The background is a solid dark blue color. It features several large, overlapping, curved shapes in various shades of blue, ranging from a very dark navy to a bright cyan. These shapes create a sense of depth and movement, with some appearing as if they are layered on top of others. The overall effect is modern and dynamic.

# Chapter 1

Purpose

# Chapter 1: Purpose

## 1.1 What we do

IAASA is responsible for the supervision of the accounting profession in Ireland, comprising of 39,049 members of Prescribed Accountancy Bodies ('PABs') in business and practice in the State.

IAASA is the competent authority for the oversight of statutory auditors in Ireland, including oversight of the manner in which the five Recognised Accountancy Bodies ('RABs') perform the functions assigned to them in law in respect of statutory auditors, namely approval and registration, continuing education, quality assurance systems and investigative and administrative disciplinary systems.

In addition, IAASA has direct responsibility for the inspection of audits of Public Interest Entities ('PIEs'), comprising of entities with securities listed on a regulated market, credit institutions and insurance undertakings. We directly regulate nine auditing and accounting firms, including all of the Big 4, in respect of this element of their work.

IAASA is responsible for examining the level of compliance of certain entities' annual and half-yearly financial reporting with applicable financial reporting standards (in the main International Financial Reporting Standards ('IFRS') and Irish Generally Accepted Accounting Practice ('GAAP')).

This comprises 102 entities, made up of:

- 32 equity issuers, with a market capitalisation at 31 December 2018 of just under €106bn;
- 57 debt issuers, with gross assets in excess of €261bn; and
- 13 closed-ended fund issuers, with gross assets in excess of €37bn.

IAASA is responsible for the conduct of investigations on issues arising from its inspection of the audits of PIEs and referrals from overseas competent authorities. IAASA also has the discretionary power to investigate whether a member of a PAB has complied with that body's standards and to investigate whether a prescribed PAB has complied with its approved investigation and disciplinary process.

IAASA is responsible for adopting standards on auditing, ethics and internal quality control for all auditors.

IAASA carries out a range of other activities, including registration of certain types of liquidators, registration and oversight of third country auditors, engaging with our peer European and international counterparts, and advising the Minister for Business, Enterprise & Innovation on key auditing and accounting matters.

## 1.2 Why do we do it

IAASA's mission is 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.

## 1.3 What guides us

IAASA operates with powers and functions granted to it under the Companies Act 2014, and related Statutory Instruments. We carry out our work in accordance with values set out by our Board.

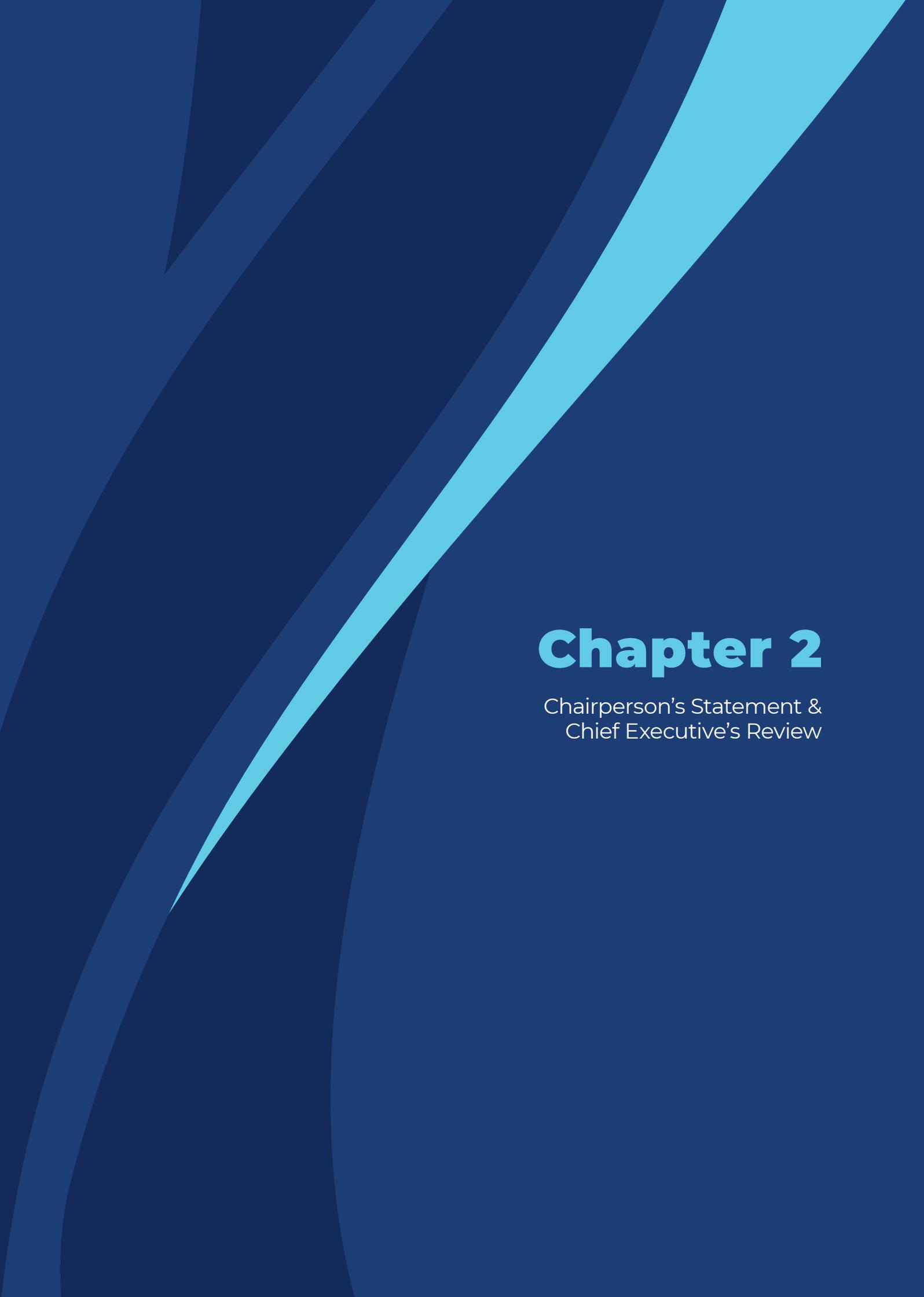
- Public interest
- Independence
- Integrity
- Commitment
- Fairness and consistency
- Effectiveness and efficiency
- Transparency and accountability

## 1.4 Who do we report to

IAASA is governed by a Board of directors made up of representatives of stakeholders and members nominated by the Minister for Business, Enterprise & Innovation. IAASA is answerable to the Oireachtas.

## 1.5 What is our budget

IAASA's total expenditure in 2018 was €3.8m, from a budget of €5.9m. The most significant areas of underspend were in payroll and related costs due to ongoing difficulties in attracting additional suitably qualified staff.



# Chapter 2

Chairperson's Statement &  
Chief Executive's Review

# Chairperson's Statement

### Introduction

This is IAASA's ('the Authority') thirteenth Annual Report. It is with pleasure that I submit it to the Minister for Business, Enterprise & Innovation ('the Minister'), in accordance with section 928(1) of the Companies Act 2014 ('the Act'). The Chief Executive's Review summarises the principal activities undertaken by the Authority during 2018 to fulfil its mission. The remainder of this Report gives details of this work. In my Statement, I would like to focus on key developments affecting IAASA both now and into the future.

### Governance

As I noted in my 2017 Statement, last year the Board began a review of its governance structures. This was driven by the reduction in the size of the Board in recent years from 15 to nine, which coincided with an expansion of the Authority's responsibilities due to the implementation of the EU Audit Directive. In particular this has led to the Authority taking on additional responsibilities in direct oversight of Public Interest Entity auditors and in the conduct of investigations and enquiries. The Board completed that review during 2018, and implemented a revised Schedule of Matters Reserved to the Board focusing on governance, finance, risk and oversight. Board meetings have also been re-structured to focus on strategic risks and oversight of the Executive. This revised process had been fully implemented by the end of the year.

The Board also undertook a review of its own performance, facilitated by an external professional, the outcomes of which were also reflected in the revised governance structure. And finally the Board has engaged in separate training and strategy days in addition to its regular Board meetings.

### Future developments in audit oversight

While the main part of this Report sets out how the Authority has fulfilled its statutory remit during 2018, there are significant changes in how oversight will operate in future. I want to highlight some of these changes that will be particularly impactful.

The most significant change that is coming in audit oversight is the publication of the outputs of those inspections. The Authority undertook to publish the results of the second round of its inspections, and it maintains the intent to do so. It is estimated that these publications will be available from early 2020. The purpose behind arranging the

process in this way was to allow all firms the opportunity to adjust to the new regulatory regime prior to the results of that regime being made public. It is the Authority's view that transparency plays a key role in enhancing both public trust in the profession and the capacity of companies and audit committees to make informed choices in selecting their auditors. The Authority is committed to playing its part in providing that transparency.

### The Companies (Statutory Audits) Act 2018 ('the 2018 Act') and the Recognised Accountancy Bodies

As detailed in this Report, the 2018 Act, which introduced a new Part 27 to the 2014 Act on audit, was enacted and commenced during 2018. While much of the 2018 Act transposed previously existing secondary legislation, there were some significant changes. One of those changes was to the relationship between the Authority and the Recognised Accountancy Bodies ('RABs'). These bodies, who may register members as statutory auditors, continue to have specific tasks delegated to them in law, but subject to ultimate responsibility resting with the Authority. Such tasks include approval/registration, continuing education, quality assurance, investigation and discipline, and the setting, monitoring and enforcement of appropriate standards. The requisite regulatory and enforcement powers have now been assigned to the Authority under the 2018 Act. Shortly after the commencement of the 2018 Act, the Authority wrote to the RABs asking them to set out how they have taken steps to comply with their obligations. It has also set out general guidelines for the RABs when performing these regulatory functions. And towards the end of the year the Authority issued guidance on the specific area of examination exemptions. The Authority will continue to work with the RABs to ensure that this work for which they have statutory responsibility is carried out effectively and in the public interest.

### Brexit

The Authority began its preparations for Brexit shortly after the triggering of Article 50 by the UK Government, and those preparations increased in pace during 2018. The two key public engagements on Brexit were the paper published by the Authority in March and also the conference hosted by the Authority in October. That conference, which was attended by approximately 150 interested parties, featured speakers including the Minister, the President of Chartered Accountants Ireland, and the Chief Executive. This was the first such event hosted by the Authority.

## Chapter 2: Chairperson's Statement & Chief Executive's Review

These two actions were accompanied by wide ranging engagement and discussion with a range of parties both domestically, in the UK and also the EU. The Board has Brexit as a standing agenda item at its meetings and the Authority continues to press ahead with preparations for the UK's departure from the EU. At the time of writing the outcome of the UK Brexit process is very much unclear. Nevertheless, the Authority has made every effort to ensure that it is best placed to deal with whatever challenges arise in that context.

### UK developments

The Board has monitored the developments in the UK, noting the criticisms of the UK audit regime and the proposals set out in the *Independent Review of the Financial Reporting Council*, ('the Kingman Report'). That report, along with a separate report issued by the UK Competition and Markets Authority, was published just before the year end. Due to the close relationship between the UK and Irish audit markets the Authority considered these reports in detail. The Authority notes the main suggestions for the restructuring of the UK regulator so that it is formally established under statute with specific regulatory obligations and a smaller Board. This mirrors the structure already in place in Ireland, with IAASA being so structured. Nevertheless the Authority will continue to study both reports to identify whether any of its recommendations are relevant in an Irish context.

### Board changes

2018 saw the departure of two of our long standing Board members, Deirdre Behan and Marie Daly. Deirdre and Marie gave extensive service to the Authority. Indeed Marie was the last member of the Authority's original Board. On behalf of my Board colleagues, I would like to express my gratitude to both of them for the outstanding contribution they have made to the Authority during their tenures. Marie's departure marked the end of IBEC's representation on the Board, in line with changes in the Act reducing the size of the Board. The Revenue Commissioners remain a nominating body, and on their nomination the Minister appointed Caitriona Crowley to the Board in January 2018.

### Concluding remarks

As is evident, 2018 was another year of change and challenge for the Authority. The Authority has responded to those challenges and is, in the view of the Board, well placed to continue to do so. I wish to express my thanks, and those of the entire Board, to the Chief Executive, his senior management team, and all of the staff of the Authority for the tireless work they have put in over the past year. I also wish to express my appreciation to the Minister and all of her staff who have greatly assisted the Authority in carrying out its work. I believe that the Authority continues to provide outstanding service in the uncertain and continuously changing environment in which it operates.

Martin Sisk  
Chairperson

30 April 2019

# Chief Executive's Review

### Introduction

The purpose of this report is to provide an overview of the activities of the Authority in 2018. IAASA carried out a range of different regulatory roles as set out in detail in the body of this Report. During 2018 this work was impacted most significantly by two events, the passing into law of the 2018 Act, and the decision by the United Kingdom to leave the European Union. My review sets out some of the significant achievements of the Authority during 2018 while also noting the impact of these on the Authority's work.

### Key activities

During 2018 the Authority completed 39 examinations of issuers' financial reports, with a further six in progress at the year end. Staff also completed four thematic reviews on Bank Covenants, Income Tax reporting, Business Combinations and the impact of IFRS 15 on Revenue from Contracts with Customers. The results of these reviews are published to provide useful information to both preparers and readers of financial statements. Key issues which arose in the context of the Authority's reviews included the presentation of items in the Income Statement and the use and prominence of Alternative Performance Measures. Both of these have the potential to undermine the key financial results of an entity. At European level these issues have also given rise to debate, and the Authority has contributed actively to that debate. As discussed in more detail in the context of Brexit, the Authority has placed representatives on a number of Working Groups established by the European Securities and Markets Authority's ('ESMA') Reporting Steering Committee, including one on Narrative Reporting which is actively examining Alternative Performance Measures.

By the end of 2018 the Authority had carried out inspections into all nine of the audit firms that carry out statutory audits of Public Interest Entities ('PIEs') and accordingly fall under its remit. It has also undertaken a further joint inspection with the US regulator, the PCAOB. The relationship with our US counterpart is working well and we look forward to regular engagement in the future.

I noted last year that in general the level of audits inspected had been good. However as a result of our work in 2018 we identified a higher number of findings, relating to both internal firm quality and also to a selection of audits. It is important to note that many of these findings can be resolved through the Authority issuing recommendations, and also that those issues do not in themselves undermine

the audit opinion.

Two audits from the same firm were referred by the Audit Quality Team for investigation. This reflects serious concerns about those audits, and they are the first such referrals under the Authority's direct inspection regime. They will be considered by the Authority under its current Investigation Regulations.

The Audit Quality Team has now commenced the second round of inspections of PIE audit firms. The quality control systems of all firms will be inspected in full over the course of the second round. A higher proportion of individual audits will also be inspected, as such, firms with a higher number of PIE audits will receive a higher proportion of the inspection effort. The selection approach is based on a risk assessment matrix that drives the Authority's inspection schedule. This matrix is now being informed by the output from our first round of inspections. There are also changes within the PIE audit environment, with market concentration reducing. These changes will impact on the number of audits inspected in each firm and the timing of the inspections.

Last year I referred to the arrangement being put in place that allowed members of IIPA to transfer to another RAB, CPA Ireland. Following completion of this process, in January 2018 the IIPA submitted an application requesting the revocation of its recognition as a RAB. Accordingly, and once the Authority had satisfied itself that there had been an orderly transition and there were no outstanding regulatory matters, it revoked IIPA's recognition in March 2018. This was the first time such a process has been undertaken in relation to a RAB since the Authority assumed responsibility for recognition in 2006. This revocation also annulled the IIPA's status as a PAB.

In undertaking the Authority's supervision of the remaining PABs, five visits were concluded in 2018, covering licensing, quality assurance, and investigation and discipline. Arising from those visits, all five PABs have been issued with recommendations for improvements across the respective regulatory functions. Part of the Authority's responsibilities include approving the constitutional documents of the prescribed bodies, and 42 such documents were approved in 2018. On auditing standards, the Authority has devised a work programme to guide it in the development of standards and guidance, and in 2018 a Technical Advisory Panel was established to support the Authority in its work. Our work on the registration of Category 5 liquidators was also substantially completed by the end of the year.

## Chapter 2: Chairperson's Statement & Chief Executive's Review

The 2018 Act was signed into law on 21 September 2018. It sets out additional powers for the Authority in respect of its RAB oversight and audit enforcement functions. Preparation for the enactment of the 2018 Act took place throughout the year, with meetings and engagement with the RABs to ensure that all parties were fully informed and prepared. Arising from the revised enforcement powers to be conferred by the 2018 Act, work continued on the development of our Conduct function, with the creation of new processes and procedures, and the drafting of the relevant Statutory Instruments to update our current procedures, now underway.

The United Kingdom's proposed departure from the European Union will bring about significant change to the structure of the profession in these islands. Historically there has been mutual recognition of members of four of the RABs across both the United Kingdom and Ireland. As audit is an EU competency, this will impact auditors both here and in the UK. The Authority has been preparing for the impact of Brexit throughout 2018, albeit that the precise nature of that impact has been somewhat unclear. Some clarity was brought by the advice of the Attorney General, as communicated by the Department and announced at the Brexit conference hosted by the Authority in October 2018. Nevertheless considerable challenges remain and at the time of writing the nature of Brexit itself is impossible to determine.

Partly in response to Brexit, the Authority took a strategic decision in 2018 to expand its representation on relevant EU and international fora. Staff are now members of eight committees under the auspices of ESMA's Corporate Reporting Steering Committee, including the CRSC itself. On Audit inspection, staff are on 14 separate committees as part of CEAOB, and a further two as part of the global audit regulation forum IFIAR. As the English language is the primary language of international financial reporting and auditing standards, the Irish presence at the EU level in particular will become more important. IAASA also continuously engages with its wider stakeholder base. This includes meetings, presentations and also a wide range of publications as set out in Appendix 4 to this report.

### Concluding remarks

The above is only a snapshot of the activities undertaken by the Authority during 2018. As a small regulator our remit asks an enormous amount of our staff. Their dedication and commitment to fulfilling the Authority's mission is exceptional, and I am deeply grateful for that commitment. I would also like to express my appreciation for the support of the Chairperson and the Board during the year. As the Authority addresses the challenges ahead both that commitment and that support will continue to be vital.

**Kevin Prendergast**  
*Chief Executive*

30 April 2019

## **Chapter 2:** Chairperson's Statement & Chief Executive's Review