



## **PRESS STATEMENT – FOR IMMEDIATE RELEASE**

### **2009 ANNUAL REPORT**

#### ***‘A year dominated by the review of financial institutions’ financial reporting and statutory Enquiry activity’***

The Irish Auditing & Accounting Supervisory Authority (‘IAASA’) has today published its Annual Report for 2009.

Marking the publication of the report, Chairperson, Ms. Karen Erwin, said:

*‘The events and financial revelations of the last two years have had a profound effect not only on the economy but on Irish society as a whole. The scale of the losses sustained by our banks and building societies as a result of those institutions’ business practices has resulted in the Exchequer having to provide substantial financial support.*

*These events have resulted in a severe loss of confidence in our financial institutions, in those charged with their governance and in the system of financial regulation that prevailed over recent years. More widely, these events have resulted in publicly expressed concerns as to, amongst other things, the business models and governance regimes operated by the financial institutions concerned, the reliability of financial institutions’ statutory financial reporting, the financial reporting standard setting process and whether the audit profession has properly discharged its legal and professional responsibilities. In addition, by virtue of the fact that a number of individuals associated with these events are members of the accountancy profession, the profession’s capacity to regulate itself has, rightly, come under increased scrutiny.*

*The foregoing has occurred at a time of continuing severe economic adjustment, characterised by a marked deterioration in the public finances, the collapse of the property and construction industries, reduced consumer demand, increased unemployment, reduced access to credit and national, as well as international, economic uncertainty. These factors have added significantly to the challenges facing those charged with preparing and auditing financial statements and those promulgating associated standards.*

*It is against this backdrop that, during 2009, IAASA discharged its primary statutory responsibilities of monitoring certain listed entities’ statutory financial reporting and supervising the accountancy bodies’ regulation and monitoring of their members and member firms. Within those work streams, 2009 was a year that was very much dominated by the review of financial institutions’ financial reporting and statutory Enquiry activity.’*

Commenting on IAASA's financial reporting review activity, Chief Executive, Mr. Ian Drennan, said:

*'During 2009, whilst maintaining an overall level of review activity consistent with the preceding year, in accordance with our risk based approach we performed examinations of Anglo Irish Bank Corporation's financial statements for the year ended 30 September, 2008 and six months ended 31 March, 2009 respectively. In addition, having examined and sought certain information and explanations from the bank's directors in respect of the bank's financial statements for the six months ended 31 March, 2008 during 2008, we revisited those financial statements and the directors' associated responses during 2009 in light of certain information that subsequently came into the public domain.*

*Arising from those reviews, we engaged extensively with Anglo's directors, seeking information and explanations in respect of a range of matters including the financial reporting issues arising from certain inter-institutional transactions with Irish Life & Permanent plc, the temporary refinancing of loans and certain loans secured on Anglo shares. On the issue of inter-institutional transactions, we also sought certain information and explanations from IL&P's directors.*

*In conducting our analysis of these issues we liaised with other interested parties as necessary and, whilst our examination of certain of these issues was ongoing at year end, as a result of our examinations, we obtained undertakings from both Anglo's and IL&P's directors in respect of future financial reports. We also shared certain information with the Financial Regulator, the Director of Corporate Enforcement, An Garda Síochána and the Special Investigator appointed by the Institute of Chartered Accountants in Ireland to investigate the role that certain Institute members may have played in events at Anglo.*

*In the context of financial institutions' and other financial services entities' financial reporting more generally, in accordance with our risk based approach, we probed, and as considered necessary, challenged directors' judgements on a range of issues including the impairment of financial assets, the valuation of financial assets in illiquid markets and the provision of disclosures in respect of transactions with related parties, including in respect of the impact of the State's intervention in the banking system. These engagements similarly resulted in the provision of undertakings to effect improvements to future financial reports in a number of respects in users' interests'. (Further details of matters in respect of which undertakings were secured are provided in Chapter 4 of the Report).*

Speaking about IAASA's statutory Enquiry activities, Mr. Drennan commented as follows:

*'Under the model of supervised self regulation provided for in legislation, primary responsibility for regulating and monitoring members of the accountancy profession, including the conduct of investigations into members' conduct, resides with the accountancy bodies. IAASA's statutory role is to approve the professional bodies' procedures, including their investigation and disciplinary procedures and, as necessary, to conduct statutory Enquiries for the purpose of establishing whether non-compliance with those procedures has occurred. In circumstances where non-compliance is found to have occurred, the options available to IAASA include annulling decisions, requiring the conduct of fresh investigations and the imposition of monetary sanctions.*

*During 2009 one new Enquiry was initiated while a further Enquiry progressed from Preliminary to Full status on foot of a prima facie case having been established. A further Enquiry was completed during the year, with an adverse finding being made. IAASA's decision in this instance was confirmed by the President of the High Court on 17 May, 2010. A fourth Enquiry, which had been ongoing at the beginning of the year, was substantially progressed during the year.'*

Commenting on the current legislative model governing the accountancy and audit professions, Ms. Erwin said:

*'While a number of important actions have been taken to date that will serve to address certain of the concerns underlying the loss of confidence that has been sustained by the profession, there is further scope to allay public concern and to form a basis for restoring confidence. In that context, there is a clear opportunity for the accountancy bodies, in who responsibility resides under the prevailing model of supervised self regulation, to formulate appropriate responses.*

*Whilst the current model of supervised self regulation was deemed to be appropriate in 2003 when the legislation was enacted, IAASA's assessment is that there is merit in this model now being reviewed in certain material respects. Our conclusion in this regard has been informed by a combination of the practical operation of the existing legislation and developments that have occurred since its enactment.*

*By requiring IAASA to focus on the activities of the professional bodies as opposed to on individual members and member firms, the current legislative model renders it difficult for us to gain any direct and meaningful insight into the then current operations of audit firms and, in particular, their approach towards audit quality, particularly in the case of those performing audits of listed entities.*

*In contrast, it is now widely accepted best practice, in both the EU and internationally, that, in the interests of strengthening and enhancing independence, oversight authorities should have a direct involvement in the quality assurance of audit firms that perform audits of listed entities. In the EU, this was reflected in a Recommendation issued by the European Commission in 2008 for the purpose of assisting Member States with their transposition of the Statutory Audit Directive.*

*Although this Recommendation was not followed in the recent transposition of the Directive in Ireland, IAASA continues to support implementation of the Recommendation's provisions as an important means of strengthening the current regulatory arrangements.*

*Further, the current legislative emphasis on supervised self regulation, combined with the prevailing funding arrangements, render the initiation of investigations by IAASA into individual members of the profession to be problematic and costly both to the Exchequer and to those accountancy bodies whose members are not under investigation. These factors combine to give rise to unrealistic expectations as to what the Irish oversight system, as currently configured and resourced, can deliver.*

*There are clear differences between what an audit, as provided for by law and professional standards, is intended to deliver and certain stakeholders' expectations as to what an audit should deliver. Against that backdrop questions are being asked both domestically and internationally as to the usefulness of the statutory audit, and indeed financial reporting, as currently configured.*

*However, given that the scope and nature of statutory audit is set at EU level and financial reporting and auditing standards are set internationally, Ireland's response to this question will have to be formulated within that context. Indeed, European Internal Markets Commissioner, Mr. Barnier, has recently indicated his intention to publish a Green Paper on auditing in the autumn. It is clear, therefore, that this process will take some time. However, this, separate, debate should not, in our view, prevent an examination of those considerations set out above from taking place in the short term and, for our part, IAASA will be happy to continue to contribute our views and to engage with other stakeholders in an effort to ensure that the regulatory framework is capable of supporting and enhancing public confidence in the profession into the future.*

*Having regard to the resources available to it, IAASA must, when discharging its statutory responsibilities, adopt a risk based approach. Unfortunately, since its inception, for various reasons, IAASA has never had, and still does not have, a full complement of staff. At the same time the duties allocated to it have been substantially increased and, inevitably, this will adversely affect our capacity to discharge our statutory responsibilities in the coming years.*

*In relation to the composition of the IAASA Board, the legislation allows for three members to be nominated by the accountancy bodies coming within our supervisory remit. However, since January 2009 there has only been one such Board member as a consequence of the accountancy bodies having been unable to agree on their other two nominees. Whilst this is a matter of ongoing concern to the Board, there is no provision in the current legislation to enable the Minister to make appointments, absent the profession's agreement'.*

### **Other highlights**

Other highlights from the Report include:

- the examination of 48 financial reports, which resulted in:
  - 229 financial reporting matters being raised with reviewed companies' directors;
  - the publication of amended financial reports in 8 instances; and
  - the provision of undertakings to improve future financial reports in 33 instances;
- the ongoing supervision of the Institute of Chartered Accountants in Ireland's investigation into the role that certain of its members may have played in events at Anglo, which included ongoing attendance at all meetings of the Institute's Complaints Committee since December, 2008 and regular meetings with the Special Investigator;
- the attachment of Conditions to the audit recognition of the Institute of Chartered Accountants in Ireland and the Institute of Incorporated Public Accountants;
- the vetting of proposals by the Institute of Incorporated Public Accountants to issue new audit authorisations on foot of a previously attached Condition;
- the conducting of four statutory Enquiries under section 23 of the Act;
- the publication of observations on selected financial reporting matters for the benefit of listed entities' Boards and Audit Committees; and
- the designation of IAASA as competent authority for the registration of third country (i.e. non EU) auditors.

### **Enquiries**

Enquiries relating to the foregoing should be directed to Q4 Public Relations on 01 475 1444.

**IRISH AUDITING & ACCOUNTING SUPERVISORY AUTHORITY**

**24 JUNE, 2010**

## NOTE FOR EDITORS

### **Statutory objects**

IAASA's principal responsibilities, as laid down by the Companies (Auditing and Accounting) Act 2003 (as amended), include:

- supervising the Prescribed Accountancy Bodies' ('PABs') regulation and monitoring of their members and member firms;
- monitoring certain listed entities' statutory financial reporting for compliance with relevant reporting frameworks;
- acting as the competent authority with supervisory functions under the EU Statutory Audit Directive; and
- acting as competent authority for the registration of third country (i.e. non EU) auditors under certain transitional arrangements.

### **Supervision of the Prescribed Accountancy Bodies**

Nine PABs come within IAASA's supervisory remit. They are the:

- Association of Chartered Certified Accountants (ACCA);
- Association of International Accountants (AIA);
- Chartered Institute of Management Accountants (CIMA);
- Chartered Institute of Public Finance & Accountancy (CIPFA);
- Institute of Chartered Accountants in England & Wales (ICAEW);
- Institute of Chartered Accountants in Ireland (ICAI);
- Institute of Chartered Accountants of Scotland (ICAS);
- Institute of Certified Public Accountants in Ireland (ICPAI); and
- Institute of Incorporated Public Accountants (IIPA).

As at 31 December, 2009, the Prescribed Accountancy Bodies' aggregate:

- membership resident in the State stood at 28,547; and
- student membership resident in the State stood at 18,644.

### **Monitoring of certain listed entities' statutory financial reporting**

IAASA's financial reporting review constituency comprises of approximately 170 listed entities across the categories of equity issuers, issuers of debt instruments and closed ended funds. Constituent entities publish approximately 300 financial reports per annum.

### **Statutory Audit Directive**

The EU Statutory Audit Directive (Directive 2006/43/EC) was transposed into Irish law on 20 May, 2010. Under the transposing Regulations, IAASA has been conferred with substantial additional supervisory and related responsibilities.

### **Third country auditors**

During 2009 IAASA was conferred with additional responsibilities under EU mandated transitional arrangements. Under these arrangements IAASA has responsibility for registering auditors and audit entities from certain third (i.e. non EU) countries in order that those auditors and audit entities can continue to issue legally valid audit opinions in the EU.

**Resources**

IAASA has a staff complement of 12 and its expenditure for the year ended 31 December, 2009 was €2.123m. IAASA is funded through a combination of Exchequer funding and statutory levies on the PABs.