

2021

Audit Quality Unit

**Transparency  
Reporting –  
Thematic  
Review**

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## **Mission**

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.

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## **About IAASA**

The Irish Auditing and Accounting Supervisory Authority ('IAASA' or 'the Authority') is designated as the competent authority in Ireland responsible for quality assurance reviews of statutory auditors and audit firms that carry out statutory audits of public-interest entities (audits of PIEs).

The Authority accepts no liability and disclaims all responsibility for the consequences of anyone acting or refraining from acting in reliance on the information contained in this document or for any decision based on it.

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# 1. Introduction

## Background

Statutory audit firms play a fundamental role in ensuring the credibility of the financial information published in audited financial statements.

Transparency reporting provides audit firms an opportunity to:

- present information about the audit firm, its processes and systems, its governance structure, and its internal quality control system to promote confidence and enhance public trust (where warranted)
- provide relevant, reliable and useful information that facilitates engagement between firms and users of financial information
- communicate the firm's assessment of challenges they are facing in relation to audit quality, as well as the effectiveness of their actions to overcome them

Transparency reporting should provide information that better enables stakeholders to assess the appropriateness of audit firms to undertake statutory audits. It can assist those charged with governance in holding an audit firm's leadership to account for key governance and performance matters.

## EU regulatory requirements

EU Regulation 537/2014 ("the Regulation") Article 13 requires audit firms that carry out statutory audits of public interest entities ("PIE audit firms") to make public an annual transparency report. The transparency report must be published within four months of the end of the PIE audit firms' financial year.

PIE audit firms are required to publish a transparency report that includes details of their:

- legal structure and ownership
- network, where the PIE audit firm is a member of a network
- governance structure
- internal quality control systems
- process of continuing education
- partner remuneration process

## Transparency reporting in Ireland

In Ireland, eight PIE audit firms prepared transparency reports which were published in 2019 and 2020 (the review period).

- BDO
- Deloitte
- EisnerAmper Audit Limited
- EY
- Grant Thornton
- KPMG
- Mazars
- PricewaterhouseCoopers Ireland

## 2. Objective and scope of the thematic review

### Objective of this thematic review

The objective of this thematic review was to assess the effectiveness of transparency reporting by PIE audit firms in Ireland, to share areas of good practice and other reporting innovations, and to highlight areas where firms need to make improvements.

Specifically, the thematic review focused on the following areas:

- i. compliance – determining the level of compliance with regulatory requirements
- ii. accessibility – assessing the ease with which transparency reports are accessed
- iii. good practice – exploration of areas of good practice

### Scope of this thematic review

IAASA performed a desktop review of the transparency reports published during the review period of each of the eight PIE audit firms in Ireland. The reports reviewed were the most recent published reports available at the time of IAASA's fieldwork.

## 3. Thematic review findings

### Compliance with regulatory requirements

Each transparency report was reviewed for compliance with the Regulation. IAASA found that transparency reports were generally compliant with the Regulation, with some exceptions set out below.

#### Clarity on the governance structure of the firm

Transparency reports must provide an overview of the legal structure and ownership of the audit firm, including a description of the network and the legal and structural arrangements in the network. A description of the governance structure of the audit firm is also required. (EU Regulation 537/2014 Article 13, paragraph 2 a), b))

IAASA noted that the disclosures in the transparency report of one PIE audit firm around its governance structure did not provide sufficient clarity on the structural arrangements of the firm (and network). In particular, the transparency report did not clearly set out how operational and reporting lines were structured.

The transparency report was subsequently updated to include the omitted information.

### **Disclosure omissions**

IAASA noted that the transparency report of one PIE audit firm omitted the following two required disclosures:

- Categorisation of the total turnover of the Firm to show (i) revenues from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity; and (ii) revenues from the statutory audit of annual and consolidated financial statements of other entities. (EU Regulation 537/2014 Article 13, paragraph 2 k))
- A description of the Firm's policy concerning the rotation of key audit partners and staff. (EU Regulation 537/2014 Article 13, paragraph 2 j))

The transparency report was subsequently updated to include the omitted information.

### **Updating published transparency reports**

The Regulation permits an audit firm to update its published transparency report. In such a case, the audit firm is required to indicate that it is an updated version of the report and the original version of the report shall continue to remain available on the website. (EU Regulation 537/2014 Article 13, paragraph 1)

IAASA noted that one PIE audit firm updated their published transparency report, but failed to indicate that this was an updated version of the report. The original version of the report did not remain available on the website.

### **Signing the transparency report**

The transparency report must be signed by the statutory auditor or the audit firm, according to the Regulation. (EU Regulation 537/2014 Article 13, paragraph 3)

IAASA noted that the published transparency report for one PIE audit firm was not signed.

### **List of audited public interest entities**

The Regulation is prescriptive in relation to what needs to be included in the transparency report. The transparency report is required to include a list of public interest entities for which the audit firm carried out statutory audits during the preceding financial year, according to the Regulation. (EU Regulation 537/2014 Article 13, paragraph 2 f))

IAASA noted that one PIE audit firm included a list of public interest entities as at its financial year-end date in the transparency report whereas the Regulation requires a list of public interest entities for which the PIE audit firm carried out statutory audits during the preceding financial year.

PIE Audit firms should ensure that the language used in the transparency report is consistent with the regulatory requirement, and the listing of PIE entities included in the transparency report is in accordance with the Regulation.

### Key recommendations

- Transparency reports should clearly set out the firm's structure, including its operations and reporting lines.
- Transparency reports should clearly set out all disclosures required by the Regulation.
- If updating a published transparency report, firms should follow the guidance set out in the Regulation, requiring the audit firm to indicate that it is an updated version of the report, and requiring the original version of the report to remain on the website.
- Transparency reports should include the signature(s) required by the Regulation.
- The listing of audited PIEs included in the transparency report should be disclosed in accordance with the requirements of the Regulation.

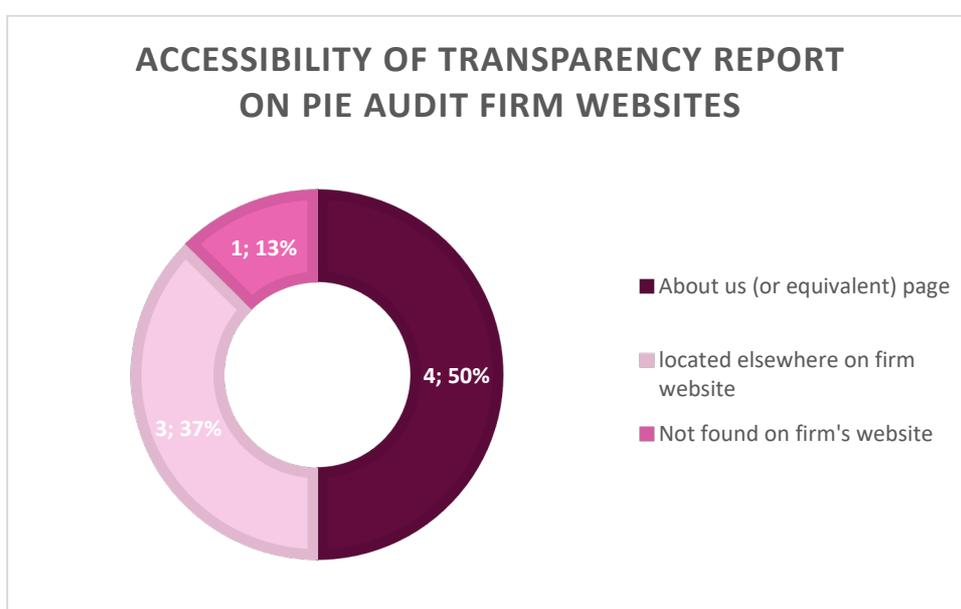
## Accessibility

IAASA assessed the ease with which each of the eight PIE audit firm's transparency reports could be accessed.

### PIE audit firms' websites

IAASA found that the transparency reports were typically located in the 'about us' section of the PIE audit firms' website, navigated to with relative ease from the homepage. For three PIE audit firms, transparency reports were neither located on the homepage or the 'about us' section of the website, but located elsewhere on the firms' websites and more difficult to find. In the case of one PIE audit firm, IAASA was unable to find the transparency report on the firm's website.

IAASA noted that five PIE audit firms included a short narrative on their website explaining what a transparency report was and why users should read it.



Greater consistency and signposting of where a user can find an audit firm's transparency report would help users and stakeholders to access it more easily. This is particularly helpful if users are simply trying to find out about the audit firm but may not be aware that a transparency report exists or what its purpose is.

### Search engines

IAASA notes that the transparency report of each of the eight PIE audit firms could be directly sourced by searching for 'transparency report' and the 'PIE audit firm's name' in a search engine

#### Key recommendations

- Firms should include their transparency report within the 'About us' page (or equivalent) of their website, with a short narrative explaining what a transparency report is and why a user should read it.
- IAASA encourages firms to utilise social media to communicate publication of annual transparency reports.

## **Good practice and other innovations:**

IAASA observed a number of areas of good practice applied in the transparency reports. IAASA encourages firms to consider the areas of good practice set out below when preparing and publishing transparency reports.

### **General observations**

IAASA encourages the publication of transparency reports that are readable and easy to understand. In particular, IAASA encourages limiting the use of technical jargon, shortening narratives to ensure that they are concise, including standing data in appendices to the report where relevant and possible, and making use of diagrams and infographics.

### **Use of diagrams and infographics**

IAASA noted a number of examples of diagrams and infographics included in transparency reports, making information easier to read and understand.

### **Use of checklist to ensure completeness of disclosure requirements**

The clarity with which each transparency report complied with the disclosure requirements of the Regulation.. As an example of good practice, one PIE audit firm included as an appendix to their transparency report a checklist which set out each of the disclosure requirements of the Regulation, and explained how the transparency report complied with each of the disclosure requirements, including an internal reference where relevant.

### **Statements of compliance**

The Regulation is prescriptive in relation to the statements required to be included in the transparency report. IAASA noted some inconsistencies in how the required statements were presented across the eight transparency reports. The inconsistencies identified were across the location of the statements within the transparency report, adherence to the wording of the Regulation, and the ease with which the statements could be located within the transparency report.

IAASA notes some examples of good practice. A number of transparency reports presented individually titled paragraphs for each required statement. Some transparency reports presented the statements within bodies of text. One transparency report included an appendix containing each of the required statements, which were worded in line with the requirements of the Regulation. (EU Regulation 537/2014 Article 13, paragraph d), g) and h))

### Consistency of disclosure of turnover and categorisation

Transparency Reports were compliant with the requirements of the Regulation in relation to the disclosure of total turnover of the audit firm, and split across the relevant categories. (EU Regulation 537/2014 Article 13, paragraph 2 k))

To allow for comparability of turnover across PIE audit firms for users of transparency reports, IAASA recommends that the transparency reports for all firms present this information in tabular format using the template set out below.

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Turnover for the year ended DDMMYYYY is presented in accordance with the EU Regulation No. 537/2014 and categorised as follows:

1. Revenues from the statutory audit of annual and consolidated financial statements of PIEs, and entities belonging to a group of undertakings whose parent undertaking is a PIE
2. Revenues from the statutory audit of annual and consolidated financial statements of other entities
3. Revenues from permitted non-audit services to entities that are audited by the audit firm
4. Revenues from non-audit services to other entities

<b>Turnover</b>	<b>20XX €'000 / €'m</b>	<b>20XX-1 €'000 / €'m</b>
Statutory audit for PIEs	xxx	xxx
Statutory audit for other entities	xxx	xxx
Non-audit services provided to audit clients	xxx	xxx
Non-audit services provided to other entities	xxx	xxx
<b>Total</b>	<b>xxx</b>	<b>xxx</b>

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### Disclosure of challenges and risks

Transparency reports are more useful to users when they are balanced, and explain clearly the challenges and risks that firms face in seeking to deliver consistently high-quality audits, as well as the firm's assessment of how successful they are at meeting those challenges.

IAASA encourages firms to be more open in disclosing the challenges and risks that they are facing, the impact/potential impact on delivering audit services, and actions and plans in place to address those challenges and risks within their transparency report.

### Key recommendations

- IAASA encourages the use of diagrams and infographics (especially for information that is not always easy to digest) to help deliver messages in a way that is easily understandable to users.
- PIE audit firms should consider including checklists as appendices to their transparency report to help ensure the completeness of disclosures requirements of the Regulation..
- All statements required by the Regulation to be included within transparency reports should be clearly distinguishable.
- To allow for comparability of turnover across PIE audit firms, transparency reports should present turnover information in tabular format using the template set out in this document.
- Firms should be more open in disclosing challenges and risks that they are facing in the provision of audit services.

## 4. Concluding summary

With some exceptions, IAASA found that transparency reports were typically prepared to a good standard, compliant with the Regulation and readily accessible.

Although there were some observations identified around compliance and accessibility, there were several examples of good practice in transparency reporting. IAASA encourages firms to consider these areas of good practice and apply them in the preparation and publication of their annual transparency report.

Relevant and comparable transparency reporting will help facilitate greater engagement between auditors and users of the transparency reports. This is important for auditors in enhancing public trust and ultimately should help improve audit quality for the intended users. Considered alongside quality assurance review reports that IAASA publishes, transparency reports should help ensure that those with an interest in audit quality across the market, and those choosing auditors, have appropriate and balanced information.



**Irish Auditing and Accounting  
Supervisory Authority**

Willow House  
Millennium Park  
Naas, Co. Kildare, Ireland

Phone: +353 (0) 45 983 600  
Email: [info@iaasa.ie](mailto:info@iaasa.ie)

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