Irish Auditing and Accounting Supervisory Authority,

Millennium Park,

Naas,

Co. Kildare

20th July 2020

Submitted by email to: submissions@iaasa.ie

Dear Sir/Madam,

Consultation Paper – Proposals to revise the Ethical Standard for Auditors (Ireland)

We are pleased to have this opportunity to respond to the consultation regarding the proposal to revise Ethical Standards for Auditors (Ireland), certain International Standards on Auditing (Ireland), the International Standard on Quality Control 1 and the Glossary of Terms.

We strongly support the "think small first" approach to the development of standards and in particular the focus of the IAASB's project, "Audits of Less Complex Entities". It is essential that in considering the development of standards that scalability is achieved.

It is with this in mind, that the responses to the questions outlined below have been formulated.

It is noted that the FRC conducted an impact assessment as part of its consultation for the UK market, but we note with disappointment that this has not been done in the context of the Irish market.

We believe that the audit market in Ireland differs substantially from the UK market at the smaller entity end of the scale given the loss of audit exemption implications for companies who file their annual returns late with CRO. This we believe results in proportionately more small and micro companies requiring statutory audit than would be required in the UK. Such small companies would typically have an SMP firm as their auditor.

We welcome the approach of this consultation to provide for a closer alignment of the Ethical Standard with the IESBA Code of Ethics and consider that this should allow for the easier navigation of ethical standards by auditors.

However, there are a number of instances where these principles have not been achieved by the proposed changes and we have set these out below in response to the questions posed by the consultation.

1. In the context of IAASA's policy to make minimal amendments to the UK standards, are there any amendments proposed that, in your opinion conflict with Irish or EU law?

During the course of our review of the proposed amendments, we have not identified any amendments proposed, that in our opinion would conflict with Irish or UK law. With that said, it will be essential going forward, in light of Brexit, that the potential for divergence continues to be closely monitored.

We also note that fundamental changes to the UK audit market have been proposed through the wide-ranging Brydon review of audit, and consider therefore that the ongoing approach to the issue and approval of UK standards for the Irish market, to be inappropriate.

2. In the context of IAASA's policy to make minimal amendments to the UK standards, are there any areas not identified in this consultation paper where there are distinct differences between the Irish and UK markets which, in your opinion, would impact on the applicability of the proposed amendments to the standards in Ireland?

As outlined above we believe that the Irish and UK audit market differ, given the likelihood that more SME statutory audits are undertaken.

With this in mind, we believe that the following aspects of the amendments will be challenging for SME audits;

- **Requirement to report breaches of the Ethical Standard for Auditors (Ireland) on a biannual basis**

  In particular, we are concerned that this requirement goes beyond the requirement of the IESBA Ethical Standard. We believe that the requirements of the IESBA code are more appropriate, given that the Code provides for the evaluation of the significance of the breach of the code and its impact on the firm's objectivity and ability to issue an audit report. The Code also outlines the factors that a firm should consider when assessing a breach.

  The biannual requirement to report **all** breaches of the Code to the firm's regulatory body, regardless of its significance or its impact on the audit process and report, we believe, will result in an overly burdensome set of procedures and reporting obligations for SMPs.

- **Requirement for the audit report for all audits to explain the extent to which the audit was considered capable of detecting irregularities, including fraud.**

We are concerned that this new requirement may result in a boilerplate approach to the consideration and explanation of the audit approach to this area, limiting the usefulness of the proposed requirement.

The IAASB's discussion paper – Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs, identified ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, as particularly problematic in terms of its application to a "less complex entity". The proposed amendment which would result in the audit report explaining to what extent the audit was considered capable of detecting irregularities, including fraud, we consider, to be overly onerous.

The definition of "irregularity" which is deemed to correspond to the definition provided by ISA (Ireland) 250 of non-compliance, is extremely broad and we believe problematic in terms of the proposed new reporting requirements.

Non-compliance – Acts of omission or commission intentional or unintentional, committed by the entity, or by those charged with governance, by management or by other individuals working for or under the direction of the entity, which are contrary to the prevailing laws or regulations. Noncompliance does not include personal misconduct unrelated to the business activities of the entity.

We do not believe that such a requirement for the audits of SMEs has achieved the principle of scalability.

3. As noted in section 4 above, the FRC has expanded the scope of the non-audit services requirements applicable to PIEs to include 'other entities of public interest', as defined in the FRC's glossary of terms. In your view, should IAASA expand the scope of the non-audit services requirements applicable to PIEs to include 'other entities of public interest' in Ireland?

We do not believe that it is necessary to do so.

4. Are there any matters set out in section 4 above that should, in your view, be

reflected in the revised standards in Ireland?

We have not identified any such matters.

5. Is the proposed effective date, i.e. for financial periods beginning on or after 15 October 2020, appropriate?

We believe that an additional twelve months would be necessary to give audit firms the required time to make the necessary changes to their policies and procedures, particularly in the areas of concern noted in our response. It should be noted that the 2020/21 audit process will be particularly challenging given the impact of COVID-19 on the Irish economy and of the additional requirements which will be in place in terms of changes introduced by the revisions made to ISA (Ireland), 570 Going Concern.

If you have any queries on any aspect of our response, please do not hesitate to contact us.

Yours sincerely,

Emer Kelly

Emer Kelly
Secretary – Audit Practices Sub Committee