

# Proposals to revise the Ethical Standard for Auditors (Ireland), International Standards on Auditing (Ireland) and Glossary of Terms

A consultation issued by the Irish Auditing and Accounting Supervisory Authority (IAASA)

Comments from ACCA

3 July 2020

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## GENERAL COMMENTS

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ACCA welcomes the opportunity to provide feedback on the proposals to issue revised versions of the Ethical Standard for Auditors (Ireland); certain International Standards on Auditing (Ireland) and the International Standard on Quality Control (Ireland) 1 (together the 'ISAs (Ireland)'); and the Glossary of Terms, which defines the terms used in the Irish auditing framework.

We are pleased to note that the revised versions of these standards are based on the UK standards, which, in turn, reflect the corresponding standards issued by the International Auditing and Assurance Standards Board (**IAASB**) and the International Ethics Standards Board for Accountants (**IESBA**) restructured Code of Ethics and Conduct (**the Code**).

ACCA was broadly supportive of the revised UK standards issued by the Financial Reporting Council (**FRC**) on 17 December 2019 and the FRC's initiatives in responding to the changing expectations of users of financial information following recent audit and corporate failures, the decline in audit quality as well as the other changes impacting the UK audit landscape. The work undertaken by the FRC (and the IESBA) to restructure and simplify the Ethical standards is beneficial to auditors as well as the general public. However, we had some detailed concerns with some of the proposed changes to the UK standards and these were reflected in our response to the FRC Consultation on Revisions to Ethical and Auditing Standards 2019<sup>1</sup>.

We welcome IAASA's policy to make minimal amendments to the UK standards. We are supportive of the proposed revisions to the Irish auditing framework as these strengthen and improve the clarity of the Ireland standards and should assist auditors to better understand the requirements, resulting in a higher level of compliance. However, we have identified some potential enhancements, and these are highlighted in our response where appropriate.

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<sup>1</sup> ACCA's response to the FRC Consultation on Revisions to Ethical and Auditing Standards 2019 is available at [https://graduate.accaglobal.com/content/dam/ACCA\\_Global/Technical/consultation-responses/190927%20ACCA's%20response%20to%20FRC%20Revisions%20to%20Ethical%20and%20Auditing%20Standard....pdf](https://graduate.accaglobal.com/content/dam/ACCA_Global/Technical/consultation-responses/190927%20ACCA's%20response%20to%20FRC%20Revisions%20to%20Ethical%20and%20Auditing%20Standard....pdf)

## AREAS FOR SPECIFIC COMMENT

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**Question 1: In the context of IAASA’s policy to make minimal amendments to the UK standards, are there any amendments proposed that, in your opinion conflict with Irish or EU law?**

**If so, please:**

- (a) identify the relevant proposed amendment(s);**
- (b) identify the relevant legal provision(s);**
- (c) give reasons for your view; and**
- (d) explain what action(s), if any, you believe should be taken to update the standards in Ireland in respect of the matter(s) concerned.**

We are supportive of most of the amendments proposed and have not identified any amendments that conflict with Irish or EU law. However, we have comments in relation to one substantive amendment and two referencing errors.

We are particularly concerned about the inclusion of a new requirement in paragraph 5.17 of the draft Ethical Standard for Auditors (Ireland) 2020 relating to non-involvement in management decision-taking of an entity relevant to the engagement:

**“An audit firm shall not accept a non-audit service engagement where that would require the *firm* or a *covered person* to play any part in the management decision-taking of an *entity relevant to an engagement*. Such engagements are prohibited as set out in supporting ethical provision A2.1D and paragraph 1.24 of this Ethical Standard.”**

This issue was previously covered by guidance material, but it is now a compulsory requirement and the prohibition of such engagements applies to all audit firms, in line with the FRC’s requirements. However, we believe there are many situations where, in special circumstances, an audit firm may need to undertake a non-audit service engagement for a non-public interest entity (**PIE**) or non-listed entity audit client which would require the firm to play a part in the management decision-taking of the entity. Indeed, the current Covid-19 pandemic is an example of such a circumstance.

Therefore, we suggest there should be an exception included in this section of the Ethical Standard (Ireland) to allow a firm to accept a non-audit service engagement for a non-PIE or non-listed entity audit client which involves management decision-taking of the entity where:

- (i) there is no practical alternative;
- (ii) those charged with governance (**TCWG**) have been consulted and agree to the work being undertaken;



- (iii) the matter has been disclosed in the audit report, similar to the disclosure required for small entities availing of the Ethical Standard (Provisions Available for Audits of Small Entities) (**PAASE**); and
- (iv) compulsory safeguards are in place requiring a “hot file” review.

We note that amendments have been made to reflect the enactment of the Companies (Statutory Audits) Act 2018. However, we have identified the following referencing errors on page 92 of the draft Ethical Standard for Auditors (Ireland) 2020 which we believe should correspond to the definitions in Section 1 of the Act:

- Paragraph 6.4(e) – the reference to “*Credit Union Act 1997, as amended*” should be more properly be “*Credit Union Acts 1997 to 2018*”.
- Paragraph 6.4(f) – the reference to “...*any entity registered under the Industrial and Provident Societies Acts 1893 to 2014 or the Friendly Societies Acts 1896 to 2014*” is more correctly “*Industrial and Provident Societies Acts 1893 to 2018 or the Friendly Societies Acts 1896 to 2018*”.

**Question 2: In the context of IAASA’s policy to make minimal amendments to the UK standards, are there any areas not identified in this consultation paper where there are distinct differences between the Irish and UK markets which, in your opinion, would impact on the applicability of the proposed amendments to the standards in Ireland?**

**If so, please:**

- (a) identify the relevant proposed amendment(s);**
- (b) identify the market sector(s), audited entities etc. in Ireland impacted by the proposed amendment(s);**
- (c) give reasons for your view; and**
- (d) explain what action, if any, you believe should be taken to update the standards in Ireland in respect of the matter(s) concerned.**

We have not identified any additional areas where there are distinct differences between the Irish and UK markets which would impact on the applicability of the proposed amendments to the standards in Ireland.



**Question 3: As noted in section 4, the FRC has expanded the scope of the non-audit services requirements applicable to PIEs to include ‘other entities of public interest’, as defined in the FRC’s glossary of terms.**

**In your view, should IAASA expand the scope of the non-audit services requirements applicable to PIEs to include ‘other entities of public interest’ in Ireland?**

**If so, please**

**(a) give your reasons; and**

**(b) provide a suggested definition and examples of the entities to be included within the definition of ‘other entities of public interest’.**

We support the expansion of the scope of the non-audit services requirements applicable to PIEs to include ‘other entities of public interest’ in Ireland, as such entities are of significant interest to the public and there is a perception that they would be covered by the requirements applicable to PIEs.

The IESBA is undertaking a project to revisit the definition of a PIE as well as the definition of listed entity. As the concept of ‘other entities of public interest’ also underlies the definition of a PIE, it may be appropriate to consider the definition and examples of ‘other entities of public interest’ in Ireland when the IESBA project has concluded.

**Question 4: Are there any matters set out in section 4 that should, in your view, be reflected in the revised standards in Ireland?**

**If so, please give your reasons and explain what action, if any, you believe should be taken to update the standards in Ireland in respect of the matter(s) concerned.**

We have considered the five specific areas set out in section 4 of the consultation paper where IAASA does not propose to adopt the FRC’s changes in Ireland. Most of the substantive differences between the changes made to the UK standards by the FRC in December 2019 and the proposed revisions to the Irish auditing framework are reasonable, for example where the changes made by the FRC are inconsistent with Irish legislation. However, we have identified one area of concern.

In the Revised Ethical Standard 2019 the FRC removed the derogation which allows for the provision of certain prohibited non-audit services to PIE audit clients where these have ‘no direct’ or ‘immaterial’ effect on the financial statements. This is consistent with proposals from the IESBA<sup>2</sup> to withdraw the “materiality qualifier” which currently enables firms to provide non-assurance services (**NAS**) to PIE audit clients from the NAS provisions of the International Independence Standards in the Code. Given stakeholder concerns about auditor independence,

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<sup>2</sup> IESBA Exposure Draft - Proposed Revisions to the Non-Assurance Services Provisions of the Code (January 2020) <https://www.ifac.org/system/files/publications/files/FINAL-IESBA-ED-Proposed-Revisions-to-the-NAS-Provisions-of-the-Code.pdf>



firms should not use the materiality qualifier to justify the provision of NAS to any entity it audits if it creates a self-review threat.

While the tightening of materiality within the Code will present challenges to firms and could result in inadvertent breaches of Code, regulators are implementing similar proposals. IAASA's proposal to retain the derogation in the Ethical Standard for Auditors (Ireland) 2020 reflects the provisions of the Companies Act 2014. However, IAASA may need to reconsider this proposal as there is general acceptance of the withdrawal of the materiality qualifier in relation to PIEs.

**Question 5: Is the proposed effective date, i.e. for financial periods beginning on or after 15 October 2020, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.**

Yes, we believe the proposed effective date of 15 October 2020 is appropriate.

The suggested changes to the standards will require significant investment in time by firms to support implementation. However, we also recognise the need to address concerns about audit quality and auditor independence in Ireland. We suggest that the IAASA balances carefully these potentially competing factors and the feedback received by stakeholders to this consultation in deciding upon the appropriate implementation timetable for the revised Ethical and Audit Standards in Ireland.

