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

Dear Mr. Prendergast

Deloitte Ireland LLP ("Deloitte", "we") is pleased to provide comments and observations on the Irish Auditing and Accounting Supervisory Authority's ("IAASA") consultation paper as titled above.

We note in the consultation paper that IAASA's policy is to make minimal amendments to the UK standards and that amendments are only considered where there is a conflict with Irish or EU law or where there are distinct differences between the Irish and UK markets, which impact on the applicability of a standard in Ireland.

We welcome and support the development of standards that support consistent and high quality of work by auditors and IAASA's commitment in this respect. As the UK are now no longer part of the EU, by following the UK standards and approach, there is an increasing risk of divergence from EU law.

We believe that there are certain aspects of these new revisions that reflect a clear departure from EU law and the international auditing framework issued by the IAASB and go further than the international standards applied by other European countries. We have indicated these specific areas in our detailed response below, and we have concerns that the continued approval and adoption of the FRC standards in Ireland, particularly in a post Brexit environment, will cause significant issues and result in unworkable differences arising between Ireland and the rest of the EU.

We have set out below our responses to the specific matters on which views are sought. In addition, in Appendix 1, we have included some additional observations we had upon review of the proposed revisions.

We have also contributed to the submission made by our professional body, Chartered Accountants Ireland on this consultation.

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?

ISA (Ireland) 701 Par.16-1: Performance materiality

The revised ISA (Ireland) 701 now includes a requirement to report performance materiality and to provide an explanation of the significant judgements made in determining performance materiality. Article 10 of the EU Audit Regulation does not require disclosure of performance materiality in the audit report.

Performance materiality is a very technical audit term and we believe that the use of such audit jargon should be avoided. There is a risk that a user of the audit report may misinterpret this terminology if the concept is not clearly explained or understood. By adding this level of complexity to the audit report, we believe this will have a detrimental effect and will decrease the value of the audit report for the reader. In addition, the application material is not very clear on what level of detail would be required to rationalise this judgement, is the expectation that there is specific reference to factors such as the quality of the control environment and the historical error rate required?

We believe this proposed revision should be removed as it conflicts with EU law.

ISA (Ireland) 720: Statutory other information- Non-financial statement

SI 360 of 2017- *European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017*, which were subsequently amended by SI 410 of 2018- *European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) (Amendment) Regulations 2018* (the "Regulations") requires the disclosure of a non-financial statement by an applicable company. The Regulations require that this non-financial statement is disclosed in the directors' report or in a separate statement. The SI 410 amendment to these Regulations, in Regulation 4(c) clarified that the statutory reporting requirements imposed on statutory auditors under section 336(5) of the Companies Act 2014 do not apply to those parts of the directors' report dealing with the non-financial statement.

In the proposed revisions to ISA (Ireland) 720, paragraph A53-4 outlines the reporting required by Irish law on the directors' report. We believe that this should be amended to clarify that section 336(5) of the Companies Act 2014 does not apply to the non-financial statement where disclosed within the directors' report.

Ethical Standard: Long Association

The provisions in the Ethical Standard relating to Long Association, and in particular the required cooling-off periods for partners and other team members, are not aligned with the requirements of the IESBA Code. The IESBA Code has defined more detailed requirements based on combinations of roles that do not align with the requirements in the Ethical Standard and which must also be complied with. We would strongly support a full alignment between the Irish Ethical Standard and the IESBA Code.

Other comments

In addition to the above, we have also noted that a new paragraph has been added to ISA (Ireland) 700, paragraph 29-1, related to reporting on what extent the audit was capable of detecting irregularities, including fraud. Arising from Article 10 of the EU Audit Regulation which applied solely to the audit reports of EU Public Interest Entities ("PIEs"), we note that the proposed scope for reporting on this matter has now been extended in ISA (Ireland) 700 to apply to "all" entities.

We believe the fact that the scope has been extended beyond the requirements of EU law, is not appropriate.

The revised standard now also includes additional application material in paragraphs A39-1 to A39-5 for this specific requirement. If the audit report was to report this extensive list of matters, we believe this may lead to the use of boilerplate text in the report (particularly for smaller entities) that may not add any real value for the user of audit reports. As the term "irregularity" is very broadly based, it would be very difficult for the auditor to ensure that such an explanation reports matters of significance clearly and concisely, whilst also being mindful of the legal restrictions on disclosure of matters of non-compliance where relevant.

We are also aware, from our discussions with international Deloitte colleagues that this application material conflicts with how this requirement is applied in Europe. We understand that there is an FRC Staff Guidance Note issued on this requirement in the UK, which aligns with this new application material that has now been added to ISA (Ireland) 700. IAASA have not issued any guidance since the introduction of this requirement for reporting on EU PIEs.

We do understand the intentions behind this requirement, to ultimately address the expectation gap that still remains. Where fraud is found, there may always be the assumption that the auditor could have done more and detected it, which is not always the case. We do not believe that explaining the nature of this gap is the ultimate solution; the gap must be narrowed. As expressed in our opening statement, we believe that continued adoption of UK interpretations and FRC standards is not appropriate in Ireland. We would support alignment with the rest of the Europe on this specific requirement and that the scope should remain as stated in the EU Audit Regulation as applicable to EU PIEs only.

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?

As noted earlier, because the UK are now no longer part of the EU, there is therefore a fundamental difference between the Irish and UK markets. We do not support the continued adoption of the amendments being made to the UK standards here in Ireland. In Ireland, we operate under the same regime of audit supervision as many of our EU counterparts, namely Luxemburg, France and Italy; therefore, we strongly support alignment to the international standards applied by other European countries.

It is clear that many of the changes being made in the UK are in direct response to the significant scrutiny that has developed on the audit profession in the UK market. On some of the proposed revisions, the reasons for adopting such changes in the Irish market is unclear and are not explained in the consultation paper. We have set out further detailed comments in this respect below.

We believe the proposed changes to the Ethical Standard in Section 5.79 and 5.83 go farther than is appropriate in the context of the Irish market compared to the UK and are overly restrictive.

The proposed changes to Section 5.79 remove the ability to provide tax services to an audited entity where this would involve acting as an advocate for the entity in the resolution of an issue that is not material to the entity's present or future financial statements, and where the outcome of the tax issue is not dependent on a future or contemporary judgement by the firm in relation to the financial statements.

These changes will require companies to incur increased costs and effort in transitioning to a new tax advisor requiring them to be engaged on a matter, the outcome of which may well be that this matter is not pursued by the tax authorities.

The proposed changes to Section 5.83 remove the same exceptions (regarding immateriality and judgement by the firm) in a matter that is rejected by tax authorities and where they have indicated that the matter is likely to be determined by an appeals tribunal or court, and would require resignation where the matter is listed for hearing before an appeals tribunal. However, not all appeals tribunals will involve the audit firm acting as advocates, so this requirement appears excessive.

We believe that the changes to the FRC standards arise from the effective prohibition of most non-audit services, including tax services, to PIEs and OEPIs. Those measures go much farther than the EU Regulation and the IESBA framework, which we believe should be the principles applied in Ireland.

We note that the IAASA consultation paper states that "the FRC has removed the derogation for auditors that allows them to provide certain prohibited non-audit services to PIE audit clients where they have 'no direct' or an 'immaterial' effect on the financial statements. This provision has been retained in the Ethical Standard for Auditors (Ireland) as it reflects the provisions of the Companies Act 2014". The changes to Section 5.79 and 5.83 are not consistent with this stated position.

We believe that the application of available safeguards in situations where the matters are immaterial and not subject to judgment by the firm on the financial statements is an appropriate response to the threats in this regard, and that there is no need to make changes in this area.

We also note that in Section 5.87, the firm may continue to provide legal services in the resolution of a dispute, which is not material to the amounts to be included in, or the disclosures to be made in the financial statements.

The changes in this area represent a significant change in policy regarding audit regulation and goes much farther than the EU Regulation and the position taken by other EU Member States. We are not aware of the basis on which IAASA believe there is a need to make these changes.

Other proposals in the Ethical Standards for Auditors (Ireland)

There are other proposed changes in areas such as prohibition on contingent fees for all services and a prohibition on loan staff assignments for all entities relevant to an engagement.

The consultation paper does not explain the basis for these changes in the Irish marketplace at this time. No review of the Irish marketplace has been conducted, and it is not clear whether these proposed changes would have a positive impact. It is equally likely that they would have a negative impact for companies and their directors, who would need to incur increased costs and effort to retain alternative service providers. These provisions would disproportionately affect small and medium sized businesses, not public interest entities.

As we are unaware of the reason for these changes, we do not support them.

Question 3

As noted in section 4 above, 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?

No, we do not believe that the scope of the non-audit services should be expanded to apply to '*other entities of public interest*'. We believe that the Government are the only authority to designate such entities. Designating such entities within the scope of the Ethical Standard would impose significant independence requirements on relatively small companies in some cases.

Question 4

Are there any matters set out in section 4 above 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 agree with IAASA's decision to not adopt the additional changes adopted by the FRC as detailed in section 4 of the consultation paper. As noted earlier, we believe any continued adoption of FRC standards in Ireland post Brexit will lead to unworkable differences to the international standards adopted by the rest of the EU. As described in our response to Question 2 above, we note a discrepancy between the stated approach taken and the proposed changes to the standard in relation to tax services for 'immaterial' matters.

We would strongly recommend the adoption of the current provisions of the IESBA Code in place of the FRC's Ethical Standard provisions.

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.

We have significant concerns over the proposed effective date, as it leaves a relatively short implementation period.

In relation to the ISA revisions, there are a lot of significant changes. As you are aware, the current working conditions are very challenging for audit firms, and we have seen many of our clients delay reporting deadlines which has had a knock-on impact on the timing of audit work. In addition, in the current year, we are implementing the revisions effective in ISA (Ireland) 540 and ISA (Ireland) 570. To implement the changes proposed in this consultation paper appropriately, it will require updates to firm policy and methodology and robust practitioner training which will take some time. We believe a fast implementation period could also have a detrimental impact on audit quality, if the revisions are not well understood.

Similarly, the proposed changes to the Ethical Standard are far reaching and need to be clearly and carefully communicated throughout the firm. In the current challenging working environment, the delivery of training and awareness of the changes is more difficult, and the time available to communicate is very limited. Some of the provisions that we highlight in the appendix will require collation of data not previously available, and it would be preferable to give sufficient time to complete this so that inadvertent breaches are avoided. In addition, practical difficulties will arise, whereby there may be existing permitted non-audit service engagements underway that will not be complete or terminated by the 15th October 2020. We believe clarity would need to be provided by IAASA with respect to this practical example in which existing permitted non-audit service engagements could be completed.

We would propose a six-month deferral to implementation, to commence from 15 April 2021.

Thank you for your consideration of the points outlined in this letter. If you have any further questions or would like to discuss this matter further, please contact Eimear McCarthy at 01 417 2685 or by email at emccarthy@deloitte.ie

Yours sincerely



Eimear McCarthy
Partner
For and on behalf of
Deloitte Ireland LLP

APPENDIX 1: Additional Comments

In addition to our responses to the specific questions asked in the consultation paper, we have set out below some additional comments noted from our review of the proposed revisions

Proposed Ethical Standard for Auditors (Ireland) revisions

Ethical Standard reference	Comments
Section 1.21	<p>The proposed requirement to report all breaches to the Competent Authority on a bi-annual basis requires new mechanisms for communication of such breaches to be put in place prior to the first reporting deadline following the effective date, so that these can be communicated efficiently while maintaining confidentiality.</p> <p>The Consultation Paper does not state what action IAASA intends to take in relation to reported breaches, and what resources IAASA will have in place to undertake any additional consideration of the breaches reported to them.</p>
Section 2.8	<p>This section proposes to extend the requirement to disclose to those charged with governance any shareholdings arising from membership of an entity, which is an audit client to now be required for any partner in the firm and any person closely associated with them.</p> <p>Introduction of this requirement will add an additional reporting burden to track such memberships for a potentially large number of entities, such as friendly societies, golf clubs, etc. It can be argued that the membership of an entity by a partner in a firm who is not a covered person is unlikely to lead those charged with governance or an objective, reasonable and informed third party to conclude that independence and objectivity is impaired, hence making this burden unwarranted and disproportionate.</p> <p>We note that there is no requirement to inform those charged with governance of bank accounts held by all partners in an audit firm for the audit of such an institution. Applying a similar requirement to membership bodies such as building societies and golf clubs appears excessive.</p>
Section 3.17	<p>This section proposes to extend the consideration of safeguards for partners and staff involved in the engagement to include situations where such individuals have been “<i>responsible for the relationship between the audit firm and the entity, including periods prior to the firm’s appointment as auditor</i>”. This provision requires definition of what is meant by “<i>responsible for the relationship</i>” as this is not clear. It should also be clarified whether this is intended to include the tendering period.</p>

Ethical reference	Standard	Comments
Section 4.44		<p>This section proposes to extend the requirement to implement policies for the consideration of acceptability of gifts, favours and hospitality to not just entities relevant to an engagement to now include <i>“other entities which are likely to subsequently become an entity relevant to an engagement”</i>. Any policies in this regard will be difficult to implement and monitor, as there is no timeframe or event that is defined to trigger the commencement of the policy. The wording would be enhanced if certainty is given to this, e.g. based on commencement of audit tendering process for a new audit client and based on commencement of an acquisition process for an entity being acquired by an existing audit client.</p>

Proposed ISA (Ireland) revisions

ISA Paragraph reference	Comments
ISA (Ireland) 220 Par.21-3	<p>This requirement now requires the engagement quality control reviewer to review the matters required by par. 21R-1 and discuss the results of this review with <i>“each of the relevant key audit partners”</i>. We would like IAASA to provide clarity on the intent of this provision and if it requires a discussion with the partners of <i>“all”</i> components or just those that are designated to the material subsidiaries?</p> <p>If <i>“all”</i>, we feel that this would not be practical in a large group audit.</p>
ISA (Ireland) 220 Par.A31-3	<p>In respect of the engagement quality control reviewer documenting a robust appraisal of the quality of the work performed, the application material now states, <i>“a simple sign off or completion of a checklist is unlikely to demonstrate a robust appraisal”</i>.</p> <p>We would not agree that completion of a checklist is not appropriate- as long as the checklist is robust and clearly details the approach and work performed, in conjunction with evidence of sign off on key aspects of the audit file, we would deem this sufficient.</p> <p>We would also like to see further guidance from IAASA on what is deemed sufficient documentation by the EQCR to demonstrate a <i>“robust appraisal”</i> of the work performed by the audit team.</p>

ISA Paragraph reference	Comments
<p>ISA (Ireland) 600 Par. 9(b)</p>	<p>The proposed revisions in ISQC1 and ISA 220 have made an amendment to the definition of 'engagement partner' to state that the "engagement partner is a key audit partner".</p> <p>In the revisions to ISA 600, par.9 (b) now states, "a component auditor may also be a key audit partner".</p> <p>The component auditor addition is unclear, as it would seem that all component auditors (as engagement partners) would be considered key audit partners as per the revised definition of an engagement partner in ISQC 1 and ISA 220.</p> <p>This contradicts with the current definition of a key audit partner in ISAs (Ireland) glossary, which states that only those component audit partners designated as responsible for material subsidiaries are key audit partners.</p> <p>We would welcome clarity from IAASA on this, specifically on when a component auditor is a key audit partner.</p>
<p>ISA (Ireland) 600 Par. A61-1</p>	<p>This paragraph in the application material suggests that the group engagement team must evaluate and review "all" of the work that is performed by any component team regardless of whether that component has been determined to be material or not to the overall group.</p> <p>We note the reference that ISA 600 paragraph 42D-1 is required by the Companies Act 2014 in section 1527(2) and (4). The Companies Act 2014 refers to the fact that the group auditor should evaluate "for the purpose of the group audit" and document the "review of the relevant parts of audit documentation". The legislation implies that there is a level of judgement involved, however ISA 600 paragraph A61-1 now appears to suggest otherwise. We do note that paragraph A61-3 does reference professional judgement and the matters to consider when reviewing which somewhat conflicts with the above interpretation on A61-1. We would recommend that this requirement should align with the Companies Act 2014 requirements as stated.</p> <p>In addition, in this context, we would also welcome clarity on the meaning of "work" and the expectations in this regard. It is not clear if "work" should be interpreted to mean all working papers, or just the concluding and final reporting.</p>