

## **Chartered Accountants Ireland or CCAB-I material**

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### **Technical Alerts**

#### **TA 02/2021 - Guidance on the revised Ethical Standard for Auditors (Ireland) 2020**

June 2021

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## Contents

[1.Purpose of this Technical Alert](#)

[2.Introduction](#)

[3.Key Changes](#)

[4.Reporting breaches of the Ethical Standard](#)

[5.Effective Dates](#)

[6.Application of the Ethical Standard.](#)

[7.Table of changes to the Ethical Standard](#)

[Appendix 1 Decision tree for determining if entity is a PIE](#)

[Appendix 2 Definitions](#)

[Appendix 3 Article “New Ethical and Auditing Standards for Ireland”](#)

### **1.Purpose of this Technical Alert**

In November 2020, the Irish Auditing and Accounting Supervisory Authority (“IAASA”) issued a revised Ethical Standard for auditors (Ireland)<sup>1</sup> (the “Ethical Standard”). The purpose of this Technical Alert is to highlight to members the key new requirements of the Ethical Standard applicable in Ireland and to add some clarification. It does not highlight all the changes to the Ethical Standard. As such, this Technical Alert is not intended to be a replacement to reading the entire text of the Ethical Standard, rather it is a guide for members in identifying the key changes.

### **2.Introduction**

IAASA’s auditing framework for Ireland, which includes the Ethical Standard for Auditors (Ireland) is based on the FRC’s auditing framework for the UK which is based on the international standards on auditing issued by the International Auditing and Assurance Standards Board (“IAASB”). IAASA’s policy is to have minimal amendments to the UK framework. Amendments will be considered where there is a conflict with Irish or EU law or where there are clear, distinct differences between the Irish and UK markets, which impact upon the applicability of standards. While the policy is to minimise the differences, there are divergences. IAASA’s objective of amending the Ethical Standard was to simplify and restructure the standard to ensure a better understanding of the Ethical requirements. It also introduces certain more prohibitive requirements. The key amendments are summarised below. The revised Ethical Standard also contains updated legal references.

[Appendix 3](#) to this Technical Alert contains an article published in Accountancy Ireland in June 2021 which summarises the main changes in both the Ethical Standard (Ireland) for Auditors, the International Standards on Auditing (Ireland) (“ISAs(Ireland)”) and International Standard on Quality Control (Ireland) 1 (“ISQC (Ireland) 1”).

### **3.Key Changes**

The key changes to the Ethical standards include, but are not limited to the following:

#### ***3.1.Third-party test***

The new standard sets out a clearer and stronger definition of the “objective reasonable and informed third party test” and which is a core element of the Ethical Standard. It requires audit firms to consider whether a proposed action would affect their independence from the perspective of public interest stakeholders, rather than another auditor. Additional guidance has been inserted to assist in application.

### **3.2. Non audit services**

Section 5 Non-audit Services has been organised into three sections;

- 5a – General approach to non-audit services,
- 5b – Approach to non-audit services provided to Public Interest Entities; and
- 5c – Approach to non-audit services provided in any statutory engagement.

There is now a requirement for firms to establish appropriate channels of internal communication before the provision of the non-audit service is accepted. There is a requirement for the audit partner to document the reasoning for accepting a non-audit engagement prior to an engagement letter being issued to a client. The new standard states that playing any part in the management decision making at an audit client is so great a threat to independence it can never be safeguarded against.

A new prohibition on the provision of internal audit services to audit clients or significant affiliates has been introduced in the revised standard. There is also now a prohibition on the design, provision and implementation of information technology (including financial information technology) systems by firms for an entity relevant to an audit engagement.

The prohibitions on the provision of recruitment services to audit clients have been increased to prohibiting the firm from taking responsibility for or advising on the appointment of a director or employee of the audit client or a significant affiliate. A new prohibition on accounting services has been introduced when the services would involve the firm undertaking part of the role of management or initiating transactions or are anything other than of a routine or mechanical nature involving little or no professional conflict.

### **3.3. Enhancements to the Ethics partners' authority**

New provisions incorporated into Section 1 of the Ethical Standard highlight the increased importance placed on the Ethics Partner. Enhancements include a requirement for reporting to those charged with governance where an audit firm does not follow the ethics partner's advice.

### **3.4. Acting in a management role**

The concept of "informed management" has been deleted. It has been replaced by clearer guidance that the provision of any service where it is probable that an objective, reasonable and informed third party would conclude that it would require the firm or a covered person to undertake a management role or play any part in management taking is prohibited.

### **3.5. Gifts and Hospitality**

Changes within this section apply to all entities relevant to an engagement.

Threats to independence, integrity and objectivity of the firm are now also created where gifts, favours or hospitality are **provided** to an entity, which **subsequently** becomes an entity relevant to an engagement. In addition, firms must now implement policies and procedures on gifts, favours and hospitality that may be accepted from and offered to **other entities, which are likely to subsequently become an entity relevant to an engagement**. Such policies and procedures must be accompanied by guidance, which includes events that would trigger the application of the policy. [**bold emphasis added to highlight the amendment**]

### **3.6. Long association**

The cooling off period for engagement Key Audit Partners on Public Interest Entity<sup>2</sup> (“PIE”) audits has been reduced from 5 years to 3 years with a corresponding change made to the requirement for listed entities.

Additionally the requirements for cooling off requirements have been strengthened to make it clearer that the audit engagement partner on rotating off shall not continue to have significant or frequent interaction with senior management or with those charged with governance of the entity they have previously audited until the cooling off period has elapsed.

The rules with regard to other partners and staff involved in the engagement in senior positions now include a requirement to include periods prior to the firm’s appointment as auditor.

### ***3.7.Documentation***

There are increased requirements for documentation such as the reasoning for a decision to accept a client or a particular engagement.

### ***3.8.Divergence from the UK***

Previously the FRC and IAASA Ethical Standards largely aligned, however, the new IAASA Ethical Standard has diverged from the FRC Ethical Standard in a number of ways, some of which are noted below:

- The FRC Ethical Standard applies to all component auditors where their work is relied upon for the audit while the IAASA Ethical Standard applies the IESBA code to other firms except for firms in the EU in which case the ethical requirements of the EU Regulation and Directive apply.
- Reporting of breaches to Competent Authority is required biannually under FRC Ethical Standard but annually under IAASA Ethical Standard.
- The FRC Ethical Standard prohibits loan staff arrangements whereas the IAASA Ethical Standard does not once certain conditions are satisfied.
- The IAASA Ethical Standard now has a shorter cooling off period (3 years) for key audit partners on PIE and listed audit clients than the FRC Ethical Standard (5 years).
- The reliefs on key audit partner rotation in FRC Ethical Standard paragraph 3.14 to 3.16 (audit client becoming a PIE/listed entity and rotation flexibility required to safeguard quality) are not included in the IAASA Ethical Standard.
- The FRC Ethical Standard has prohibited contingent fees for all services, the IAASA Ethical Standard does not go this far instead it prohibits them in certain circumstances and provides guidance on these accompanied by an audit committee reporting requirement for PIE or listed entities.
- The restrictions on non-audit services that can be provided to PIE audit clients now differs between the two standards as the IAASA Ethical Standard has not introduced the whitelist of services for PIEs, instead it has retained the prohibited services list with a derogation for certain tax and valuation services in line with EU regulation. Additionally, IAASA has chosen not to apply the PIE restrictions to other entities of public interest (OEPs), have not introduced the extended cooling in period required for internal audit services for PIEs and have not extended the prohibited services list to worldwide controlled undertakings as the FRC have. For tax services that involve the preparation of current or deferred tax calculations for listed entities or advocacy for any entity, the IAASA Ethical Standard continues to permits these in certain circumstances whereas the FRC Ethical Standards does not.

### ***3.9.Small Medium Enterprises (SMEs)***

In the 2017 Ethical Standard SME Listed entities were not subject to many of the prohibitions applied to listed entities. These concessions have been removed in the revised Ethical Standard.

## **4.Reporting breaches of the Ethical Standard**

The extant Ethical Standard for Auditors (Ireland) 2017 requires auditors to respond to all possible or actual breaches of the standard and keep records of any contraventions. An additional requirement has been introduced in the revised Ethical Standard for Auditors to report breaches of the Ethical Standard on an annual basis to IAASA and the relevant Recognised Accountancy Body (“RAB”).

This new requirement requires the reporting of all breaches of the Ethical Standard to the relevant RAB on at least an annual basis, with reports to both IAASA and the relevant RAB in the case of EU Public Interest Entity auditors.

**TR 2 2021 Reporting Breaches of Ethical Standard for Auditors (Ireland) 2020<sup>3</sup>** provides guidance on this requirement and a suggested format for such reports. This was issued by the CCABI<sup>4</sup> bodies jointly in June 2021 and has been agreed with the relevant RABs.

## **5. Effective Dates**

The Ethical Standard for Auditors (Ireland) 2020 is effective from 15 July 2021. There are limited transition provisions. These are set out on page 30 of the Ethical Standard.

- Firms may complete engagements relating to periods commencing before 15 July 2021, in accordance with existing ethical standards, putting in place any necessary changes in the subsequent engagement period.
- Engagements to provide previously non-prohibited non-audit services entered into before 15 July 2021, and for which the firm has already commenced work may continue until completed in accordance with the original engagement terms, subject to the application of appropriate safeguards.

## **6. Application of the Ethical Standard.**

The requirements of the Ethical Standard can apply differently depending on the type of entity being audited, with the majority of requirements applying to all entities, certain additional requirements applying to both listed entities and PIEs, and other requirements applying only to PIEs. This technical alert categorises the new requirements applying to different types of entities as follows:

### **All**

The application of the requirements of the Ethical Standard as outlined in the table below under “All” applies to any Irish entity where the audit is conducted in accordance with the ISAs (Ireland) framework.

### **Listed Entities**

The application of the requirements of the Ethical Standard as outlined in the table below under “Listed” applies to any entity meeting the definition of a listed entity. This definition is contained in the Glossary of Terms issued by IAASA and is defined as “An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange or are marketed under the regulations of a recognized stock exchange or other equivalent body.”

More detail on the definition of a listed entity is contained in [Appendix 2](#).

### **Public Interest Entities (PIEs)**

The application of the requirements of the Ethical Standard as outlined in the table below under “PIE” applies to any entity meeting the definition of a PIE. These are defined by the legislation in Ireland as:

- a) entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State;
- b) credit institutions; and
- c) insurance undertakings.

The full definition of a PIE is contained in [Appendix 2](#). A decision tree for determining whether an entity is a PIE is set out in [Appendix 1](#).

## **7. Table of changes to the Ethical Standard**

Section	Paragraph	Nature of changes	Changes apply to		
			All	PIE	Listed
<b>Introduction</b>	I11	<b>The Third-Party Test.</b> As discussed above there is significantly more guidance as to the characteristics of “an objective, reasonable and informed third party”. There is also more detailed guidance on the assessment that a firm makes when applying the third party test.	x		
<b>Part A</b>	A2.4	<b>Independence</b> Clarification that the IESBA code applies to other firms except for firms in the EU in which case the ethical requirements of the EU Regulation and Directive apply.	x		
	A2.10	Gifts and hospitality – the “it is probable” test has been deleted.	x		
<b>Part B</b>	1.14	<b>Ethics Partner</b> This is a new paragraph which requires that, for firms that audit PIEs, the Ethics Partner has direct access to the independent non-executives (“INEs”) or alternatively to the most senior governance body.		x	
	1.15	Where there is a difference in opinion between the Ethics Partner and persons consulting them and the firm concludes that the opinion of the EP is not to be followed, if the matter relates to a PIE audit there is a new requirement on the firm to report the matter to the INEs and IAASA.		x	
	1.21	<b>Breaches</b> There is a new requirement to report all breaches of this Ethical Standard to the Competent Authority i.e. PIE auditors this report shall be sent to IAASA <i>and</i> the Recognised Accounting Body that regulates the audit firm. For non-PIE auditors, the report shall be sent to the Recognised Accounting Body that regulates the audit firm <sup>5</sup> .	x		

	1.22(e)	There is a new requirement where the breach relates to the provision of non-audit services to a PIE, the audit engagement partner reports in accordance with the requirements of ISA (Ireland) 700 (revised November 2020) paragraph 45R-1(d).		x	
	1.23	<b>Non-involvement in Management Decision-taking</b> Clarification that the auditor must not be involved in the <b>management</b> decision taking of an entity relevant to the audit.	x		
	1.29	<b>Management threat</b> The concept of “informed management” has been deleted. It has been replaced by clearer guidance that the provision of any service where it is probable that an objective, reasonable and informed third party would conclude that it would require the firm or a covered person to undertake a management role or play any part in management taking is prohibited.	x		
	1.58(e)	<b>Communication with Those Charged with Governance</b> There is a new requirement to report details of any breaches of the requirements of this Ethical Standard and of any safeguards applied and actions taken to address any threats to independence <sup>6</sup> .	x		
<b>Section 2 – Financial, Business, Employment and Personal Relationships</b>	2.16	<b>Financial interests held as trustee</b> There is a new clause that clarifies that a trustee interest is not held in the case of a “living will” or “power of attorney” where the person holding that interest is or may be a potential beneficiary of the estate to which it pertains, or where the person is able to influence the investment of that estate.	x		
<b>Section 3 – Long Association with Engagements and With</b>	3.2	<b>Long Association with audit engagements</b> There is a new requirement for firms to establish policies and procedures to	x		

<b>Entities Relevant to Engagements</b>		monitor the length of time and extent of involvement that partners and staff in senior positions, including those from other disciplines, serve as members of engagement team(s) for recurring engagements for particular entities.			
	3.3	Factors for considering the significance of threats arising from long association with the audit. There is a new factor added “The relationships established with relevant management and those charged with governance.			
	3.9R	<b>Key audit partners on PIE audits</b> The cooling-off period is now 3 years (previously it was 5 years).			
	3.9R	There is a new clause clarifying that the rotation period “includes time spent participating in an engagement where an audit engagement has moved between firms.			
	3.10(c)	In the case of listed entities, the requirement on firms to establish policies and procedures on rotation, there is a new requirement. “On completing their rotation, the engagement partner shall not continue to have significant or frequent interaction with senior management or with those charged with governance of the entity which they have previously audited until the cooling off period has elapsed.			x
	3.16	In the case of PIE and other listed entities, the rotation periods for engagement quality control reviewer and key partners involved in the engagement include a new clarification that the rotation period includes time spent participating in an engagement where an audit engagement has moved between firms.		x	x
	3.17	In the case of PIEs and other listed entities, the requirement for the engagement partner to review the safeguards for people involved with		x	x



		the entity extends to include people who have been responsible for the relationship with the entity for longer than 7 years, including for periods prior the firm's appointment as auditor. It now requires the audit engagement partner to discuss this with the Ethics Partner/Function.			
<b>Section 4 – Fees, Remuneration and Evaluation Policies, Gifts and Hospitality, Litigation</b>	4.2	<p><b>Fees</b></p> <p>In addition to the existing statement that there are no circumstances where the amount of the fee can justify any lack of appropriate resource or time taken to perform an audit engagement, the new Ethical Standard includes further guidance. In circumstances where an audit engagement partner agrees a fee for an engagement that an objective, reasonable and informed third party would conclude that it is probable that the independence of the auditor is compromised as a result, the engagement partner shall report the safeguards applied to ensure the delivery of a fully compliant audit to <i>those charged with governance</i> in accordance with paragraph 4.62 of the Ethical Standard.</p>	x		
	4.6R	<p><b>Contingent fees</b></p> <p>There is new additional guidance which states that additional or supplementary fees paid over and above an agreed engagement fee, which do not cover the cost of additional work, but which reward an outcome that was not agreed at the time of the engagement letter are also contingent fees.</p>	x		
	4.7	There is new additional guidance on circumstances where an additional fee does not constitute a contingent fee.	x		
	4.22	<p><b>Overdue fees</b></p> <p>There is clarification that fees for professional services includes audit fees.</p>	x		
	4.28	<b>Fee Cap on Non-audit services to PIE audit clients</b>		x	

		There is a new paragraph: “On request by the audit firm, on an exceptional basis, the competent authority may allow that firm to be exempt from the requirements of 4.26R (fee cap) in request of an audited entity that is a public interest entity for a period not exceeding two financial years. “			
	4.53	<b>Gifts and hospitality</b> There is clarification that self-interest and familiarity threats to integrity, objectivity and independence are created when gifts, favours are offered to an entity that is not an audit client at that time but which subsequently becomes an audit client.	x		
	4.55	There is a new requirement for audit firms to establish policies on the nature and value of gifts, favours and hospitality that may be accepted from or offered to entities that may subsequently become an audit client. Guidance to assist partners and staff to comply must be issued.	x		
	4.59	<b>Threatened and actual litigation</b> There is clarification that “services” includes those where the firm is acting on behalf of another party, for example acting as an administrator which would require the firm to instruct solicitors to take action against an audit client.	x		
	4.60	This paragraph gives examples of circumstances where an objective, reasonable and informed third party (“ORITP) would not consider it in the interests of the shareholders and public interest for the auditor to resign. There is a new example, where the nature of the litigation is routine or is not significant in the context of the audit client and in the view of an ORITP would not have a bearing on the relationship.	x		
<b>Section 5 – Non-audit Services</b>		Section 5 has been reorganised into 3 distinct sub-sections:			

		<ul style="list-style-type: none"> <li>•Section 5A - General Approach to Non-audit services (paragraphs 5.1 to 5.37)</li> <li>•Section 5B - Approach to Non-audit Services provided to Public Interest Entities (paragraphs 5.38 to 5.45)</li> <li>•Section 5C - Approach to Non-audit Services provided in any Statutory Audit Engagement (paragraphs 5.46 to 5.136)</li> </ul>			
	General	References to “non-audit services/ additional services” in the previous Ethical Standard have been amended to “non-audit services”.			
	5.4	There is additional clarification that an audit engagement does not include work where the principal terms and conditions for the work differ from that of the audit engagement.	x		
	5.8	There may be circumstances where the firm is engaged to provide a non-audit service and where that service and its scope are determined by an entity that is not audited by the firm. However, an audit client may gain some benefit from the non-audit service. There may be no threat to independence at the time of appointment. However, there is new guidance that the firm needs to consider how the service may be expected to develop and whether there are any threats that the firm may be subject to if additional relevant parties that are audit clients, are identified, and whether any safeguards need to be put in place.	x		
	5.10	There is a requirement for firms to establish appropriate channels of internal communication before the provision of the non-audit service is accepted. There are minor wording changes that provide greater clarity.	x		
	5.14 and 5.15	The assessment of the threats arising from any particular non-audit by the audit engagement partner. The			

		guidance is shorter and clearer than the previous Ethical Standard.			
	5.23	<b>Safeguards.</b> New clarification that the threat to independence arising from playing any part in management decision taking at an audit client is so great that it can never be safeguarded.	x		
	5.24b	A safeguard that involves a review by the engagement quality control reviewer. The reference in the previous Ethical Standard to “or another partner of sufficient relevant experience and seniority” has been deleted.	x		
	5.31	<b>Documentation.</b> The new requirements are in bold. The audit engagement partner shall ensure that the reasoning for a decision to provide a non-audit service, and any safeguards and why they are effective, is appropriately documented <b>prior to an engagement letter being issued to an audit client/related entity.</b>	x		
	5.37	<b>Evaluation of Specific Non-audit services</b> There is an addition to the existing statement in bold. “There are services other than audit related services for which the auditor is an appropriate provider <b>particularly where those services are required by Irish law or regulation</b> ”.	x		
<b>Section 5B - Approach to Non-audit Services Provided to Public Interest Entities</b>		<b>Prohibited Non-audit Services for Public Interest Entities</b> This section which was previously in paragraphs 5.153 to 5.161R has been moved.			
<b>Section 5C - Approach to Non-audit Services provided in any</b>		The exemption for an “SME Listed Entity” from prohibitions on certain Non-Audit Services has been deleted. If the entity is a listed entity then the prohibition applies irrespective of the size of that entity.			x

Statutory Audit Engagement					
	5.48	<p><b>Internal Audit Services</b></p> <p>There is a new prohibition on the provision of internal audit services to an audit client or a significant affiliate where the firm is performing an audit.</p>	x		
	5.52	<p><b>Information Technology Services</b></p> <p>The reference to “informed management” has been deleted.</p>	x		
	5.54(a)	<p>Prohibition on design, provide or implement IT systems for an audit client. Clarification by addition of “or financial management”. Prohibition now applies to systems that would be important to any significant part of the accounting <b>or financial management</b> system.</p>	x		
	5.54 (b)	<p>Clarification that “where the firm is performing an (audit) engagement, for the purposes of the IT services, the firm would undertake the role of management”.</p>	x		
	5.68	<p><b>Tax Services</b></p> <p>Insertion of clarification that tax services are often interrelated and may be incorporated in other (audit) engagements provided by the firm.</p>	x		
	5.73(a)	<p><b>Tax Services on a contingent fee basis</b></p> <p>The prohibition now extends to <u>all</u> listed entities or significant affiliates thereof. The previous exemption for SME listed entities has been deleted.</p>			x
	5.79	<p><b>Preparation of current and deferred tax calculations</b></p> <p>Prohibition now extends to <u>all</u> listed entities or significant affiliates thereof. The previous exemption for SME listed entities has been deleted.</p>			x
	5.88	<p><b>Disputes with Tax Authorities</b></p> <p>There has been a significant tightening of the guidance. The</p>	x		

		<p>materiality threshold in the previous Ethical Standard has been deleted. Where the tax authorities have indicated that they are minded to reject the entity's arguments and the matter is likely to be determined by an appeals tribunal or court the following requirement applies. "In such circumstances, the firm discusses the matter with the entity and either withdraws from providing tax services that require it to act as advocate for the entity or resigns from the (audit) engagement from the time the matter is formally listed for hearing before the appeals tribunal.</p>			
	5.91	<p><b>Litigation support services</b></p> <p>The "significant degree of subjectivity" requirement in the previous Ethical Standard has been deleted. A litigation support service that involves the estimation of the outcome of a pending legal matter that could be material to amounts recorded or disclosures in the financial statements is now prohibited irrespective of the degree of subjectivity involved.</p>	x		
	5.92	<p><b>Legal services</b></p> <p>This has been amended to insert acting as General Counsel of that entity.</p>	x		
	5.94 to 5.96	<p><b>Recruitment and Remuneration Services</b></p> <p>The guidance has been reduced but includes a significant tightening of the restrictions.</p>	x		
	5.96	<p><b>Recruitment Services</b></p> <p>The prohibitions on the provision of certain recruitment services to audit clients has been increased. This paragraph prohibits recruitment services that would involve the firm taking responsibility for <b>or advising</b> on the appointment of a director or employee of the audit client or <b>a significant affiliate where the firm is undertaking an audit.</b></p>	x		

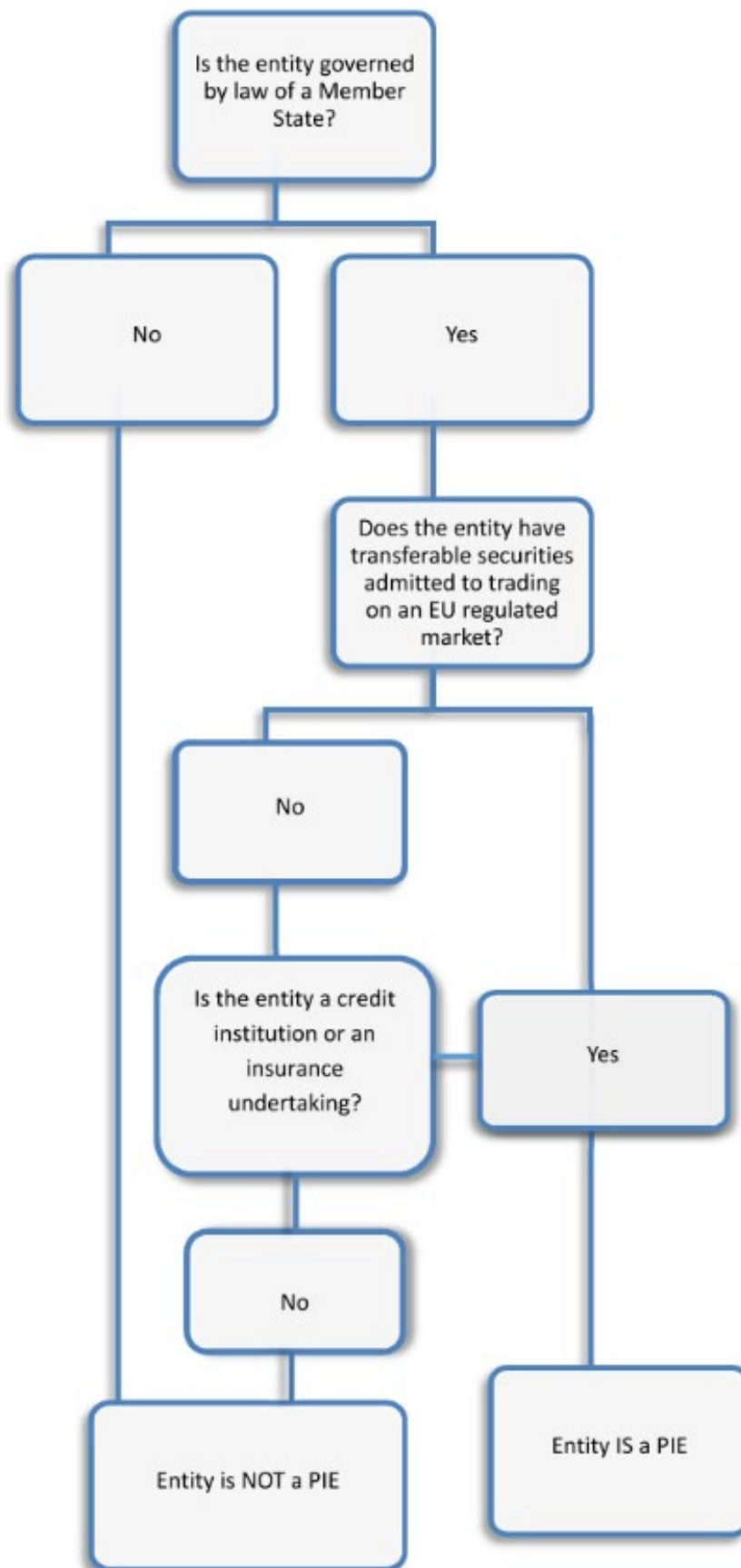
		<p>This is a significant change as the previous Ethical Standard prohibited the provision of recruitment services to a listed entity that is not an SME listed entity in relation to a key management position at the listed audit client or a significant affiliate. Part of this change was to reflect an earlier change to the IESBA Code of Ethics that extended the prohibition on services relating to a key management position to all audit clients. However, the new Ethical Standard has extended this prohibition to services in relation to the appointment of employees at every level, not just those in a key management position.</p>			
	5.110(b)	<p><b>Transaction Services</b></p> <p>There is a minor clarification. The prohibition applies where the <b>firm is undertaking an (audit) engagement and the</b> service would involve undertaking a management role in the entity.</p>			
	5.113 to 5.125	<p><b>Restructuring Services</b></p> <p>The guidance in these paragraphs is supplemented by a new Appendix B which sets out IAASA's guidance as to the application of the Revised Ethical Standard to restructuring services provided by auditors to bank lending or bond funded syndicates (lending syndicates) in which one or more PIEs audited by the auditor participate.</p>			
	5.116	<p>This paragraph has reduced and clarified the guidance in the previous version of the Ethical Standard. In particular it makes it clear that any service that would result in the firm or a covered person undertaking a management role is prohibited.</p>			
	5.123	<p>The prohibition now extends to <i>all</i> listed entities or significant affiliates thereof. The previous exemption for SME listed entities has been deleted.</p>			x

	5.129(a)	<p><b>Accounting Services</b></p> <p>The prohibition now extends to <i>all</i> listed entities or significant affiliates thereof. The previous exemption for SME listed entities has been deleted.</p>			x
	5.129 (b)	<p>Introduces a new prohibition on accounting services to any audit client where the services:</p> <ul style="list-style-type: none"> <li>•Would involve the firm undertaking part of the role of management, or initiating transactions; or</li> <li>•Are anything other than of a routine or mechanical nature involving little or no professional judgement.</li> </ul>	x		
	5.131	<p>Guidance now extends to <u>all</u> listed entities or significant affiliates thereof. The previous exemption for SME listed entities has been deleted.</p>			x
<b>Section 6 – Provisions Available for Audits of Small Entities</b>		<p>The changes are to references to laws and regulations and minor edits to wording.</p>	x		
<b>Appendix A</b>		<p><b>Illustrative Template for Communicating Information on Audit and Non-audit Services Provided to the Group</b></p> <p>The changes are references to sections and paragraphs in the Revised Ethical Standard.</p>	x		
<b>Appendix B</b>		<p><b>The Auditors Provision of Restructuring Services to Public Interest Entity Participants in Bank Lending or Bond Funding Syndicates</b></p> <p>This is new guidance. It was not included in the previous Ethical Standard.</p> <p>It sets out IAASA’s guidance as to the application of the Revised Ethical Standard to restructuring services provided by auditors to bank lending or bond funded syndicates (lending syndicates) in which one or more</p>		x	



		PIEs audited by the auditor participate.			
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**Appendix 1 Decision tree for determining if entity is a PIE**



## **Appendix 2 Definitions**

### **Public Interest Entities (PIE's)**

The PIE definition is contained in S.I. No. 312/2016 - European Union (Statutory Audits) (Directive 2006/43/EC, as amended by Directive 2014/56/EU, and Regulation (EU) No 537/2014) Regulations 2016. The PIE definition includes the following:

- (a) entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EC,
- (b) credit institutions as defined in point 1 of Article 3(1) of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (but excluding credit institutions referred to in Article 2 of Directive 2013/36/EU), and
- (c) insurance undertakings within the meaning of Article 2(1) of Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings;

The EU Audit Directive contains an option for member states to designate other “public-interest entities, for instance undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees” as PIE's but Ireland has not taken this option to extend the PIE definition to date.

#### **Category (a) - above**

##### “Entities Governed by law of an EU Member State”

Generally this is understood to mean entities incorporated in the EU and therefore entities incorporated outside the EU are excluded.

##### “Admitted to trading on a regulated market of any Member State”

Regulated markets are defined in MiFID and it is important to establish whether the entity's listing is on a market that is defined as a “Regulated Market” within the EU. Not all markets in Ireland or in the EU fall within the definition of a “Regulated Market”. For example, the Global Exchange Market (GEM) on the Irish Stock Exchange and the London AIM market do not meet the definition of a “Regulated Market” within the EU. The only market on the Irish Stock Exchange that is defined as a “Regulated Market” within the EU is the Main Securities Market (MSM) of the Irish Stock Exchange. The other 3 markets of the Irish Stock Exchange do not meet the definition of a “Regulated Market” in the EU.

The European Securities and Markets Authority (ESMA) maintain a list of EU regulated markets.

The entity does not need to be actively traded on an EU regulated market to qualify as a PIE; its listing (even if the listing is only a technical listing and not actively traded) on an EU Regulated Market scopes the entity into the definition of a PIE providing it satisfies all of the other conditions.

#### **Category (b) - Credit Institutions**

A “credit institution” is an undertaking, the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account.

There are exemptions for certain types of credit institutions such as the Central Bank, credit unions, etc.

The Central Bank of Ireland website contains a register of all credit institutions authorised under Irish Legislation to carry on banking business in Ireland.

#### **Category C Insurance Undertakings**

An ‘insurance undertaking’ is any undertaking that carries out a regulated insurance activity which:

- Includes direct insurers, life assurance, general insurance, reinsurance and permanent health insurance; and
- Excludes mutual insurers.

A group ‘captive’ insurer established in the EU is also a PIE.

Insurance broking does not fall within the definition.

The Central Bank of Ireland website contains a register of all Life and Non-Life insurance undertakings and reinsurance undertakings regulated by it to carry on insurance business in Ireland.

### **Subsidiaries**

A subsidiary of a PIE is not necessarily a PIE in its own right unless it:

- Is separately listed and governed by the law of an EU member state; or,
- Is itself a credit institution or insurance undertaking; or,
- Has been designated as such by the member state where it is located.

### **Branches**

EU branches of EU banks or insurance undertakings are seen as an indivisible part of their 'parent' organisation rather than being considered to be a 'stand-alone entity in their own right (i.e. they have no separate 'legal personality) and are therefore not treated as a separate PIE.

Branches of non-EU banks or insurance undertakings are not considered to be PIEs.

Note: Member states can still designate branches as PIEs.

### **Listed Entities**

The definition of a listed entity is contained in the Glossary of Terms issued by IAASA and is defined as “An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange or are marketed under the regulations of a recognized stock exchange or other equivalent body.”

“This includes any company in which the public can trade shares, stock or debt on the open market, such as those listed on the Irish/London Stock Exchanges (including those admitted to trading on the Alternative Investment Market), and ISDX Markets. It does not include entities whose quoted or listed shares, stock or debt are in substance not freely transferable or cannot be traded freely by the public or the entity.”

Listed entities will need to determine whether they come under the scope of this definition and auditors should seek sufficient and appropriate evidence from their clients as to how the client has concluded that it does or does not meet this definition. This interpretation may involve the client seeking legal advice. At the date of publication of this Technical Alert IAASA have not issued any interpretation of this definition. The FRC Technical Advisory Group have provided the following clarity in relation to the definition of listed entities in respect of ISAs (UK). –“The FRC has updated the definition of a listed entity. Listed entities are those that are quoted or listed on a recognised stock exchange. The revised definition provides relief from certain requirements applicable to listed entities where an entity has quoted or listed shares, stock or debt, but these are not freely transferrable by members of the public. In practice, this will mean that the listing an entity has is likely to be for structural reasons. For an entity to claim that it does not meet the listed definition, it is not enough that a quoted instrument has not been traded recently. Rather the trading of that entity's listed shares, stock or debt should also be subject to restrictions which means that they cannot be traded by members of the public.”

## Appendix 3 Article “New Ethical and Auditing Standards for Ireland”

This article appeared in Accountancy Ireland in June 2021.

### New Ethical and Auditing Standards for Ireland

In November 2020 the Irish Auditing and Accounting Supervisory Authority (IAASA) issued revised ethical and auditing standards in a bid to support the delivery of high-quality audit and strengthen confidence in audit in Ireland. The revisions build on existing changes made to the standards in 2017 which implemented the requirements of the EU Audit Regulation and Directive. These new revised amendments, which were the subject of a formal consultation earlier in 2020, are effective for audits of financial statements for periods beginning on or after 15 July 2021 with early adoption permitted.

This article summarises the main changes in both the Ethical Standard (Ireland) for Auditors, the ISAs (Ireland) and ISQC (Ireland) 1.

#### Revisions to the Ethical Standard

IAASA's objective of amending the Ethical Standard was to simplify and restructure the standard to ensure a better understanding of the Ethical requirements. It also introduces certain more prohibitive requirements including the removal of the exemption for SME Listed entities which were not subject to many of the prohibitions applied to listed entities. These concessions that were offered in the 2017 IAASA Ethical Standard to entities of this nature have been removed.

Other key changes to the Ethical standards include, but are not limited to the following:

**Third party test** – the new standard sets out a clearer and stronger definition of the “objective reasonable and informed third party test” and which is a core element of the Ethical Standard. It requires audit firms to consider whether a proposed action would affect their independence from the perspective of public interest stakeholders, rather than another auditor. Additional guidance has been inserted to assist in application.

**Internal audit services** – firms will no longer be able to provide internal audit services to audited entities or their significant affiliates. IAASA's view was that the provision of internal audit services to audit clients created a risk, both real and perceived, to independence that needed to be addressed.

**Recruitment and remuneration services** – The standard incorporates amendments which now prohibit auditors from providing recruitment and remuneration services or playing any part in management decision making.

**Gifts and hospitality** – the requirement to establish policies on the nature and value of gifts, favours and hospitality that may be accepted from and offered to other entities has been extended to apply to those entities which are likely to subsequently become audit clients.

**Enhancements to the Ethics partners' authority** – New provisions incorporated into Section 1 of the Ethical Standard highlight the increased importance placed on the Ethics Partner. Enhancements include a requirement for reporting to those charged with governance where an audit firm does not follow the ethics partner's advice.

**Partner rotation** – the cooling off period for engagement partners on public interest entity audits has been relaxed and amended from 5 years to 3 years, as was the requirement in the EU Audit Regulation in 2014. The change has also been applied to Listed entities. Clarification has also been added that when the engagement partners rotate off an audit, they cannot have significant or frequent interaction with senior management or Those Charged With Governance during the cooling-off period.

In addition, a new requirement has been introduced that where audits and those providing audits have moved from one firm to another, any rotation “on periods” for partners and staff include any time before they and the audit changed audit firms.

**Reporting breaches of the Ethical Standard** –the extant Ethical Standard for Auditors (Ireland) 2017 requires auditors to respond to all possible or actual breaches of the standard and keep records of any contraventions. A new requirement has been introduced in the new Ethical Standard for auditors to report breaches of the Ethical Standard on an annual basis to IAASA and the relevant Recognised Accountancy Body for auditors of public interest entities and the relevant Recognised Accountancy Body for non-PIE auditors. Such reports are to be submitted at least annually. IAASA indicated in its feedback paper on the consultation that it will issue guidance to auditors regarding the format of reports to be submitted and that any action taken by IAASA or the relevant RAB in response to such reports will vary on a case by case basis depending on factors such as the nature of the breach, the appropriateness of the firm’s response and the firm’s regulatory history.

The new Ethical Standard provides that Firms will be allowed to complete non audit service engagements which were previously permissible so long as these were entered into before 15 July 2021 and for which the firm has commenced work, applying any appropriate safeguards.

IAASA did not introduce prohibitions on contingent fees for non-audit services, loan staff assignments and tax advocacy services and which had been proposed in the consultation paper.

In addition, IAASA have made changes to certain of the auditing standards. The standards which have been revised are ISQC (Ireland) 1 and ISAs (Ireland) 210, 220, 250, 260, 600, 620, 700, 701 and 720. Hereafter, we’ll briefly discuss the changes of most significance that auditors and entities should be aware of for audits of financial statements with periods beginning on or after 15 July 2021.

### **Revisions to ISAs**

IAASA has revised ISA (Ireland) 700, *Forming an Opinion and Reporting on Financial Statements* to extend the requirement for auditors of public interest entities to explain the extent to which the audit is capable of detecting irregularities and fraud to audits of listed entities also. There has been a significant expansion of the application guidance to the standard in relation to this requirement which guides auditors to provide more detailed and granular explanations tailored to the entity being audited. IAASA acknowledged, in the feedback statement, that in some situations, legislation (e.g. “tipping-off legislation”) would prohibit auditors from disclosing certain information in the audit report.

ISA (Ireland) 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* has been revised to clarify that the work of component auditors used for the purpose of a group audit must be evaluated and reviewed by the group engagement team. Application guidance has been added to the standard to assist group engagement teams determine whether the nature and extent of such evaluations and reviews of component auditor work are appropriate in their professional judgement.

ISA (Ireland) 220, *Quality Control for an Audit of Financial Statements* now requires the engagement quality control reviewer (EQCR) for audits of group financial statements of public interest entities to perform their quality control review over each component for which work has been performed for the purpose of the group audit and discuss the results of the review with the relevant key audit partner. This is a significant enhancement of the quality control review required for such entities.

ISA (Ireland) 701, *Communicating Key Audit Matters in the Independent Auditor’s Report* has been revised to require the auditor’s report to specify the threshold for performance materiality and explain the judgements made in determining performance materiality tailored to the circumstances of the audit.

This package of revisions to the standards are designed to enhance audit quality and public confidence in audit in Ireland. However, in particular, for group audits of public interest entities there is likely to be significant incremental associated effort and cost in complying with the new requirements.

Members should familiarise themselves with all of the changes to the standards which are available on the IAASA website.

[1 https://www.iaasa.ie/Publications/Auditing-standards/Standards-Guidance-for-Auditors-in-Ireland/Ethical-Standard-for-Auditors-\(Ireland\)](https://www.iaasa.ie/Publications/Auditing-standards/Standards-Guidance-for-Auditors-in-Ireland/Ethical-Standard-for-Auditors-(Ireland))

2 See [Appendix 2](#) for definitions

3 TA 2/2021 can be accessed on the Institute's Technical Hub <https://www.charteredaccountants.ie/knowledge-centre/technical-hub/audit-and-assurance>

4 CCABI The Consultative Committee of Accountancy Bodies – Ireland is an umbrella group of the accountancy profession in Ireland. <http://www.ccab-i.ie/index.html>

5 Reference to Technical Release when issued

6 Reference to Technical Release when issued