

# All Change – a New Auditing Framework for Ireland

The implementation in June 2016 of Statutory Instrument No 312 of 2016 (S.I. 312 of 2016) covering the statutory audit, resulted in the responsibility for the issue and approval of auditing standards to transfer from the Financial Reporting Council (FRC) in the UK to the Irish Auditing and Accounting Supervisory Authority (IAASA).

For the audit of financial periods beginning before 17<sup>th</sup> June 2016, the FRC's Ethical Standards ES 1-5 and ISA's (UK and Ireland) continue to be the appropriate standards.

The ISA's (Ireland) and the Ethical Standard for Auditors (Ireland) 2016 are mandatory for use in the audit of statutory financial statements for Irish companies with periods beginning on or after 17<sup>th</sup> June 2016 with audit reports issued after 1<sup>st</sup> February 2017. For many audit firms' the first audit that they will encounter using the new

framework will be for December 31<sup>st</sup> 2017 year ends, although the standards are effective for post 30<sup>th</sup> June 2017 year ends.

Substantial changes have been introduced for the audits of Public Interest Entities (PIE's).

This article focuses primarily on the changes required for the auditors of non-PIE clients. Audit firms will need to carefully consider the changes required to be made to their auditing procedures, financial reporting software and ISQC1 manuals.



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▶ Continued on Page 38

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► Continued from Page 37

Audit programmes and documentation should be reviewed to ensure it is updated to meet the new requirements. Staff training for all audit staff is essential.

The CPA Audit Technical Resource has been updated to reflect changes to the standards

### Audit reports

There has been much focus post the economic crash on the role of the audit process and the resulting audit report. The usefulness of the audit report to the members of a company and to a

wider audience has been questioned and scrutinised. As a response, changes to ISA (Ireland) 700 require a more entity specific and informative audit report.

The following changes have been introduced for all audit reports;

- The order of the auditor's report has been revised to require the opinion section to be presented at the top of the report.
- A more detailed evaluation is required of the financial statements with regard to requirements of the financial reporting framework.
- Detailed mandatory wording to be used in the audit report.
- A separate additional section in the audit report headed "Conclusions relating to Going Concern" required.

Further changes have been made to the form and content of the audit report for listed and PIE clients. Such audit reports require that a section addressing key audit matters be included in accordance with ISA (Ireland) 701 and an explanation of how materiality was applied in planning and executing the audit.

Conforming amendments have been made to ISA (Ireland) 705, Modifications to the Opinion in the Independent Auditors Report and ISA (Ireland) 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditors Report.

Additional requirements have also been introduced where "Other Information" is presented in the financial statements.

Sample audit reports are available on the CPA Ireland website.

### Going concern

Additional reporting is now required of the auditor regarding the matter of going concern.

Where the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances and no material uncertainty has been identified, the auditor shall report by exception in accordance with paragraph 43-1 of ISA (Ireland) 700 in a separate section in the auditor's report with the heading "Conclusions relating to Going Concern".

Where a material uncertainty exists, the auditor highlights it in a separate section of the auditor's report, provided that the circumstances are fully explained in the financial statements.

If the auditor concludes that the disclosures are not adequate to meet the requirements of accounting standards and legislation, or that the financial statements do not include adequate disclosures to give a true and fair view, the auditor modifies the audit opinion and provides the reasons for doing so.

In circumstances where the auditor is required or decides to report on key audit matters it must be considered whether a key audit matter relating to going concern is required to be communicated in accordance with ISA (Ireland) 701.

### Audit planning

The revised standards require more emphasis to be placed on the consideration of disclosures made in the financial statements, particularly at the planning stages of the audit.

The ISAs (Ireland) require the following changes to be introduced at the planning stage of an audit:

- ISA (Ireland) 300, planning an audit of financial statements, emphasises the importance of allowing at planning stage adequate time for consideration of the disclosures in the financial statements in the same way that the audit of events and accounts balances are considered.
- ISA (Ireland) 315, identifying and assessing the risk of material misstatement through understanding the entity and its environment, requires

that in obtaining an understanding of an entity's information system relevant to financial reporting, that this consideration must include an understanding of those aspects of the system which relate to information that is disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers.

- Again, the changes to ISA (Ireland) 320, materiality in planning and performing the audit, focus on the assessment of disclosures and requires the auditor to consider the nature of potential misstatements in disclosures that are relevant to the design of audit procedures to address risks of material misstatement.
- Changes to ISA (Ireland) 330, the auditor's responses to assessed risks, now require the auditor to add to the required substantive procedures relating to the financial statement closing process, which now includes agreeing or reconciling information in disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers.

### Documentation

Whilst ISA (Ireland) 230, audit documentation, continues to require that the auditor prepare documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures, the results of the procedures and the significant matters identified, the standard has been amended to add that the auditor must also retain any other data and documents that are important in supporting the auditor's opinion.

Documentation at planning stage must also consider the adequacy of disclosures. ISA (Ireland) 330 requires the auditor's documentation to demonstrate that information in the financial statements agrees or reconciles with the underlying accounting records, including agreeing or reconciling disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers.

ISA (Ireland) 220, quality control for an audit of financial statements, requires the auditor to document the significant threats to independence and the safeguards to mitigate those threats.

ISA (Ireland) 230 sets out a requirement to assemble the audit file within sixty days. This requirement is also reflected in Regulation 100 of S.I. 312 of 2016. Audit documentation to allow for the monitoring of compliance with ISA's (Ireland) and other applicable legal requirements must be kept.

### Professional scepticism

The concept of professional scepticism has been placed centre stage and must be considered and emphasised at key stages of the audit process in accordance with the ISA's (Ireland).

The requirement is set out within the ISA's (Ireland) at the following stages of the audit:

- ISA (Ireland) 200, overall objectives of the independent auditor and the conduct of an audit, now clarifies professional scepticism as a requirement.

- ISA (Ireland) 540, auditing accounting, estimates including fair value accounting estimates and related disclosures, requires the exercise of professional scepticism when reviewing management's estimates relating to fair values, the impairment of assets and provisions.
- ISA (Ireland) 570, going concern, requires the auditor to exercise professional scepticism when reviewing cash flows.
- S.I. 312 of 2016 also enshrines this questioning mind in law.

### CPD for statutory auditors

Regulation 62 of S.I. 312 of 2016 requires that auditors take part in appropriate programmes of continuing education in order to maintain their theoretical knowledge, professional skills and values, including, in particular, in relation to auditing, at a sufficiently high level.

The International Accounting Education Standards Board has issued International Education Standard 8, *Professional Competence for Engagement Partners Responsible for Audits of Financial Statements* (Revised). The revised standard focuses on the professional competence requirement for engagement partners who have responsibility for audits of financial statements.

The CPA Ireland quality assurance process continues to assess the CPD focus of the statutory auditor.

The area of audit continues to evolve and change and these changes highlight the need to ensure that auditors and their staff focus their CPD activities accordingly.



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