

2020

Annual Audit Programme and Activity Report

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 2020 Annual Audit Programme and Activity Report. This report summarises the activities performed by the Authority during 2020 in its oversight of the audit profession in Ireland.

The Irish Auditing and Accounting Supervisory Authority (IAASA) is the competent authority responsible for the public oversight of statutory auditors in Ireland. IAASA's statutory functions include the quality assurance review of auditors of public-interest entities (PIEs) and the oversight of the recognised accountancy bodies who supervise auditors of all other entities.

Outcomes from IAASA's work on the public oversight of statutory auditors in 2020 included:

- inspection of seven PIE firms by reviewing 23 audits and four internal control areas
- publication of reports on the quality assurance reviews of seven PIE firms
- conclusion of a statutory investigation into poor quality audit work by one PIE firm on two PIE audits
- completion of seven joint inspections between IAASA's Audit Quality Unit and IAASA's Financial Reporting Supervision Unit
- hosting a breakfast briefing for audit committees
- issuance of thematic reports on the International Standard on Auditing (Ireland) 701 and on the International Standard on Auditing (Ireland) 540
- penning two articles that were published in a professional magazine on:
 - the evolving role of quality control in audit
 - delivering audit value with data analytics
- completion of four supervisory visits to three of Ireland's recognised accountancy bodies
- issuance of draft guidelines on:
 - CPD requirements for statutory auditors
 - investigations and disciplinary function for RABs

This report provides useful insights into IAASA's work in overseeing the audit profession, explaining the oversight activities relating to audit quality. For further information about the full range of IAASA's regulatory and supervisory activities, please refer to IAASA's website.

Kevin Prendergast

Chief Executive Officer

4 May 2021

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 2021 are also outlined.

Resources

In 2020, there were eight audit inspectors and one administrative executive in IAASA's Audit Quality Unit. The Audit Quality Unit was overseen by IAASA's Head of Operations. At 31 December 2020, there was one vacancy for an Audit Inspector, this vacancy was filled in the first quarter of 2021.

Funding

IAASA's Audit Quality Unit is funded through 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. The standing charge does not vary across PIE firms. 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 2020 levy and its allocation across the PIE firms are provided in IAASA's financial statements, which will be available on IAASA's website.

Overview of Ireland's public-interest entity audit market

Statutory audit

A statutory audit is an audit of financial statements required by law. An auditor expresses an opinion on whether the financial statements are prepared in accordance with the relevant reporting framework. The purpose of statutory audit is to enhance users' confidence in the financial statements.

A statutory auditor or audit firms carrying out statutory audits must be approved by a recognised accountancy body. The Companies Registration Office (CRO) maintains the register of statutory auditors and audit firms in Ireland on its website (www.cro.ie). At 31 December 2020, there were 1,491 audit firms approved to carry out statutory audits in Ireland. Further details on the approval of statutory auditors and audit firms is set out in chapter 3.

1.4.2 Public-interest entities and their auditors

The term public-interest entity (PIE) is defined in the Companies Act 2014. PIEs are:

- entities with securities listed on an EU regulated stock exchange
- credit institutions
- insurance undertakings

Chapter 1: Quality assurance review of PIE firms

Further guidance on the definition of a PIE is available in IAASA's Audit Quality Unit's FAQs, available [here](#).

Any statutory auditor or audit firm 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 2020, IAASA was notified of eight PIE firms (2019: nine), auditing 677 PIEs (2019: 723).

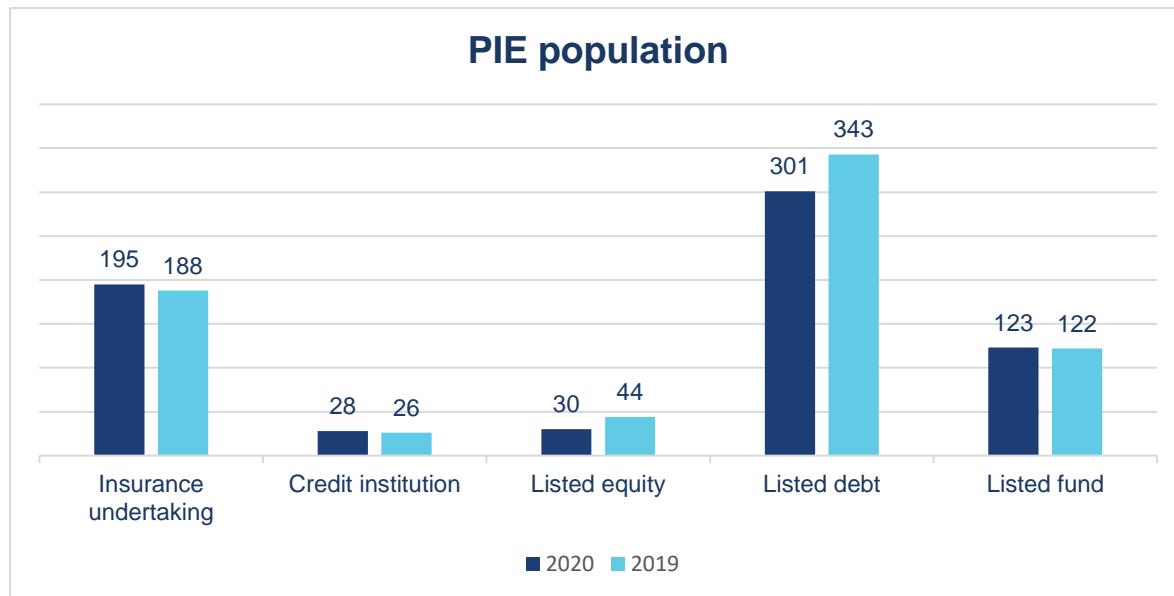
These PIE firms were:

- BDO
- Deloitte
- 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 was subject to oversight by the UK competent authority in 2020. It did not provide the Authority with an annual return in 2020 and information about this PIE firm is not included in the remainder of this chapter.

Each PIE firm must 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 and to select audits of PIEs for inspection by the Authority.

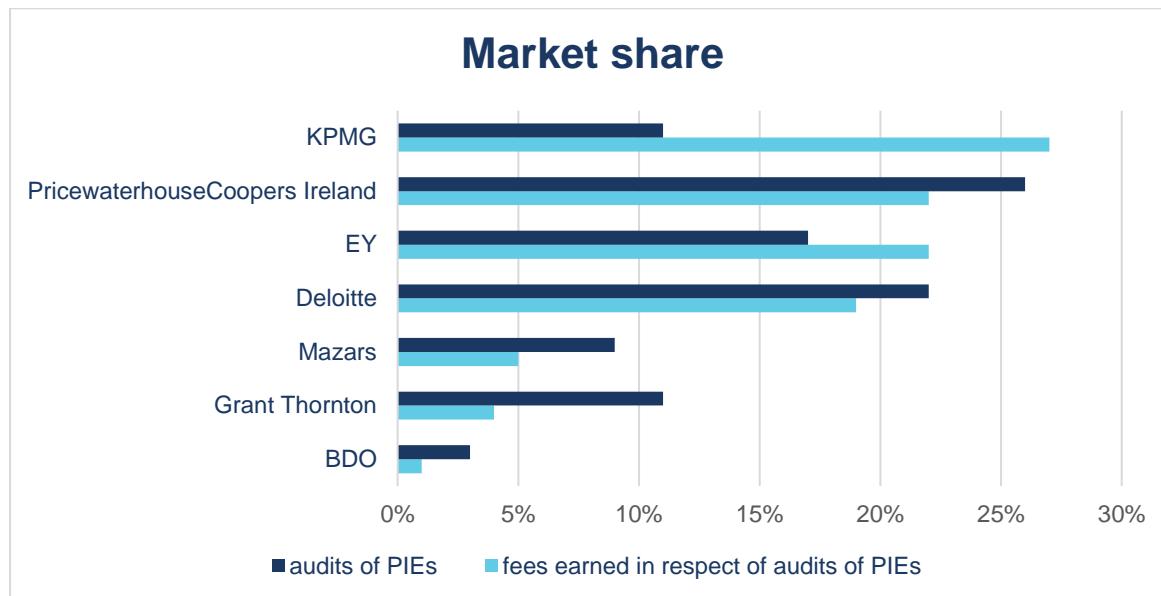
The charts below show the number of audits of PIEs based on the above PIE firms' most recent annual returns and the market share of each PIE firm.



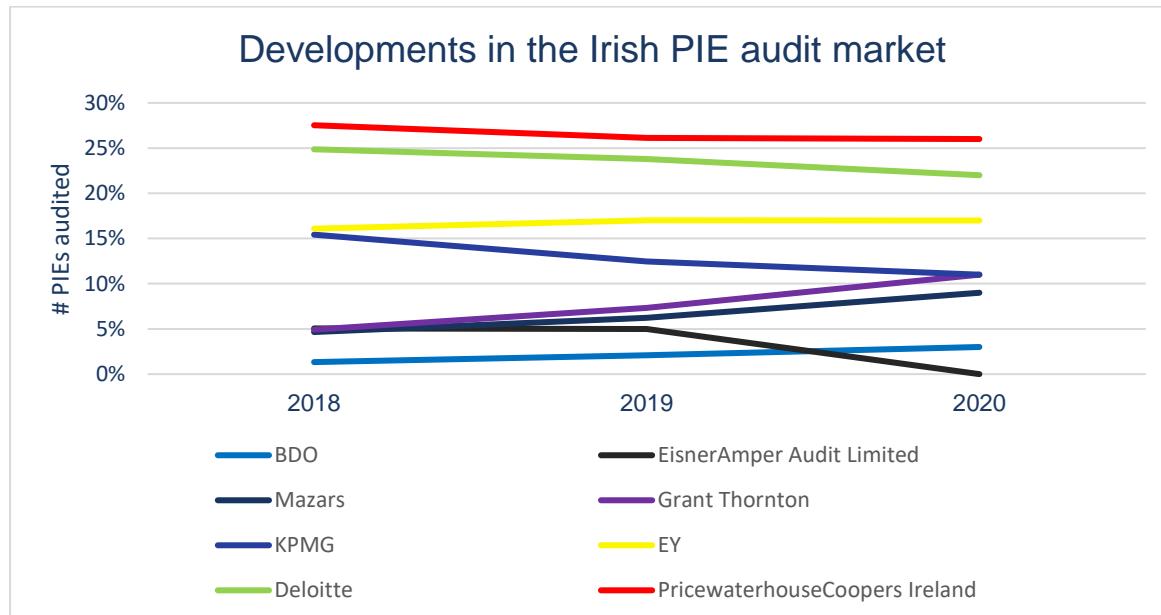
Chapter 1: Quality assurance review of PIE firms

In 2020, four audit firms (Deloitte, EY, KPMG and PricewaterhouseCoopers Ireland) audited approximately 76% of PIEs (2019: 79%) and earned approximately 90% of the related fees (2019: 94%).

The chart below illustrates the market share of each of the seven PIE firms in Ireland, showing the number of PIEs audited by each PIE firm in 2020 and the fees earned by each Firm in respect of these audits of PIEs.



The chart below illustrates the developments in the Irish market in relation to number of audits of PIEs performed by each PIE firm since 2018. The chart shows that each of the 'Big 4' PIE firms has consistently audited more than 10% of the PIEs in the last three years. EisnerAmper Audit Limited audited approximately 5% of the PIEs in 2018 and 2019 but resigned from its PIE audits during 2020.



Chapter 1: Quality assurance review of PIE firms

IAASA's quality assurance review process

Purpose of a quality assurance review

The purpose of IAASA's quality assurance review process is to assess the effectiveness of a PIE firm's system of quality control.

A quality assurance review:

- assesses the design of the firm's system of quality control
- performs compliance testing around the implementation of the firm's procedures
- evaluates the quality of a sample of audits of PIEs

The quality assurance review process is not designed to identify all weaknesses that may exist in a firm's system of quality control. Ultimate responsibility for audit quality rests with the statutory auditor issuing an audit opinion.

Assessment of a firm's system of quality control

Assessing the design of a firm's system of quality control involves a review of the firm's policies and procedures and their impact, if any, on audit quality. Compliance testing involves a review of a firm's implementation of its policies and procedures.

Over a three year period, IAASA reviews the 13 areas listed below, with a selection of the areas listed below reviewed each year.

- tone at the top
- ethics and independence
- acceptance and continuance
- partner evaluation, compensation and promotion
- staff evaluation, compensation and promotion
- methodology
- training
- consultations
- engagement quality control reviews
- other quality control reviews
- internal monitoring

Selection of a sample of audits of PIEs

IAASA selects a sample of audits of PIES for inspection using a risk-based approach. For each audit inspected, IAASA evaluates the sufficiency and quality of audit evidence across a number of selected audit areas.

The sample size selected for each firm is driven by factors, such as the number of PIEs audited by a firm, the results of previous inspections relating to the firm, any significant changes in a firm's market share or type of PIE audited by the firm.

Chapter 1: Quality assurance review of PIE firms

IAASA then uses a risk selection model. The risk selection model applies many factors and weights the factors where appropriate. These factors include:

- PIE type
- PIE size
- facts which come to the attention of IAASA relating to an EU PIE such as public announcements by the company or matters on public record
- audit fees, non-audit fees, year on year changes in audit fees
- the PIE firm's experience of auditing the specific PIE type
- previous audit quality referrals, if any, to IAASA's Enforcement Unit

In selecting a sample of audits of PIEs for inspection, IAASA also considers factors that are not within the risk selection model. Such factors can include media coverage and complaints as well as matters identified by IAASA's Financial Reporting Supervision Unit and other pertinent matters. The Authority also assigns a higher risk rating to PIE firms where previous inspection results were weak.

IAASA's risk based approach allows for audits with particular complexities to be selected, as well as audits that have a higher risk. The audits of PIEs inspected by IAASA are not representative of the PIE audit population. For this reason, IAASA's inspection results cannot be extrapolated to make inferences about audits that have not been inspected.

Inspection procedures for audits of PIEs

In evaluating the quality of an audit of a PIE, IAASA considers the sufficiency and quality of audit evidence across a number of selected audit areas. The audit areas reviewed are selected at the discretion of IAASA, taking into consideration specific risks related to the PIE as well as areas of focus for IAASA.

Where there are matters that are relevant both to IAASA's Financial Reporting Supervision Unit and IAASA's Audit Quality Unit, a joint inspection is performed.

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

IAASA's recommendations

Where the Authority notes non-compliance with legislation, standards or a firm's policies, a finding is raised. For each finding, the Authority sets out its recommendations. The recommendations detail the actions required of the firm to remediate deficiencies or implement improvements going forward.

PIE firms are required by law to implement the Authority's recommendations within 12 months and the Authority is required to impose a sanction on PIE firms that fail to do so. Within 12 months of the date of the Authority's recommendations, PIE firms are required to provide the Authority with a written submission detailing the actions taken to implement them. The Authority undertakes follow-up procedures to ensure that the Authority's recommendations have been appropriately implemented within 12 months.

Chapter 1: Quality assurance review of PIE firms

IAASA's rating and grading policy

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

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).

Further details on IAASA's rating and grading policy are set out in the Appendix.

Referral to IAASA's Enforcement Unit

Where the Authority suspects possible significant breaches of standards or possible contraventions of legislation by a statutory auditor, the matter is referred to IAASA's Enforcement Unit. In these cases, the Audit Quality Unit issues recommendations in the usual manner and the PIE firm is required to implement the recommendations within 12 months.

Chapter 2 in this report explains the process followed by IAASA's Enforcement Unit.

Reporting

Each year, IAASA issues a report on the quality assurance review of each PIE firm. The purpose of the report is to communicate the deficiencies identified through the quality assurance review and the recommendations arising.

The report on the quality assurance review includes:

- a brief overview of the PIE firm
- an explanation of the quality assurance review process
- an explanation of the scope of IAASA's quality assurance review
- an overview of IAASA's findings
- the results of the quality assurance review, including findings and recommendations on the firm's system of quality control and a summary of audits of PIEs expected
- the results of follow-up procedures

Chapter 1: Quality assurance review of PIE firms

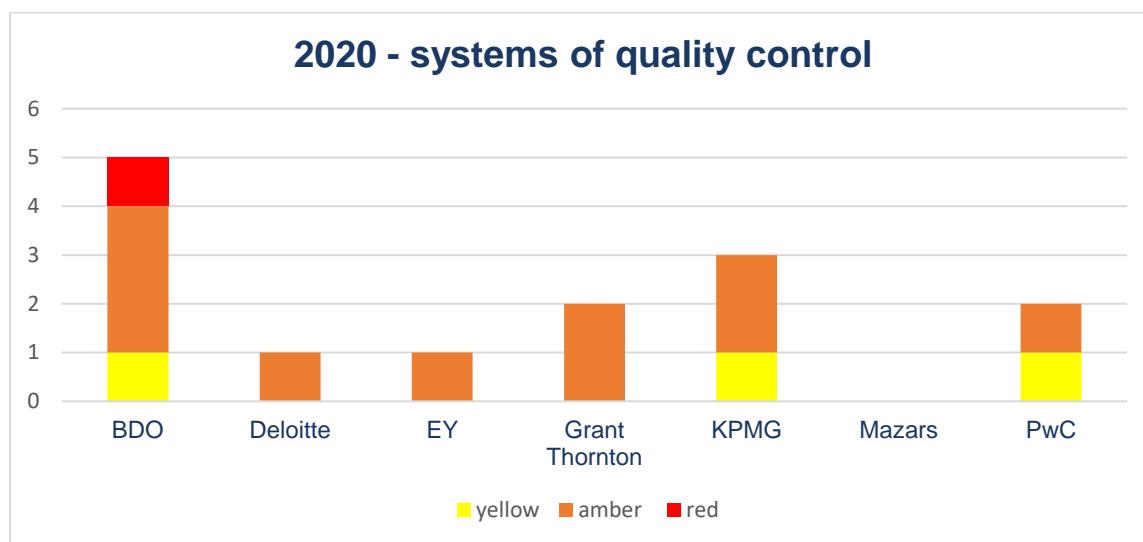
IAASA's 2020 quality assurance review activity

Inspection of PIE firms' systems of quality control

In 2020, the quality assurance review assessed the design of the system of quality control in four areas.

- ethics and independence
- acceptance and continuance
- documentation
- complaints and allegations

The Authority raised 14 findings across the areas reviewed in 2020, with findings identified in six of the seven PIE firms.



The quality assurance review report for each of the seven PIE firms explains the background to each finding and the issue identified by IAASA. Each quality assurance review report also explains IAASA's recommendations for each finding on the firm's system of quality control, setting out how IAASA expects the firm to remediate deficiencies or implement improvements going forward. The 2020 quality assurance review reports for these firms are published on the Authority's [website](#).

Findings were most frequently identified in the area of ethics and independence, with findings also identified in the areas of acceptance and continuance and documentation. The severity of findings on PIE firms' systems of quality control in 2020 ranged between yellow (minor deficiency) and red (significant deficiency).

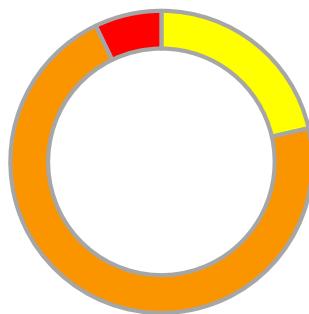
Chapter 1: Quality assurance review of PIE firms

2020 findings - areas



- ethics and independence
- acceptance and continuance
- documentation

2020 findings - severity



- Yellow
- Amber
- Red

Across the 'Big 4' firms, the Authority noted a common finding. Each of these firms has a policy that requires partners and staff to record their financial interests in an internal independence tracking system. The firms use the information in this system to monitor compliance with their policies around personal independence. The firms' policies around personal independence are more stringent than the requirements in the ethical standards. The firms' internal checks noted that some partners and staff were not reporting their financial interests in a timely manner. IAASA assigned an amber rating to this finding across each of the four firms. IAASA notes that the four firms have each taken actions to improve timely reporting of personal financial interests. The Authority has recommended that the firms continue to monitor the effectiveness of these actions. This matter was not identified in the other three PIE firms. The systems used by the other three PIE firms to record personal financial interests are less complex.

The Authority also identified that, in one PIE firm, there were significant deficiencies in the communications to those charged with governance for a number of PIEs around the firm's provision of non-audit services to those PIEs. The Authority assigned a red rating to this finding and recommended that the Firm only communicates fees, threats and safeguards in respect of non-audit services that were provided. The Authority further recommended that where the Firm provides non-audit services to audit clients, the estimation of the effect on the audited financial statements is comprehensively documented and explained in the additional report to the audit committee.

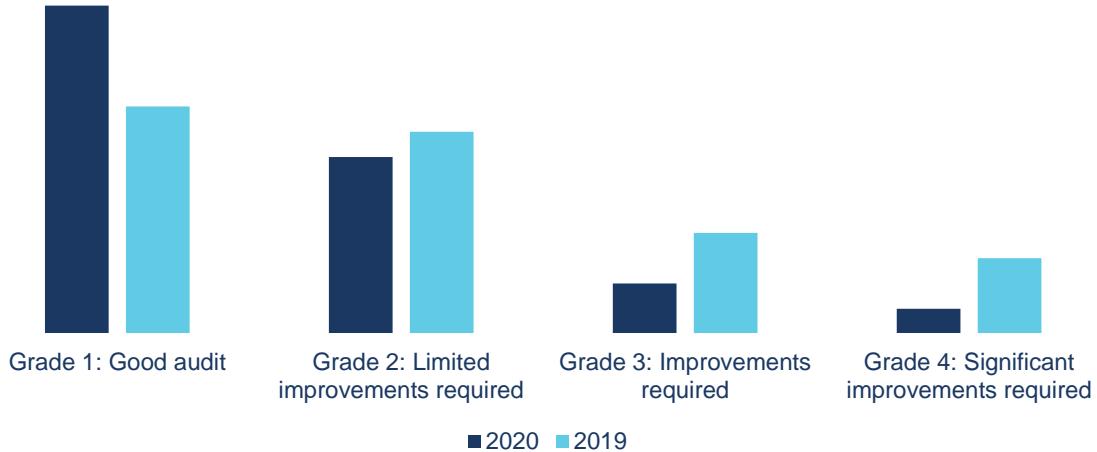
Inspection of audits of PIEs

The Authority reviewed 23 audits of PIEs across seven PIE firms. The number of audits of PIEs reviewed in each of the seven PIE firms varied between one and five. The financial statements for seven of the PIEs reviewed were also reviewed by IAASA's Financial Reporting Supervision Unit.

The graph below shows the grades assigned to the 23 audits of PIEs inspected. 87% of audits of PIEs inspected across the eight firms were assigned a grade of 2 or higher, indicating that audit quality was of a good standard. For the 9% of audits inspected that were assigned a grade of 3, there were more substantial issues. One audit was assigned a grade of 4 and required significant improvement.

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Grading of PIE audits



The key recommendations arising from inspection of audits of PIEs in 2020 are set out in the quality assurance reports of each PIE firm, available [here](#).

The table below sets out some of IAASA's recurring key recommendations.

Audit area	IAASA's recommendations
Audit planning	<p>Auditors should retain evidence to demonstrate the performance of all relevant pre-audit activities and risk assessment procedures. Sufficient documentation should be retained to evidence planning meetings involving the engagement partner and other key members of the audit team.</p> <p>Auditors should ensure that they identify and assess the risks of material misstatement at the assertion level in relation to all identified key audit matters.</p>
Communications with those charged with governance	<p>Communications between the auditor and those charged with governance should accurately reflect the work performed by auditors and evidenced on the audit file.</p> <p>All key audit matters identified in the auditor's report should be communicated to those charged with governance.</p>
Group audit	Group engagement teams should retain sufficient evidence to demonstrate how they have evaluated and reviewed the work performed by component auditors. Audit files should include sufficient information

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to demonstrate the matters considered by the group engagement team in forming their conclusions.

Journal entry testing	Auditors should obtain and retain sufficient evidence in respect of journal entry testing. The auditor's conclusions should clearly reflect the results of the journal entry tests. Auditors should clearly evidence their reconciliation of the underlying journal entry population to the trial balance. Audit files should include sufficient evidence of the testing performed to evaluate the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. Auditors should also evidence how they have applied professional scepticism in evaluating the output of statistical analyses.
Revenue recognition	A group audit file should retain sufficient evidence to demonstrate the group engagement team's review of the workpapers prepared by significant component auditors in the area of revenue recognition.

Follow-up on recommendations

The Authority reviewed all submissions received from PIE firms explaining the actions taken to implement IAASA's recommendations and performed follow-up procedures, where necessary. The Authority is satisfied that all recommendations made to the PIE firms in 2019 were appropriately implemented in 2020.

Referral to IAASA's Enforcement Unit

Where the Authority suspected possible significant breaches of standards or possible contraventions of legislation by a statutory auditor, the matter was referred to IAASA's Enforcement Unit for consideration for investigation. IAASA's 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 were referred are misstated.

Chapter 2 gives further detail on the investigations conducted by IAASA in relation to statutory auditors of PIEs.

Referral to other bodies

During 2020, IAASA noted two instances of potential breaches of company law. Both matters were referred to Office of the Director of Corporate Enforcement for consideration. One of the matters was also referred to the relevant recognised accountancy body. The other matter was also referred to the Companies Registration Office.

Chapter 1: Quality assurance review of PIE firms

Publication of quality assurance review reports

In March 2020, IAASA published quality assurance review reports in respect of eight PIE firms for the first time. Each of the reports summarised IAASA's findings arising from the 2019 quality assurance reviews of the PIE firms, detailing any improvements required in the firms' systems of quality control and IAASA's recommendations. The reports also provided a summary of the audits of PIEs inspected by the Authority in 2019 and the grade that was assigned to each of the audits inspected. The reports were published in March 2020 and are available on IAASA's website [here](#).

The results of the 2020 quality assurance reviews in respect of seven PIE firms were published by the Authority in March 2021 and are available on IAASA's website [here](#).

Response to Covid-19

During 2020, the Covid-19 pandemic had a significant impact on entities as well as their auditors. Both entities and their auditors needed to rapidly adjust in response to the restrictions on movement and travel. This resulted in major changes to how business and audits are carried out. The changes happened in a way which meant that entities and their auditors were unable to plan and put arrangements in place initially. The situation continued to evolve rapidly during the year with increasing uncertainties around the future impact on businesses. All of these factors led to challenges by entities in preparing their financial statements and challenges for auditors in obtaining sufficient appropriate audit evidence.

The Authority's expectation is that the requirements of the auditing standards continue to apply. Auditors are required to obtain sufficient appropriate audit evidence to form an opinion on the financial statements. Auditors need to assess whether sufficient appropriate evidence can be obtained in the pandemic environment. The nature of audit evidence and mechanism of obtaining it may differ substantially from approaches taken in the past. Some procedures previously performed will no longer be feasible or practical. Situations may arise where it is simply not possible to perform certain audit procedures. In those instances, auditors will be required to assess the impact of this on the opinion in the auditor's report.

In March 2020, the Authority commenced a series of roundtable discussions with PIE firms regarding the impact of Covid-19. The Authority noted the importance of keeping lines of communication open with the audit firms to understand the challenges faced by them in implementing the auditing standards in a complex pandemic environment. The Authority also noted the value of a roundtable discussion between PIE firms to discuss common issues and challenges and achieve a degree of consistency in the response to these challenges and issues. The Authority also created a Covid-19 hub to share relevant publications from various regulatory bodies.

In response to Covid-19, the quality assurance review process transitioned to remote inspections. The Authority noted that the PIE firms engaged well with the remote inspection process and there was no disruption to the planned inspection schedule for 2020.

Supporting high standards in audit of PIEs

In September 2020, the Authority hosted a breakfast briefing for audit committees. The discussion focussed on topics such as the regulatory landscape at an Irish and European level, IAASA's

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functions, the changing role of audit committees and the experiences of audit committees in their interaction with audit regulators.

In November 2020, the Authority hosted a roundtable discussion with seven PIE firms. The discussion focussed on topics such as IAASA's thematic observations, IAASA's investigation process, Covid-19 implications for auditors and IAASA's plans to enhance the quality assurance review process by further engaging with audit committees in 2021.

In 2020, the Authority issued thematic reports on the International Standard on Auditing (Ireland) 701 and on the International Standard on Auditing (Ireland) 540.

The Authority's staff also wrote articles posted in the Accountancy Ireland publication. These articles discussed quality control in audit firms and delivering audit value with data analytics.

International cooperation

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. During 2020, IAASA joined the consultative group of the CEAOB, which supports the Chair of the CEAOB.

IAASA's position as Chair of the Market Monitoring Subgroup expired during 2020 and the Irish Chair was successfully reappointed for a second term.

IAASA's international engagement normally involves several physical meetings per year. In 2020, many of these meetings took place virtually, albeit with shorter agendas than usual given the difficulties with coordinating time-zones and recognising the constraints of virtual platforms.

Third country auditors

A third country auditor is an auditor who issues an audit opinion in relation to an entity not incorporated 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 2020, IAASA renewed the full registration of seven (2019: 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.

In addition, IAASA engaged with UK auditors in preparation for Brexit to ensure that applications from UK auditors could be processed efficiently.

Chapter 1: Quality assurance review of PIE firms

2021 work programme priorities

Quality assurance reviews

In 2021, a key priority for the Authority is to continue to engage with PIE firms to address the challenges arising from the Covid-19 pandemic. The situation continues to evolve rapidly with ongoing uncertainties and challenges for entities and their auditors.

In light of the challenges brought by the Covid-19 pandemic, the Authority will continue to work with the PIE firms to ensure that the quality assurance process continues off-site. The Authority intends to return to on-site engagement once it becomes safe to do so.

The Authority plans to continue 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 2021, the Authority published the 2020 quality assurance review reports in respect of seven PIE firms and a thematic review on PIE firm transparency reporting.

In 2021, the Authority reached its full staff complement of nine audit inspectors. In 2021, IAASA will continue to perform quality assurance reviews across the seven PIE firms. The Authority intends to inspect five areas of each PIE firms' systems of quality control:

- methodology
- training
- consultations
- monitoring
- other quality control reviews

IAASA intends to continue to apply a risk-based approach in selecting audits of PIEs for inspection. In 2021, IAASA will expand the scope of the inspection of some audits of PIEs to include an interview with the chairperson of the PIE's audit committee.

IAASA will also continue its follow-up procedures to determine whether the recommendations from the 2020 quality assurance reviews are appropriately implemented.

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. IAASA will chair the meeting of the CEAOB Inspection Sub-group in June 2021; this event will be hosted through a virtual platform.

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.

Chapter 2

Enforcement

Chapter 2: Enforcement

Introduction

Investigations are undertaken by IAASA's Enforcement Unit against audit firms and auditors of public-interest entities. IAASA may also undertake investigations of possible breaches of a recognised accountancy body's standards by a statutory auditor, such investigations will be undertaken by IAASA if it is appropriate or in the public interest to do so.

This chapter outlines the Authority's work in investigating into possible contraventions of applicable law or a recognised accountancy body's standards by statutory auditors. The chapter also summarises the Authority's international cooperation related to enforcement. Work programme priorities for IAASA's Enforcement Unit in 2021 are also outlined.

Resources

At 31 December 2020, IAASA's Enforcement Unit had one Senior Enforcement Counsel. The unit is overseen by IAASA's Chief Executive.

Funding

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

Enforcement against auditors and RABs

IAASA has a range of powers to gather evidence. A person may be required to produce documentation or attend before the Authority to answer questions on oath. A person may also be required to give the Authority any other assistance, which that person is reasonably able to give, in connection with an investigation by the Authority.

Statutory auditors and audit firms

Under section 934 of the Companies Act 2014, IAASA can take enforcement action in response to a breach of RAB standards or a contravention of legislation.

Breach of RAB standards

Section 934 of the Companies Act 2014 sets out that IAASA may undertake investigations of possible breaches of a recognised accountancy body's (RAB) standards by a statutory auditor. IAASA may investigate such 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, IAASA may impose any sanction to which a statutory auditor would have been liable under the constitution and byelaws of the RAB.

Chapter 2: Enforcement

Contravention of legislation

Section 934 of the Companies Act 2014 sets out that IAASA may undertake investigations of possible contraventions of legislation by a statutory auditor. If IAASA determines that there has been a contravention of legislation by a statutory auditor, sanctions may be imposed. Sanctions that may be imposed by the Authority include a temporary ban on a statutory auditor from carrying out statutory audits, a declaration that an audit report does not meet certain requirements, and financial sanctions.

Accountancy bodies

Under section 933 of the Companies Act 2014, IAASA may conduct enquiries into whether a prescribed accountancy body has complied with its approved investigation and disciplinary procedures and, where appropriate, impose sanctions. Also under section 933, IAASA may also conduct enquiries into whether a RAB has complied with its statutory obligations. IAASA may also impose sanctions in relation to these enquiries.

More details on IAASA's Enforcement Unit are available on IAASA's website [here](#).

IAASA's 2020 enforcement activity

During the year, IAASA continued to develop its processes and procedures in the conduct of investigations under section 934 of the Companies Act 2014. A revised Statutory Instrument was enacted in January 2020. The revised Statutory Instrument allows the Authority's Enforcement Unit to commence the initial investigation phase, improving the efficiency of the Authority's enforcement process.

The table below summarises IAASA's enforcement activity in 2020. The table shows IAASA's investigations in relation to possible contraventions of legislation or breaches of a RAB's standards by a statutory auditor under section 934 of the Companies Act 2014 (section 934 investigations). The table also shows IAASA's enquiries under section 933 of the Companies Act 2014.

	Section 934 investigations	Section 933 enquiries
Open at 1 January	2	0
Opened during the year	2	1
Concluded during the year	(2)	0
Open at 31 December 2020	2	1

Two connected section 934 investigations that were open at the start of the year were referred to an investigation committee during 2020. The parties subject to investigation made admissions to a number of contraventions to auditing standards and entered into a settlement agreement with the Authority. The parties were sanctioned accordingly. The public notice on IAASA's enforcement action is available on IAASA's website, [here](#). These were the last open investigations under the Authority's pre-existing investigation procedures.

Chapter 2: Enforcement

In 2020, the Authority initiated an investigation under section 934 of the Companies Act 2014 into two matters in relation to possible contraventions of legislation or breaches of a RAB's standards by a statutory auditor. These investigations are ongoing.

In 2020, the Authority also initiated one enquiry into an accountancy body, this enquiry was ongoing at the year end.

International cooperation

IAASA actively participates in both the Committee of European Audit Oversight Bodies (CEAOB) and the International Forum of Independent Audit Regulators (IFIAR) by participating at meetings and workshops. IAASA has a representative on the CEAOB's Enforcement Sub-group and actively contributes to IFIAR's activities in the area.

2021 work programme priorities

The Authority intends to continue to progress the investigations and enquiries that were ongoing at the year end and further develop its policies and procedures. In 2021, the Authority will continue its enforcement activity, considering all matters referred to its Enforcement Unit and where appropriate performing enquiries and investigations.

IAASA will continue to actively participate in the international groups of regulators and support their activities by presenting at meetings and workshops. The Authority will also consider seeking membership of IFIAR's Enforcement Working Group to further its contribution to this group.

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 and audit firms. It also outlines the Authority's activities in its oversight of the RABs and its 2021 work programme priorities.

Resources

At 31 December 2020, there were six people in IAASA's Regulatory and Monitoring Supervision Unit: a senior supervision manager, two project managers, two project executives and an administrative executive. The unit is overseen by IAASA's Head of Operations.

Funding

IAASA's Regulatory and Monitoring Supervision 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 Ireland. Further details about the 2020 levy and its allocation across the PABs are provided in IAASA's financial statements, which will be available on its website.

Functions performed by the recognised accountancy bodies

Overview

The Companies Act 2014 assigns the performance of certain functions in respect of statutory auditors to the recognised accountancy bodies (RABs) subject to oversight by IAASA, namely:

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

At 31 December 2020, 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)
- Institute of Chartered Accountants of Scotland (ICAS)

This chapter summarises the RABs' activities in relation to the functions delegated to them by the Authority in the four areas listed above.

Chapter 3: Functions performed by the recognised accountancy bodies

IAASA has relied on the RABs to provide some of the information set out in this chapter and the information may be subject to variances due to the structure and operations of the five RABs.

The Profile of the Profession, published by IAASA, provides more detailed information on the RABs' performance of their functions and is available on IAASA's [website](#).

IAASA's oversight activities

Supervisory visits

IAASA performs supervisory visits to the RABs to assess the quality of their activities in performing their functions in respect of statutory audit. IAASA's supervisory visits focus on the functions performed by the RABs in respect of statutory auditors.

Following a supervisory visit, IAASA issues a report to the RAB setting out the matters identified during the visit and IAASA's recommendations. IAASA liaises with the RAB throughout the process and considers any concerns the RAB has with regard to its ability to implement IAASA's recommendations. IAASA follows up on the status of the implementation of its recommendations through ongoing discussion with the RABs.

Engagement

IAASA continually engages with the RABs, in the form of meetings, roundtables and ad hoc communications. Where IAASA has observations that apply to many RABs, IAASA issues a thematic report to RABs setting out these observations and IAASA's expectations.

On an ongoing basis, IAASA meets with each RAB to discuss matters such as their compliance with legislative requirements and their implementation of IAASA's recommendations. IAASA reviews and approves changes proposed by RABs to their constitutional documents and guidance documents.

Referral to IAASA's Enforcement Unit

Where the Authority receives a complaint that indicates possible significant breaches of a RAB's investigation and disciplinary procedures, the matter is referred to the Authority's Enforcement Unit.

Functions performed by the RABs during 2020

Approval and registration of statutory auditors and audit firms

The RABs may approve statutory auditors and audit firms in accordance with the Companies Act 2014, if they hold an appropriate qualification and are of good repute.

At 31 December 2020, there were 1,491 audit firms registered to carry out statutory audits in Ireland (2019: 4,341), with 2,576 individuals in those firms authorised to act as statutory auditors (2019: 9,657).

Chapter 3: Functions performed by the recognised accountancy bodies

In 2020, ICAEW and ICAS required their members to make a separate application for Irish registration where such registration was required. This requirement resulted in a significant drop in the number of audit firms and statutory auditors registered to audit in Ireland. The number of audit firms registered to audit in Ireland has decreased by 66% and the number of statutory auditors registered to audit in Ireland has decreased by 73%. In the main, the reduction relates to statutory auditors and audit firms with offices in the UK who had historically been approved to audit in Ireland, but in practice, did not use this registration.

The table below shows the movement in audit firms and statutory auditors during 2020.

	Total	ACCA	CPA	ICAEW	ICAI	ICAS
Audit firms registered to audit in Ireland at 1 January	4,341	418	344	2,662	750	167
New applications granted	49	13	9	-	27	-
Applications not renewed or voluntarily surrendered	(2,890)	(22)	(30)	(2,624)	(52)	(162)
Registrations withdrawn	(9)	(3)	(4)	-	(2)	-
Audit firms registered to audit in Ireland at 31 December 2020	1,491	406	319	38	723	5
- Those with offices in Ireland at 31 December	1,155	290	319	3	543	-
Statutory auditors registered to audit in Ireland at 31 December 2020	2,576	565	412	254	1,333	12
- Those located in Ireland at 31 December 2020	1,851	387	412	3	1,049	-

Monitoring continuing education

Statutory auditors are required 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:

- the requirement for statutory auditors to complete an annual CPD compliance declaration
- desktop reviews of auditors' CPD records, on a random or risk basis
- 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, the RAB may take regulatory or disciplinary action against the auditor.

Chapter 3: Functions performed by the recognised accountancy bodies

The table below summarises the CPD reviews of auditors undertaken by the RABs during 2020.

	Total	ACCA	CPA	ICAEW	ICAI	ICAS
CPD records reviewed in the year	1,135	187	503	286	159	-
Desktop reviews (risk based)	177	115	32	-	30	-
Desktop reviews (random)	21	-	-	19	2	-
On-site reviews	256	47	61	21	127	-
Other monitoring activities	681	25	410	246	-	-
CPD records that did not comply with CPD requirements after follow up action was taken	8	6	-	-	2	-
Of those, statutory auditors that were:						
<i>Subject to regulatory action</i>	8	6	-	-	2	-
<i>Subject to disciplinary action</i>	-	-	-	-	-	-

Quality assurance systems

RABs are required to operate a system of quality assurance review of statutory auditors and audit firms, with the exception of PIE audits, which are directly inspected by IAASA. RABs are required to undertake a quality assurance review of each statutory audit firm based on an analysis of risk, but at least once every six years.

In 2020, the RABs concluded 251 quality assurance reviews of audit firms (2019: 826). Where deficiencies were identified, the RABs imposed conditions, restrictions or penalties on the statutory auditor or audit firm. These ranged from the requirement to provide additional information to the suspension or withdrawal of audit registration. 40 of the 2020 quality assurance reviews concluded by the RABs identified deficiencies that resulted in regulatory action being taken against the statutory auditor or audit firm (2019: 145).

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The table below summarises the RABs' quality assurance activities during the year.

	Total	ACCA	CPA	ICAEW	ICAI	ICAS
Quality assurance reviews concluded in the year	251	75	74	11	87	4
Good with limited improvements required	111	11	21	9	69	1
Acceptable overall with improvements required	92	49	35	2	3	3
Unacceptable with significant improvements required	48	15	18	-	15	-
Of the quality assurance reviews concluded in the year, those that resulted in regulatory action	40	2	21	-	15	2

Investigative and administrative disciplinary systems

The Companies Act 2014 requires RABs to implement effective systems of investigations and penalties in relation to the inadequate execution of an audit.

In 2020, the RABs opened 88 new complaint cases concerning statutory auditors and audit firms (2019: 235). The nature of complaints varied and related to audit and non-audit work. The majority of new complaints arose under the categories of poor work, unsatisfactory professional service or conduct, or an alleged breach of a body's code of ethics, rules or regulations.

The table below shows the complaints received, and closed, by the RABs relating to statutory auditors and audit firms in 2020.

	Total	ACCA	CPA	ICAEW	ICAI	ICAS
New complaints received	88	15	12	29	28	4
Complaints closed	108	16	12	31	44	5
Complaints closed with adverse findings	33	4	7	8	11	3
Complaints closed with adverse findings and sanctions imposed	33	4	7	8	11	3
Average time taken to close a complaint (in months)		5	10	16	16	7

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Impact of Covid-19

The Covid-19 pandemic has impacted the RABs' quality assurance reviews of audit firms. In response to Covid-19, the RABs' quality assurance reviews have mainly transitioned to remote platforms. There have been a number of instances where the RABs' planned quality assurance reviews have not taken place due to individuals being unwell or due to statutory auditors or audit firms being unable to provide remote access.

The investigation and disciplinary procedures of most RABs envisaged physical meetings and hearings. Some RABs have been able to transition the process to online systems. For other RABs, work is ongoing to transition the process across to an online system.

IAASA's oversight activities in 2020

Supervision Framework

During 2020, IAASA undertook a review of its supervision framework and redesigned its approach to supervising RABs. The redesigned process aligns resources with regulatory priorities and will allow for improved consistency and efficiency of supervision.

2020 supervisory visits

The table below summarises the supervisory visits performed by IAASA in 2020.

Areas reviewed	ACCA	CPA	ICAEW	ICAI	ICAS
Approval and registration of auditors and audit firms	1	-	-	-	-
Quality assurance reviews	-	1	-	1	-
Investigations and discipline in relation to statutory audit	1	-	-	-	-
Total 2020 supervisory visits	2	1	-	1	-

IAASA conducted four supervisory visits during 2020. In all cases, recommendations were issued, which are to be implemented within 12 months. IAASA will be performing follow-up procedures to ensure all recommendations are satisfactorily implemented within 12 months.

Engagement

IAASA engages with RABs on an ongoing basis to monitor compliance with legislation and with IAASA guidelines. Additionally, IAASA discusses any other relevant regulatory matters with the RABs. Of note in 2020 were Brexit and Covid-19.

Chapter 3: Functions performed by the recognised accountancy bodies

In November 2020, IAASA hosted a roundtable discussion with the eight prescribed accountancy bodies in Ireland. The discussion focussed on topics such as reporting to IAASA, funding and IAASA's investigation process.

During 2020, IAASA also issued draft guidelines on CPD requirements for statutory auditors and investigations and disciplinary functions for RABs.

Impact of Covid-19

Since March 2020, IAASA has used virtual platforms to continue to engage with the RABs and perform supervisory visits. The RABs have all engaged well with this change.

IAASA has engaged with the RABs to understand their business continuity arrangements in response to the Covid-19 pandemic. IAASA has sought to understand how each of the RABs can continue to implement their functions using remote processes.

In 2020, 109 quality assurance reviews of statutory auditors and audit firms were not performed by the RABs within the six year cycle that is required by Irish law. IAASA is working with the RABs to ensure that these quality assurance reviews are completed as soon as possible. IAASA is also working with the RABs to ensure that appropriate action is taken when quality assurance reviews of statutory auditors and audit firms are not performed within six years.

Brexit

In 2020, the Authority continued to engage with the relevant stakeholders to understand the impact of Brexit on the current and future processes of the RABs. IAASA engaged in discussions with the RABs about the challenges in the areas of data transfer and the future eligibility of UK auditors to practice as statutory auditors and audit firms in Ireland.

2021 work programme priorities

Supervisory visits

During 2021, IAASA intends to carry out two supervisory visits to selected RABs. The planned supervisory visits will focus on the RABs' quality assurance systems.

Engagement

IAASA will continue to oversee the RABs and their performance of their functions. Following the issuance of draft guidelines on the CPD requirements for statutory auditors and on investigations and disciplinary function for RABs, IAASA will finalise these guidelines and consider the RABs implementation plans.

Brexit

During 2021, IAASA will continue to respond to the impact of Brexit on the RABs. IAASA will also consider an application to derecognise the ICAEW.

Appendix

Appendix

IAASA's rating and grading policy

Ratings

Findings in relation to the effectiveness of a PIE firm's system of quality control have their significance indicated by way of a colour-coding system.

● **Red** indicates that a finding is a significant deficiency.

● **Amber** indicates that an improvement is required. This is a less than significant failure to:

- meet the requirements of the ethical standards and International Standard on Quality Control (Ireland) 1 (ISQC 1); or
- apply a firm's processes or procedures.

● **Yellow** indicates that a finding is a minor deficiency. This is:

- a minor failure in the application of a firm's procedures or processes; or
- a low level deficiency that has the potential to develop into a significant or less than significant failure to meet the requirements of the ethical standards and ISQC 1.

Grades

Each of the audits of PIEs inspected as part of the quality assurance review is assigned a grade.

- 1 A 1 grade is a good audit with no concerns regarding the sufficiency and quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Any concerns are very limited in their implications (both individually and collectively).
- 2 A 2 grade is an audit that requires limited improvements. There are only limited concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Although there may be some concerns, their implications (both individually and collectively) are limited.
- 3 A 3 grade is an audit that requires improvements. There are some concerns, assessed as less than significant, regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Although there may be concerns, their implications (both individually and collectively) are less than significant.
- 4 A 4 grade is an audit that requires significant improvements. There are significant concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. There may be concerns in other areas, with implications that are individually or collectively significant.



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