordingly.

2019 quality assurance review activity

Overview

During 2019, the Authority conducted its second round of inspections of the eight PIE firms based in Ireland.

The assessment of the design of the firms' systems of quality control was focused on four areas: tone at the top, partner and staff evaluation and compensation, engagement quality control and offshoring. For each of the four areas reviewed, the Authority assessed the firms' policies and procedures and performed compliance testing to confirm implementation.

The Authority also reviewed 24 audits of PIEs across six PIE firms. In 2019, no audits were selected for inspection in two PIE firms where there were no quality concerns and the PIE firms had a lower market share. The number of audits of PIEs reviewed in each of the remaining six PIE firms varied between three and five.

Chapter 1: Quality assurance review of PIE firms

Guide for users of reports on quality assurance reviews

In 2019, the Authority published a *Guide to IAASA's Reports on the Quality Assurance Review of PIE Audit Firms*. The guide, which can be accessed [here](#), sets out what users can expect from the quality assurance review reports and explains how the quality assurance review process drives the form and content of these reports. The guide also sets out the rating and grading policies applied to the findings and recommendations of the 2019 quality assurance reviews.

Publication of quality assurance review reports

The 2019 quality assurance review reports in respect of eight PIE firms were published by the Authority in March 2020 and are available on IAASA's website [here](#).

Findings - firmwide procedures

In two PIE firms, IAASA raised findings regarding their system of quality control as follows:

- In EisnerAmper Audit Limited, there were two significant deficiencies identified which were assigned a red rating. There were also two matters identified where improvement was required and these were assigned an amber rating.

The significant deficiencies identified in EisnerAmper Audit Limited related to tone at the top and engagement quality control ('EQC'). Recommendations were made for the establishment of additional policies and procedures to promote an internal culture of quality and to ensure that the firm has personnel with the capacity to perform EQC reviews for all of the firm's PIE audits. The two further matters requiring improvement were in the area of partner and staff evaluation and compensation.

- In EY, there were three minor deficiencies identified which were assigned a yellow rating. These were in the areas of staff evaluation and compensation, engagement quality control and offshoring.

Further details on these findings and recommendations are available in the 2019 quality assurance review reports for these firms published on the Authority's website as noted above.

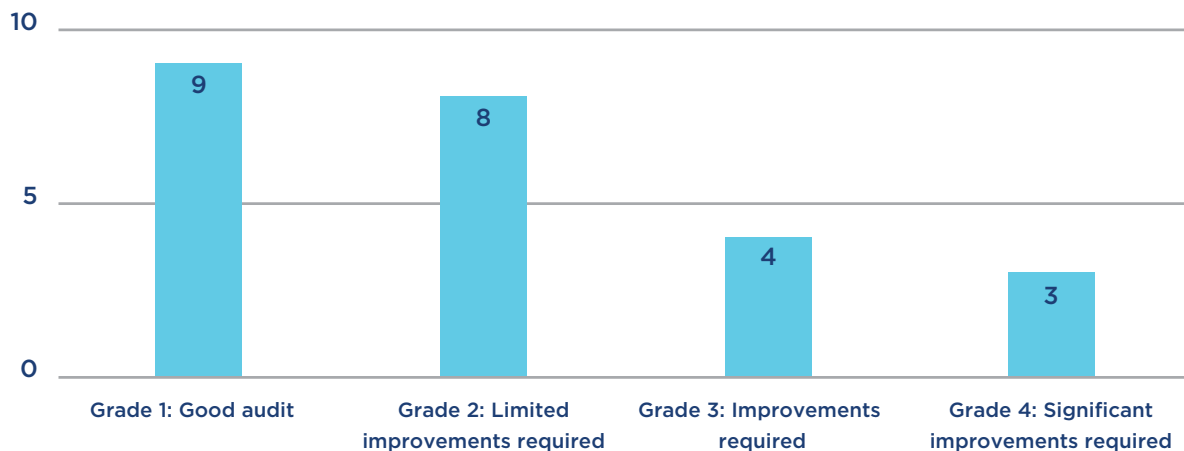
Findings - individual audit inspections

Findings were raised following inspections of audits of PIEs where non-compliance with legislation, standards or firm policies was noted.

The graph below shows the grades assigned to the 24 audits of PIEs inspected. 70.8% of audits of PIEs inspected were assigned a grade of 2 or higher, indicating that audit quality was of a good standard. For the 16.7% of audits inspected that were assigned a grade of 3, there were more substantial issues. The remaining 12.5% of audits that were assigned a grade of 4 required significant improvement. All of the audits graded 4 were within one audit firm.

Chapter 1: Quality assurance review of PIE firms

Graph 1.3: Grades assigned to the audits of PIEs inspected



The key recommendations arising from inspection of audits of PIEs are set out in the quality assurance reports of each PIE firm. Appendix 1 sets out a summary of those recommendations. The observations outlined below were key recommendations that recurred across several audits and PIE firms:

- **Risk identification:** auditors should identify risks during the planning phase of an audit and plan sufficient audit procedures to address the risks and ensure consistency of the description and treatment of the risks all the way through to the auditor's report. If changes occur during an audit, the risk identification section should be updated.
- **Accounting estimates:** the most common area resulting in recommendations amongst many regulators is accounting estimates. The Authority issued recommendations in relation to the challenge of assumptions, evaluation of estimation methodologies, review for management bias and appropriate procedures where experts are used.
- **Information technology:** the auditor needs to fully understand the work performed by internal experts on information technology general controls and resolve any issues identified.
- **Group audits:** auditors should ensure that appropriate instructions are issued to component auditors and that component auditor reporting is completed in line with those instructions. The auditor's review of the component auditor's work should be evidenced in detail.
- **Engagement quality control ('EQC'):** the EQC reviewer needs to ensure there is evidence of their timely involvement in all key judgement areas. Furthermore, where issues are identified by the inspection team, consideration is given to why those issues were not identified by the EQC reviewer.

Chapter 1: Quality assurance review of PIE firms

Follow-up procedures

During 2019, the Authority completed its follow-up procedures for six of the nine PIE firms reviewed in the first round of quality assurance reviews. The Authority was satisfied that all six firms implemented the recommendations raised during the first round of reviews.

The remaining three PIE firms were within the twelve month implementation period from the date of the first round report. The Authority has engaged with these three PIE firms to discuss their implementation of the recommendations from the first round of quality assurance reviews.

Referral to the enforcement unit

A number of matters were referred from the audit quality unit to the enforcement unit for its consideration during the year and further details on investigations are provided in chapter 2.

The audit quality unit does not re-perform 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 the PIEs whose audits are referred are misstated.

2020 work programme priorities – quality assurance reviews

In 2020, a key priority for the Authority is to communicate the results of the quality assurance review process to key stakeholders and to engage further with them through publication of observations and commentaries. To that end, in early 2020, the Authority published the 2019 quality assurance review reports in respect of eight PIE firms.

In 2020, the Authority will conduct its third round of quality assurance reviews. The Authority intends to inspect the following areas of eight PIE firms' systems of quality control:

- ethics and independence;
- acceptance and continuance;
- documentation; and
- complaints/ allegations.

The Authority intends to continue to apply a risk-based approach in selecting audits of PIEs for inspection.

In light of the challenges brought by the Covid-19 pandemic, the Authority will work with the PIE firms to identify innovative solutions to allow the quality assurance process to continue off-site. It will also monitor the challenges faced by auditors because of the Covid-19 pandemic and will make clear its expectation that auditors will continue to comply with auditing standards in conducting audits of PIEs.

The Authority will also continue its follow-up procedures to determine whether the recommendations from the first round of the quality assurance reviews have been appropriately implemented.

International cooperation

Overview

The Authority 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 to share knowledge, experience and act consistently where possible. Such activities assist regulators to achieve 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 and holds a position on the organising committee of the CEAOB inspections sub-group.

2020 work programme priorities – international cooperation

IAASA will continue to actively participate in the international groups of regulators and support their activities by moderating and presenting at meetings and workshops. The Authority will also consider hosting meetings or workshops in future years.

Third country auditors

Registration

A third country auditor is an auditor who issues an audit 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 the auditor meets the relevant criteria.

During 2019, IAASA renewed the full registration of eight (2018: eight) third country audit firms. IAASA is also responsible for updating the register of third country auditors (available on the CRO website: www.cro.ie) for approved applications and notifying any other changes to the CRO.

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 for auditors operating in their jurisdiction.

Availing of the above exemption also requires the audit regulators to enter into an agreement with each other. At 31 December 2019, IAASA had entered into 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.

2020 work programme priorities – third country auditors

IAASA will process third country auditor applications as they arise.

IAASA will contribute to the CEAOB sub-group that assesses countries wishing to be deemed equivalent by the EU, and which makes a recommendation to the EU in that regard.

IAASA will also continue to monitor Brexit developments and their implications for the registration of certain UK auditors as third country auditors.

Chapter 2

Enforcement

Chapter 2: Enforcement

Introduction

This chapter summarises IAASA's activities in respect of investigations into possible contraventions of applicable law or a RAB's standards by statutory auditors undertaken by its enforcement unit. It also outlines 2020 work programme priorities.

Resources

At 31 December 2019, staffing in the enforcement unit consisted of a senior conduct counsel.

The regulations and procedures governing PIE audit investigations were under review at year end in light of changes to the relevant sections of the Act. Once this review is complete, IAASA will consider whether any additional staff are required for the enforcement unit.

Funding

The enforcement unit is funded 60% by a statutory levy on the prescribed accountancy bodies ('PABs') and 40% by the Exchequer. The levy on the PABs allocates the costs to each PAB based on the number of its members and audit firms.

In addition, any fine income received or costs recouped are lodged to a statutory reserve fund, and may be used only for enforcement purposes.

Overview of types of enforcement against auditors

There are two routes of enforcement action available to IAASA under section 934 of the Act which are explained further below.

IAASA 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.

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 it is of the opinion that it is appropriate or in the public interest to do so. If IAASA determines that a breach of a RAB's standards has occurred, it may impose any sanction to which a statutory auditor would have been liable under the constitution and byelaws of the RAB.

Contravention of legislation

Section 934 of the Act also provides that IAASA may undertake investigations of possible contraventions of legislation by a statutory auditor. If IAASA determines that a contravention has occurred, sanctions which may be imposed include temporarily banning a statutory auditor from carrying out statutory audits, declaring that an audit report does not meet certain requirements and imposing financial sanctions.

Chapter 2: Enforcement

2019 enforcement activity

During the year, work continued on the development of the processes and procedures that are necessary for the conduct of investigations into statutory audits.

Draft section 934 regulations were issued for public consultation, setting out revised procedures for the conduct of investigations. Following the consultation process, the related Statutory Instrument was in draft form at year end and was enacted in January 2020. Settlement procedures in respect of section 934 investigations were also published and are available on the Authority's website.

An investigation into two audits which was open at the beginning of the year, progressed from a Preliminary Investigation Committee to a Full Investigation Committee during the year.

A new investigation was opened into two audits referred from the audit quality unit relating to one audit firm inspected during 2019. At 31 December 2019, a Preliminary Investigation Committee had been established by the Board to consider these matters.

The Authority did not impose any sanctions during the year.

2020 work programme priorities – enforcement

The Authority intends to implement the revised section 934 regulations in respect of any new investigations commenced after their enactment as well as continuing to progress any ongoing investigations.

Further, the enforcement unit will continue to engage with international peers at CEAOB and IFIAR enforcement sub-groups to share experience and knowledge.

Chapter 3

Functions performed by the
recognised accountancy bodies

Chapter 3: Functions performed by the recognised accountancy bodies

Introduction

This chapter summarises the activities of the recognised accountancy bodies ('RABs') in performing the statutory functions assigned to them for the regulation of statutory auditors. It also outlines the Authority's activities in its oversight of the RABs as well as its 2020 work programme priorities.

Resources

At 31 December 2019, there were seven people in the regulatory and monitoring supervision unit: a head of unit, a senior supervision manager, two project managers, two project executives and an administrative executive.

Funding

The regulatory and monitoring supervision unit is funded 60% by a statutory levy on the PABs and 40% by the Exchequer. The levy on the PABs allocates the costs to each PAB based on the number of its members and audit firms.

Further details about the 2019 levy and its allocation across the PABs are provided in the Authority's financial statements, which will be available on its website.

Functions performed by the RABs

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 2019* which provides further information on the RABs' performance of these functions and provides details of their non-audit activities.

At 31 December 2019, 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').

Chapter 3: Functions performed by the recognised accountancy bodies

IAASA has relied on the RABs to provide the information set out in the tables in this chapter. 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.

Approval and registration of statutory auditors

Under law, the RABs are authorised to approve their members/member firms and other qualified individuals and firms as statutory auditors in accordance with the criteria for approval set out in the Act. Such criteria include holding an appropriate qualification and being of good repute.

At 31 December 2019, there were 4,341 audit firms registered to carry out statutory audits in Ireland, with 9,657 individuals in those firms authorised to act as statutory auditors. There were 1,207 registered audit firms with offices in Ireland at 31 December 2019.

Table 3.1 shows the movement in audit firms and statutory auditors during 2019.

Table 3.1: Movement in audit firms and statutory auditors in 2019

	Total	ACCA	CPA	ICAEW	ICAI	ICAS
Audit firms registered to audit in Ireland at 1 January 2019	4,568	430	371	2,812	783	172
During the year:						
New applications granted	203	30	15	116	37	5
Applications not renewed or voluntarily surrendered	-420	-40	-42	-260	-69	-9
Registrations withdrawn	-10	-2	0	-6	-1	-1
Audit firms registered to audit in Ireland at 31 December 2019	4,341	418	344	2,662	750	167
Audit firms with offices in Ireland at 31 December 2019	1,207	298	344	3	562	0
Statutory auditors registered to audit in Ireland at 31 December 2019	9,657	578	435	6,793	1,360	491
Statutory auditors registered to audit in Ireland, located in Ireland, at 31 December 2019	1,894	388	435	3	1,068	0

Chapter 3: Functions performed by the recognised accountancy bodies

Continuing education

Statutory auditors are required by law 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 Continuing Professional Development ('CPD') related to audit, including:

- completion of an annual CPD compliance declaration;
- desktop reviews of auditors' CPD records, on a random 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, it may require the auditor to take remedial action. In more serious cases, it may take regulatory or disciplinary action against the auditor.

Table 3.2 provides a summary of the CPD reviews of auditors undertaken by the RABs during 2019.

Table 3.2: Monitoring by RABs of CPD undertaken by statutory auditors in 2019

	Total	ACCA	CPA	ICAEW	ICAI	ICAS
Risk-based desktop reviews	183	67	33	35	48	0
Random desktop reviews	17	1	0	16	0	0
On-site reviews of CPD records as part of quality assurance reviews	1,171	119	121	685	159	87
Other monitoring activities	858	32	448	378	0	0
Total number of CPD reviews completed	2,229	219	602	1,114	207	87
Number of CPD records found to be non-compliant after follow up action was taken	19	12	0	0	4	3
Number of statutory auditors subject to regulatory action	19	12	0	0	4	3
Number of statutory auditors subject to disciplinary action	0	0	0	0	0	0

Quality assurance systems

RABs are required by law to operate a system of quality assurance review of statutory auditors and audit firms (with the exception of PIE firms directly inspected by IAASA as described in chapter 1).

In 2019, a total of 826 quality assurance reviews of audit firms were concluded by the RABs. 145 firms had conditions, restrictions or penalties imposed to address deficiencies identified during those reviews. These ranged from a requirement to provide additional information to suspension or withdrawal of audit registration.

Chapter 3: Functions performed by the recognised accountancy bodies

Table 3.3 summarises the RABs' quality assurance activities during the year.

Table 3.3 Quality assurance activities in 2019

	Total	ACCA	CPA	ICAEW	ICAI	ICAS
Quality assurance reviews open at 1 January 2019	100	10	7	58	17	8
Quality assurance reviews carried out during 2019	873	98	104	533	107	31
Quality assurance reviews concluded during 2019	-826	-87	-95	-496	-113	-35
Quality assurance reviews open at 31 December 2019	147	21	16	95	11	4
Quality assurance reviews that resulted in regulatory action	145	17	21	51	34	22

Investigative and administrative disciplinary systems

RABs are required by law to implement arrangements for effective systems of investigations and penalties in relation to the inadequate execution of an audit. In 2019, the RABs opened 235 new cases concerning statutory auditors and audit firms. The nature of complaints varies and may relate to audit or non-audit work. The majority of new complaints arose under the categories of poor work, unsatisfactory professional service or 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 and audit firms in 2019.

Table 3.4: Movement in complaints relating to statutory auditors/audit firms in 2019

	Total	ACCA	CPA	ICAEW	ICAI	ICAS
Complaints open at 1 January 2019	277	20	5	143	104	5
New cases arising during the year	235	28	10	137	53	7
Outcome of cases closed:						
Adverse finding was made (including consent order)	-58	-7	-3	-30	-15	-3
No case to answer found	-125	-5	-2	-81	-30	-7
Closed as out of scope	-18	-3	0	0	-15	0
Closed by rest on file	-2	-1	-1	0	0	0
Closed by conciliation	-9	-8	-1	0	0	0
Other	-4	0	0	0	-4	0
Total closed in 2019	-216	-24	-7	-111	-64	-10
Complaints open at 31 December 2019	296	24	8	169	93	2

Chapter 3: Functions performed by the recognised accountancy bodies

2019 RAB oversight activities

Overview

The following is a summary of the oversight carried out by IAASA on the functions performed by the RABs during 2019:

- In 2019, one supervisory visit report was issued to a RAB relating to investigation and disciplinary arrangements.
- The on-site work was concluded for two supervisory reviews in relation to the system for approval and registration of statutory auditors and audit firms. The supervisory visit reports will issue in 2020.
- The on-site work was concluded for one supervisory review relating to investigation and disciplinary arrangements. The supervisory visit report will issue in 2020.
- A thematic report was issued to the five RABs arising from the review of the system of continuing professional development in the PABs.
- Review and approval of changes proposed by the RABs to 32 constitutional documents and guidance documents.
- Periodic meetings were held with the RABs throughout the year.
- Engagement with the RABs in relation to:
 - their compliance with obligations set out in Irish legislation;
 - their compliance with the General and Exemptions Guidelines, which both became effective from 1 April 2019; and
 - obtaining a compliance statement from the RABs for 2019, as required under the General Guidelines issued by IAASA.
- There was also engagement with the RABs in relation to audit firm ownership criteria and the necessity for a majority of members on the management body of an audit firm to be eligible to be statutory auditors. This resulted in amendments to a number of the RABs' regulations as well as consequential implications for a number of audit firms' ownership structures or registrations in Ireland.

Brexit

Contribution to Brexit preparations continued throughout 2019. There was on-going engagement with various stakeholders about the potential changes arising from Brexit.

Overview of supervisory visits

Supervisory visits took place to two of the RABs (ICAI and ICPAI) as outlined above.

The Authority makes recommendations to ensure that matters noted during supervisory visits are appropriately dealt with. In doing so, the Authority liaises with the RAB concerned to take account of any concerns the body has with their ability to implement its recommendations. IAASA follows up on the status of the implementation of recommendations during review meetings or at other periodic engagement with the RABs.

Chapter 3: Functions performed by the recognised accountancy bodies

Thematic review of CPD arrangements

A desktop review focused on the RABs' CPD arrangements was completed in 2019. Supervisory expectations relating to CPD standards, monitoring and enforcement were communicated to the RABs and specific findings for each body were communicated individually. Supervisory expectations were issued for the following areas:

- RAB CPD standards, including exemptions from CPD;
- governance of the CPD function;
- management information;
- monitoring and enforcement relating to CPD requirements; and
- managing member non-compliance with CPD requirements.

Supervisory engagement

Periodic meetings with the RABs addressed standard engagement matters such as:

- status updates on open action points and recommendations arising from review meetings and supervisory visits;
- implementation of the provisions of the Companies (Statutory Audits) Act 2018; and
- discussions on relevant regulatory matters and developments.

Referral to enforcement unit

Where complaints received by the Authority indicate possible significant breaches of a RAB's investigation and disciplinary procedures, such matters are referred to the Authority's enforcement unit. During 2019, two complaint file reviews of a RAB's handling of investigation and disciplinary matters were conducted and referred to the enforcement unit.

Referral to other bodies

In 2019, IAASA noted two instances of potential breaches of the Act through its review of auditor cessation notification documents. These matters were referred to the Office of the Director of Corporate Enforcement.

2020 work programme priorities – oversight of the RABs

During 2020, the Authority intends to carry out supervisory visits to selected RABs focusing on investigation and discipline, auditor approval and registration, and quality assurance systems. The Authority will 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 open prior-year recommendations and agreed actions in respect of the RABs' regulatory functions. During 2020, IAASA will continue to respond to the impact of Brexit on its remit including through continued engagement with relevant stakeholders.

Appendix 1

Table of key recommendations
arising from the inspection of
audits of PIEs

Appendix 1:

Table of key recommendations arising from the inspection of audits of PIEs

Audit Area	Recommendation
The auditor's report should:	<ul style="list-style-type: none">· Use clear and unambiguous language.· Be dated on the actual date that the auditor's report is signed.· Be dated no earlier than the date on which sufficient appropriate audit evidence has been obtained regarding subsequent events.
For key audit matters included in the auditor's report, auditors should:	<ul style="list-style-type: none">· Evidence the rationale for including key audit matters in the auditor's report consistently throughout the audit file.· Ensure the audit file evidences the procedures described in the key audit matter.· Evidence completion of those audit procedures that have been communicated to those charged with governance as having been performed to address key audit matters.
Throughout audits, auditors should:	<ul style="list-style-type: none">· Maintain sufficient professional scepticism.· Ensure that materiality is considered when forming conclusions based on procedures performed.· Ensure that subsequent events are performed up to the date of the auditor's report.
Where there are significant risks, auditors should:	<ul style="list-style-type: none">· Ensure that risks are documented in a consistent manner throughout the audit file, including those risks communicated to those charged with governance.· Evaluate the design and implementation of controls relating to significant risks, and evidence procedures to understand all of the controls in place throughout end-to-end processes for significant risks.
In addressing the risk of management override of controls, auditors should:	<ul style="list-style-type: none">· Evidence their understanding of the systems and related business processes relevant to the financial reporting of the PIE.· Where applicable, evidence the basis for not assigning fraud risk at the assertion level for classes of transactions, account balances, and disclosures.· Disclose in the auditor's report the procedures performed in response to the most significant assessed risks of material misstatement and ensure that those procedures stated in the auditor's report as having been performed in response to the risk of management override of controls are evidenced on the audit file.
In auditing accounting estimates, audit files should evidence:	<ul style="list-style-type: none">· Identification and evaluation of the significant assumptions used by management in determining accounting estimates that give rise to significant risks.· Evaluation of whether management has used an expert.· Evaluation of whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates, and if so, why.· Evaluation of whether and, if so, how management has assessed the effect of estimation uncertainty.· Evaluation of whether the judgements and decisions applied throughout the estimation process, even if they are individually reasonable, indicate a possible bias on the part of the entity's management.· Where applicable, if testing how management made the accounting estimate, evaluation of the models used in determining accounting estimates.
When placing reliance on the work of a management's expert, auditors should:	<ul style="list-style-type: none">· Evaluate the competence, capabilities and objectivity of that expert.· Understand the work of management's expert, evaluate the work of the expert and the appropriateness of that expert's work.· Evidence the resolution of any issues identified in the management's expert's work.· Evaluate the completeness and integrity of the data used by management's expert in determining an accounting estimate.

Appendix 1:

Table of key recommendations arising from the inspection of audits of PIEs

Audit Area	Recommendation
When using an auditor's expert, the engagement file should evidence:	<ul style="list-style-type: none"> • The auditor's understanding of the field of expertise of the auditor's expert and the auditor's evaluation of whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. • The auditor's communication with the auditor's expert agreeing the scope, nature and objectives of the expert's work. • Procedures to evaluate the relevance of the auditor's experts' work. • Evaluation of the adequacy of the auditor's expert's work for the auditor's purposes, including: evaluation of the relevance, completeness, and accuracy of source data that is significant to the auditor's expert's work and evaluation of any limitations in information available to the auditor's expert.
In performing analytical procedures, auditors should:	<ul style="list-style-type: none"> • Evidence whether the analytical procedures identified the existence of unusual transactions or events, and amounts, ratios, and trends that might indicate matters that have audit implications. • Perform analytical procedures near the end of audits with the objective of assessing whether the financial statements are consistent with their understanding of the entity.
In evaluating financial statement disclosures, audit files should evidence:	<ul style="list-style-type: none"> • Review of financial statements for compliance with the financial reporting framework. • Evaluation of whether all required disclosures are made in the financial statements and assessment of the appropriateness of the information presented. • Substantive procedures for each material class of transactions, account balance and disclosure.
Where misstatements are identified, auditors should:	<ul style="list-style-type: none"> • Project misstatements found in the sample to the population being tested. • Accumulate the misstatements identified during audits. • Evidence communication of the corrected and uncorrected misstatements to those charged with governance.
In performing journal entry testing, auditors should:	<ul style="list-style-type: none"> • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Obtain sufficient evidence regarding the completeness and accuracy of the journal entries population used to select the sample. • Test journal entries and other adjustments made at the end of the reporting period. • Evidence procedures to test automated journals. • Evidence investigations where unusual items are identified and retain evidence of their assessment of management's explanations for samples of journal entries tested.
When designing procedures regarding the completeness and accuracy of information produced by the entity, auditors should:	<ul style="list-style-type: none"> • Evaluate whether the information is sufficiently precise and detailed for the auditor's purposes. • Obtain sufficient evidence about the completeness and accuracy of the information. • Evaluate the origin of system generated information and assess the completeness and accuracy of any system generated information that is relied upon.
Audit files should include the following in relation to audit evidence:	<ul style="list-style-type: none"> • The source of the audit evidence. • Procedures performed to corroborate that the audit evidence was obtained from a reliable and independent source. • In cases where documents are important in supporting the auditor's report, these documents should be retained as part of the audit file.
In assessing significant events, auditors should evidence:	<ul style="list-style-type: none"> • Assessment of the impact of such events. • Evaluation of whether the financial statements disclosures enable users to understand the effect of material transactions and events on the information conveyed in the financial statements.
Communications to those charged with governance:	<ul style="list-style-type: none"> • Should be consistent with the audit file and financial statements. • Where communications are made orally, a record should be retained of items discussed, who they were discussed with and the dates the discussions occurred.

Appendix 1:

Table of key recommendations arising from the inspection of audits of PIEs

Audit Area	Recommendation
When placing reliance on information generated from IT systems, auditors should:	<ul style="list-style-type: none">· Evidence their assessment of prior year IT observations and/or findings that were communicated to management.· Evidence the scope of the IT audit work and document any deviations from the planned scope.· Review the interface and data flow scoping and identify any gaps within the system testing where neither the engagement team nor the group auditors have performed sufficient procedures to address the relevant audit risks. Appropriate procedures should be designed and performed to address any gaps identified.· Where an IT control is deemed to be ineffective, assess the effectiveness of the controls identified as mitigating controls and evaluate how the controls identified as mitigating controls fully mitigate the risk and objective of the control deemed to be ineffective.· Test the IT system controls for the entire period in scope. Where interim controls testing is performed, evidence evaluation of whether there had been significant changes to the IT system controls post interim controls testing.· Retain sufficient audit evidence for each item in IT control samples.
Archiving:	<ul style="list-style-type: none">· Audit files should be archived within the time period required by auditing standards.
In evidencing review of audit files, auditors should ensure the following:	<ul style="list-style-type: none">· The audit file demonstrates appropriate levels of review.· EQC review of relevant workpapers is performed and evidenced before the signing of the auditor's report.
When evaluating control activities relevant to the audit, auditors should:	<ul style="list-style-type: none">· Consider whether inquiry alone was sufficient to confirm that the controls were operating effectively during the remaining period of the year after the interim period controls were tested.· Where a service organisation control report is being relied upon, ensure that there is sufficient and appropriate audit evidence on file for the period not covered by the report.
In reviewing a going concern assumption, auditors should:	<ul style="list-style-type: none">· Evidence the information considered in assessing the risks associated with the going concern assumption.· Where applicable, evidence how minutes from relevant meetings were considered as part of the assessment of the going concern assumption.
For group audits, auditors should:	<ul style="list-style-type: none">· Consider the professional competence of component auditors, whose audit work they plan to use.· Where applicable, ensure that the audit file includes sufficient evidence of how the engagement team reviewed and evaluated the work performed by the component auditor.· Where applicable, evidence that the component team has obtained reliable audit evidence and that information produced by the entity was sufficiently complete and accurate.· Where applicable, evidence how the engagement team reviewed and evaluated the work performed by the component auditor's specialist.· Evidence procedures performed by the component team in testing key financial systems and assessment by the group audit team of the work performed by the significant components in this regard.



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