



**Irish Auditing & Accounting Supervisory Authority**

# Presentation by IAASA to the Financial Regulator

2<sup>nd</sup> September, 2009

Michael Kavanagh, Head of Financial Reporting Supervision

Helen Hall, Head of Regulatory and Monitoring Supervision

# Disclaimer

The views expressed are ours and do not necessarily reflect the views of the Board or of individual Board members

# Presentation Outline

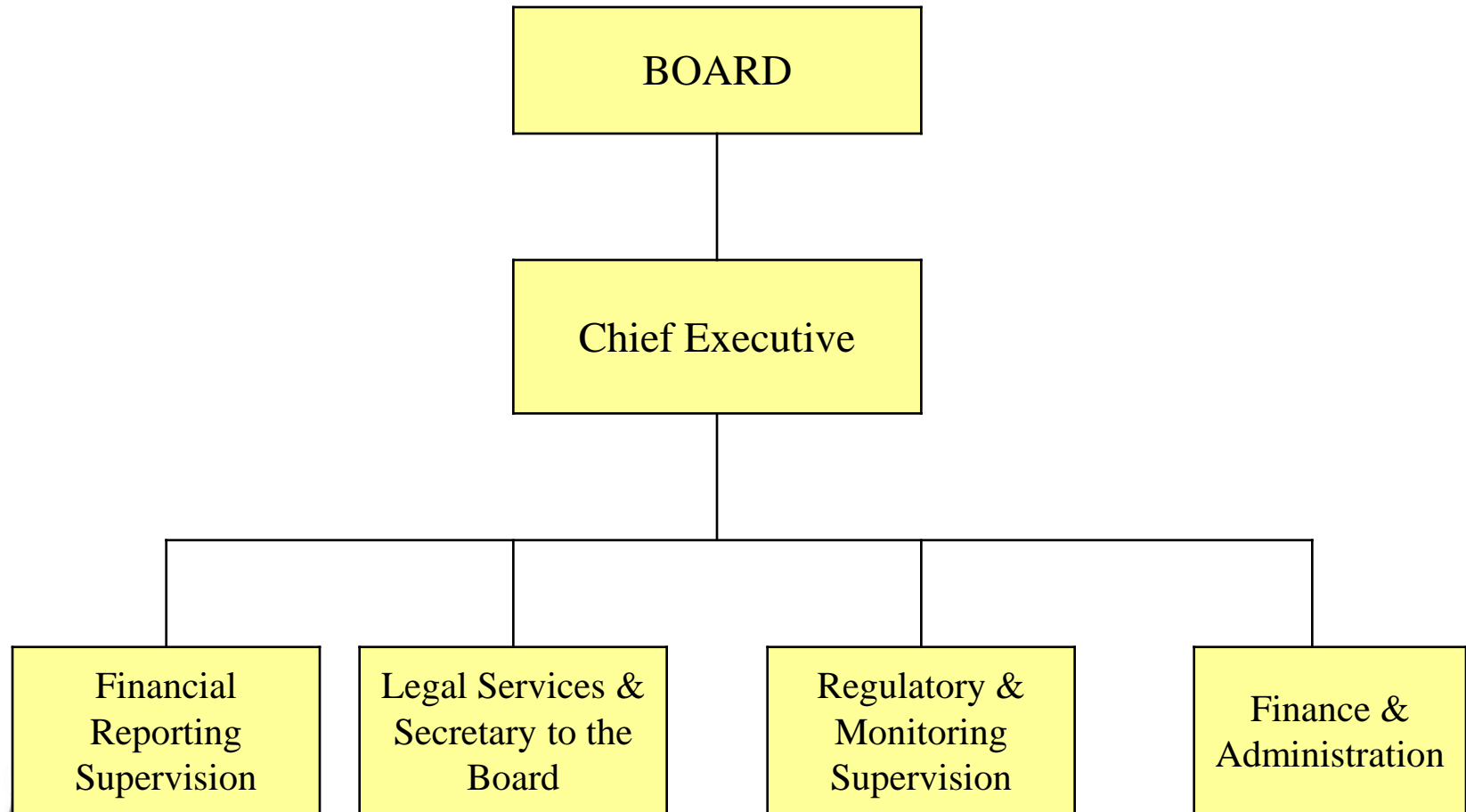
- Overview
- Regulatory and Monitoring Supervision
- Financial Reporting Supervision
- Questions

# Overview

# Statutory Remit (S.8)

- To supervise how the prescribed accountancy bodies regulate and monitor their members;
- To promote adherence to high professional standards in the auditing & accountancy profession;
- To act as a competent authority for the purpose of Article 24(4)(H) of the Transparency Directive; and
- To act as a specialist source of advice to the Minister on auditing and accounting matters.

# Organisation Structure



# Board Composition

- Company ltd. by guarantee - Board comprises 15 directors, nominated thus:
  - 2 (including the Chairperson) nominated by the Minister;
  - Chief Executive
  - 3 nominated jointly by the prescribed accountancy bodies;
  - 9 nominated by the following bodies (1 each):
    - IBEC
    - IAIM
    - Pensions Board
    - Revenue
    - Law Society
    - ICTU
    - ISE
    - IFSRA
    - ODCE
- A maximum of 5 of the 15 directors may be members of prescribed accountancy bodies.

# Regulatory & Monitoring Supervision

# Overview

- RMS's primary object is *“to supervise how the prescribed accountancy bodies regulate and monitor their members”*
- **Nine Prescribed Bodies;**
  - Six Recognised Bodies (ACCA, ICAEW, ICAI, ICAS, ICPAI and IIPA); and
  - Three Ministerial prescribed bodies: AIA, CIMA and CIPFA were prescribed on 6 February 2006 (S.I. No 57 of 2006).

# Supervisory Activities of RMS

The Authority's statutory remit, insofar as it directly relates to the prescribed bodies, can be broadly divided into the following categories:

- supervisory reviews;
- approval;
- investigation/enforcement;
- complaints handling; and
- cooperation / other activities

# Supervisory reviews

- The Authority's supervisory functions include:
  - supervision of the operation of each prescribed body's complaints, investigation, disciplinary and appeal procedures;
  - supervision of how each recognised accountancy body monitors its members;
  - the performance of section 25 reviews of members; and
  - *ex-post* review of bodies' reports on their regulatory and monitoring activities and requiring explanations for variances between planned and actual activity.

# Approach to Supervisory Reviews

- In discharging its supervisory remit over the prescribed bodies, the Authority is adopting the following approach:
  - each body is subject to an on-site review;
  - reviews examine each body's systems, practices and procedures etc.;
  - scope and frequency of subsequent reviews of each body will be determined having regard to appropriate risk factors, including, *inter alia*, results of initial reviews.

# Review Work Considered Under Four Categories

- Governance and its impact on regulation;
- Disciplinary Procedures and Complaints Handling;
- Licensing and registration of members; and
- System for monitoring their members in public practice

# Approach Common to Each Category

- Documentation & understanding of system
- Documentation of organisation and reporting lines
- Selection of a sample of files to confirm the operation of the system
- Attendance at Committee meetings as an observer
- Shadow monitoring visits
- Discussion with staff members

# Approval activities

- The Authority's approval functions include:
  - approval of bodies' constitutions, bye-laws, regulations and standards, together with any subsequent amendments thereto;
  - granting of recognition to accountancy bodies for audit purposes;
  - the attachment of conditions to recognition; and
  - pre-approval of bodies' regulatory and monitoring plans.

# Review of Constitutional Documents

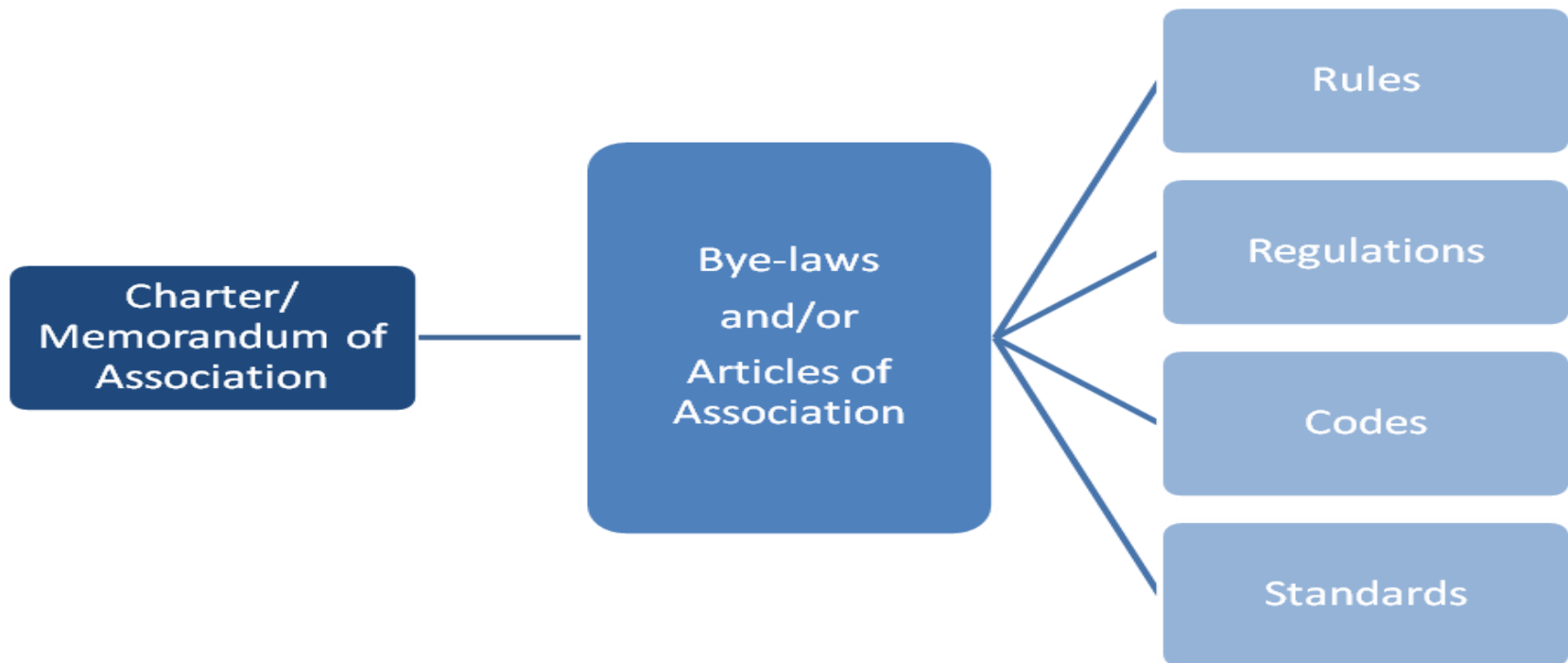
## Section 9 (2) (c) of the Companies (Auditing and Accounting) Act 2003:

*“to require changes to and to approve –*

- (i) The constitution and bye-laws of each prescribed accountancy body, including its investigation and disciplinary procedures and its standards, and*
- (ii) Any amendments to the approved constitution or bye-laws of each prescribed accountancy body, including amendments to its investigation and disciplinary procedures and to its standards;”*

Standards are defined in section 4 of the Companies (Auditing and Accounting) Act 2003 to be “Standards”, in relation to a prescribed accountancy body, means the rules, regulations and standards that body applies to its members and to which, by virtue of their membership, they are obliged to adhere;

# Structure of PAB's constitutional documents



# Investigation/Enforcement

- Conduct of enquiries under section 23 into whether a prescribed body has complied with its approved investigation and disciplinary procedures;
- Where not satisfied that a prescribed body has complied with its approved investigation and disciplinary procedures, the Authority may impose sanctions on that body;
- Undertake investigations under section 24 into possible breaches of the standards of a prescribed body by a member/member firm (Interim Procedures just published); and
- Where a member is found to have committed a breach of a body's standards, the Authority may impose any sanction available to the body of the member plus costs.

# Complaints Handling

- Complaint includes any expression of dissatisfaction with accounting related services and or with the regulation of accountants by the PAB's whether communicated to the Authority by members of the public or otherwise.
- Complaints received by the Authority will, in the first instance, be referred to the member's/firm's regulatory body.
- The Authority will supervise the manner in which such matters are dealt with by those bodies.
- If and when circumstances arise, the Authority will make a determination as to whether a matter has a 'public interest' dimension and, if so, whether a more direct involvement may be appropriate (e.g. pursuant to the Authority's powers under sections 23 or 24 respectively of the act).

# Cooperation / Other RMS Activities

- Enquiries
- Administering the annual reporting process from the prescribed bodies
- Registration of 3<sup>rd</sup> country auditors
- Liaising with other countries' oversight Authorities (EGA OB, IFIAR, POB, PCAOB)
- Interacting with other departments and relevant agencies (e.g. DETE, ODCE, CRO)

# Financial Reporting Supervision

# Principal Functions of FRSU

- To examine whether the financial reports of issuers whose Home Member State is Ireland under the Transparency Regulations complies with the relevant reporting framework
- Liaising with other countries' financial reporting monitoring bodies
- Co-operating in the development of accounting standards and practice notes
- Assisting the Board to discharge its functions as an advisor to the Minister on accounting related matters

# The Transparency Directive (TD)

- Central Bank is the central administrative competent authority
- IAASA is the independent designated competent authority for carrying out functions under Article 24(4)(h) of the TD, i.e.

*...to examine that information referred to in this Directive is drawn up in accordance with the relevant reporting framework and take appropriate measures in case of discovered infringements*

# Who does it apply to and to which financial reports?

- Applies to all issuers with securities (debt and equity) admitted to trading on an EU regulated market i.e.
  - Shares
  - Bonds or other forms of securitised debt
  - Derivative securities
  - Units issued by closed-ended investment funds
- Applies for accounting periods commencing on or after 20 January, 2007
- Therefore, 31 December, 2008 annuals within remit for first time

# Issuers whose Home Member State is Ireland

Effectively means –

- issuers of shares and debt securities denomination <€1,000 listed in regulated EU market with registered office in Ireland;
- issuers of shares and debt securities denomination <€1,000 - that are registered outside EU - that are required to file an annual information document with the Financial Regulator; and
- issuers of debt securities – denomination per unit > €1,000 who have chosen Ireland as their home Member State from among the Member States in which they have their registered office and those Member States where their securities are listed on a regulated market

## Approximate scale and composition of Transparency Regulation's constituency as at 31 December 2008

Category	No. of issuers in category	Half-yearly financial reports issued per annum	Annual financial reports issued per annum	Total no. of periodic financial reports issued per annum
Equity	35	35	35	70
Funds	56	56	56	112
Debt	134	84	134	218
<b>Total</b>	<b>225</b>	<b>175</b>	<b>225</b>	<b>400</b>

Certain debt issuers are exempt from the requirement to make public half-yearly financial reports for a period of 10 years

# Methodology for selection of entity for review (1)

Selection criteria include:

- Risk of material misstatement in the financial statements
- Potential impact on users of financial statements in the event of material misstatement
- Supplemented with random selection of financial statements for review

# Methodology for selection of entity for review (2)

Risk factors include:

- financial structure and business/economic trends
- financial position and ratios
- industry specific issues
- audit qualifications and related issues
- corporate governance and control environment issues
- incidence of related party transactions
- incidence of business combinations and/or disposals
- administrative, court and/or regulatory actions
- third party signals (e.g. complaints received by IAASA, press reportage, etc)

# Methodology for selection of entity for review (3)

Assessment of impact of material misstatement:

- share trading activity and volatility in stock price
- market capitalisation
- number and nature of investors
- nature of securities traded
- public profile

# IAASA's approach towards issues

- What a review entails.....
- Review issues addressed, in the first instance, through correspondence with issuers with request to respond .....  
What an IAASA letter contains
- Additional correspondence where further clarification or further elaboration is required
- Where relevant/applicable, further action determined having regard to significance of issues arising and directors' responses to matters arising
- Issues being posted to EECS database will also inform IAASA's review activity/focus and IAASA decision may be posted to EECS database.
- Has not, yet, been necessary to invoke powers

# IAASA's statutory powers

- Minimum requirements as per TD (and more) including power to
  - require auditors and issuers to provide information and documents
  - require an issuer to disclose the required information
  - make public the fact that an issuer is failing to comply with its obligation
  - carry out on-site inspections

## Authority responses to matters arising from reviews completed during 2008

<b>Issuer category</b>	<b>Number reviews completed</b>	<b>Undertakings regarding future reporting</b>	<b>Publication of amended financial report</b>
<b>Equity</b>	15	10	1
<b>Fund</b>	17	11	9
<b>Debt</b>	19	18	18
<b>Total</b>	51	39	28

# Findings to date

- Half-yearly financial reports
- Annual financial statements

# Other EU Member States' financial reporting monitoring bodies

- IAASA an active participant in EECS (European Enforcement Co-ordination Sessions) – sub committee of CESR
  - monthly plenary meetings
  - Member of Agenda Group
  - Member of Enforcement Methodology Group
- EECS – Forum for discussing and co-ordinating “enforcement” decisions in EU/EEA
- Publication of decisions from database – see [www.iaasa.ie](http://www.iaasa.ie)
- CESR/EECS liaising with various parties on matters of mutual interest

# Questions?

# Contacts & Further Information

**IAASA**  
**2<sup>nd</sup> Floor**  
**Willow House**  
**Millennium Park**  
**Naas**  
**Co Kildare**

**Tel: + 353 45 983600      Fax: + 353 45 983601**

**e-mail: [info@iaasa.ie](mailto:info@iaasa.ie)**

**Web: [www.iaasa.ie](http://www.iaasa.ie) / [www.iaasa.eu](http://www.iaasa.eu)**