

## PRESS RELEASE

### IAASA GRANTED INCREASED POWERS OF INSPECTION IN LANDMARK LEGISLATION ON REGULATION OF AUDIT PROFESSION

The Minister for Jobs, Enterprise & Innovation, Mary Mitchell O'Connor TD, has signed legislation giving effect to the new EU regulatory framework on statutory audit. The aim of the legislation is to significantly enhance the level of investor protection provided by the audit function through improvements to the requirements for integrity, independence, objectivity, transparency and reliability of statutory auditors and audit firms. Where auditors fail to meet the required standards, the new regime provides for the imposition of considerable sanctions by IAASA including fines of up to €100,000 for an auditor or €500,000 for an audit firm and prohibitions on working as an auditor or audit firm for up to 3 years.

The legislation widens the remit of the Irish Auditing and Accountancy Supervisory Authority ('IAASA'). IAASA will now be directly responsible for the inspection of the audits of Public Interest Entities ('PIEs'), such as banks, insurance companies and entities listed on regulated stock exchanges. This function was previously carried out by the recognised accountancy bodies. While these bodies will continue to perform certain tasks in relation to their audit members, IAASA is now ultimately responsible for:

- the approval of statutory auditors and audit firms;
- the disciplinary systems in relation to all statutory auditors and audit firms;
- quality assurance; and
- continuing professional education requirements for auditors.

In addition, IAASA will now be responsible for the adoption of standards on auditing, professional ethics and the internal quality control of audit firms. *(Full details of the increases to IAASA's powers are in the attached "note to editors.")*

These changes will have major implications for IAASA, and require organisational change. On foot of an approved sanction for additional resources, IAASA has already recruited a number of additional staff to help meet the challenges posed by the new framework. This recruitment process is ongoing. However, further additional resources may be needed to fully address the requirements arising from these legislative changes. IAASA is working with the Department of Jobs, Enterprise & Innovation with a view to ensuring that the organisation is fully resourced to meet its significantly expanded remit.

The new measures also include notable changes to the regulatory regime for auditors, particularly for the audits of PIEs. These changes include:

- requirements that PIEs change auditor at least every 10 years;
- restrictions on the provision of certain non-audit services to PIEs; and
- the broadening of the function, roles and responsibilities of the PIEs' audit committees.

Commenting on the legislation, IAASA Chief Executive Michael Kavanagh said:

*'This is the most significant change for the auditing profession in a generation. It heralds a new era in the relationship between the regulator, the auditor and the audited entity. These new arrangements should help deliver the application of the highest standards of quality and transparency to all audits. IAASA is committed to working with all stakeholders to ensure these important new reforms are effectively and robustly implemented'*

*ENDS*

## **Note for Editors**

*The Irish Auditing and Accounting Supervisory Authority ('IAASA') is the independent body in Ireland responsible for:*

- a) Supervision of the regulatory functions of the accountancy bodies;*
- b) Examination and enforcement of certain listed entities' periodic financial reporting; and*
- c) Direct inspection of the audits of public interest entities.*

## **Audit Reform Legislation**

*The aim of the EU audit reform legislation, which comes into effect across Europe on 17 June, is to achieve a high level of harmonisation of statutory audit requirements and a common regulatory approach across the EU. The intention of these reforms is to enhance the integrity, independence, objectivity, responsibility, transparency and reliability of statutory auditors and audit firms ('auditors'), while achieving a high level of consumer and investor protection.*

*The Statutory Audits Regulations 2016 transpose the amendments to the EU Statutory Audits Directive (Directive 2006/43/EC) made in 2014 by [Directive 2014/56/EC](#), and will give effect to some aspects of the EU Audit Regulation ([Regulation \(EU\) No 537/2014](#)) which comes into effect across the EU on 17 June 2016.*

## **Effects of the new legislation**

*The main changes to current practice in Ireland include:*

- ***New regulatory regime for auditors*** – IAASA is now responsible for the direct inspection of audits of public interest entities ('PIEs') and is the competent authority with ultimate responsibility for, amongst other matters, the:
  - *approval and registration of auditors;*
  - *investigative and administrative disciplinary systems in relation to auditors;*
  - *adoption of standards on auditing, professional ethics and the internal quality control of audit firms; and*
  - *continuing professional education requirements for auditors.*

*The impact of these changes includes:*

- ***Mandatory audit firm rotation for PIEs*** – the maximum period for which a statutory audit firm can be appointed as an auditor of a PIE is 10 years. Following rotation, a statutory audit firm is not eligible for re-appointment as statutory auditor to that PIE for at least 4 years;
- ***Restrictions on certain non-audit services to PIEs*** – the following are examples of the non-audit services that now cannot be provided by auditors to PIEs:
  - *certain tax services;*
  - *internal audit function;*
  - *legal services; and*
  - *human resources.*
- ***Monetary cap on the level of fees for non-audit services*** – the legislation introduces a monetary limit on the level of fees that can be received for non-prohibited non-audit

services. Such fees cannot exceed 70% of the total audit fee received by the auditor of a PIE;

- **A broadening of the function, roles and responsibilities of audit committees** – the legislation enhances the requirements for audit committees of PIEs, in particular, regarding the technical competence and independence of audit committee members; and
- **Member state auditors** - In a measure aimed at opening up borders to trade, auditors from other member states will be able to set up a permanent establishment in Ireland and these auditors will register with a recognised accountancy body ('RAB') in Ireland.

### **New roles for IAASA**

The changes outlined above will have major implications for the regulation of auditors, outlined below:

#### **Audit Inspections**

IAASA has ultimate responsibility for the quality assurance of auditors. IAASA will now perform direct inspections of the auditors of PIEs and a new Unit has been established for this task. Direct inspections will involve assessing the policies for the audit firm as a whole, including policies on quality control and independence. In addition, IAASA will inspect a selection of PIE audits to ensure that those audits were conducted to the high standard expected by the users of financial information. The RABs will continue to perform the quality assurance inspections of non-PIE audits conducted by those firms and all audits conducted by non-PIE audit firms. However, IAASA will be responsible for the oversight of how this function is conducted by the RABs.

The significant international dimension to the new IAASA audit inspection regime shouldn't be underestimated. In addition to continued engagement with the international forums of audit regulators, IAASA will be required to share inspection findings at a European level and will participate in joint inspections with third country regulators. Most notably, this includes joint inspections with the US Public Companies Auditing Oversight Board ('PCAOB') given the number of high profile US Corporations with significant subsidiaries operating in Ireland.

#### **Investigation and Discipline**

IAASA is empowered to conduct investigations into potential breaches of the new regulations by auditors. If a finding is made by IAASA, sanctions can be imposed including fines of up to €100,000 for an auditor or €500,000 for an audit firm and prohibitions on working as an auditor or audit firm for up to 3 years. IAASA will publish details of any findings made and sanctions imposed.

#### **Auditing standards**

The current audit framework consists of auditing standards, ethical standards and a quality control standard. At present, the standards used in Ireland are those issued by the UK Financial Reporting Council ('FRC') and auditors are mandated by their accountancy body to use these auditing standards when conducting an audit of an entity's financial statements.

*The legislation makes IAASA responsible for the adoption of the aforementioned auditing standards which will apply for the audits of entities with financial periods beginning on or after 17 June 2016. IAASA has commenced a process of consultation on the various options available in this regard.*

***Regulation of the profession***

*One of IAASA's key responsibilities regarding the 5,272 audit firms registered in Ireland continues to be the delivery of independent and effective supervision of the RABs' regulatory obligations. In particular, IAASA now has ultimate responsibility for the following tasks relating to auditors:*

- *Approval (including recognition of EU Member State firms) and registration;*
- *Investigations and discipline;*
- *Quality assurance; and*
- *Continuing education requirement.*

*The legislation requires that the RABs shall perform these tasks, subject to oversight by IAASA and IAASA shall have the power to take back tasks from the RABs in certain circumstances.*

*Further information about IAASA is available on [www.iaasa.ie](http://www.iaasa.ie)*

**For further information contact:-**

Fergal Ó Briain, Secretary and Head of Finance & Administration, IAASA

T: 045 983 616

E: [fergal\\_obriain@iaasa.ie](mailto:fergal_obriain@iaasa.ie)