

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

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### **Technical Alerts**

#### **TA 03/2021 - Guidance on the new ISAs (Ireland) Auditing Standards issued by the Irish Auditing and Accounting Supervisory Authority in 2020**

September 2021

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### Purpose of this Technical Alert

In November 2020 the Irish Auditing and Accounting Supervisory Authority (“IAASA”) published some revisions to the International Standards on Auditing (Ireland) (ISA(Ireland)). The purpose of this Technical Alert is to highlight to members the key new requirements of these Auditing Standards applicable in Ireland. It does not highlight all changes to the standards and is not intended to be a replacement to reading the entire text of the standards, rather it is a guide for members in identifying the key changes to auditing standards. Nor does this Technical Alert address new independence and quality control requirements set out in IAASA’s *Ethical Standard for Auditors (Ireland) 2020*<sup>1</sup>

### Introduction

Following a consultation process in November 2020, IAASA issued revised auditing standards, based on the FRC’s auditing standards revised in November 2019<sup>2</sup>. These are based on the international standards on auditing issued by the International Auditing and Assurance Standards Board (“IAASB”).

The revised standards are effective for audits of financial statements for periods beginning on or after 15 July 2021, with early adoption permitted. The main changes to the standards are designed to improve audit quality and enhance public confidence in audit in Ireland. The updates to ISAs (Ireland) in November 2020 consist of:

- Clarification and enhancement of requirements relating to group audit procedures and the auditor’s work effort in respect of ‘other information’ in the financial statements.
- Extension of the requirement for the auditor’s report to explain the extent to which the audit was considered capable of detecting irregularities, including fraud, to listed entities as well as PIEs.
- Enhanced disclosures in respect of materiality, including the specification of performance materiality.

The most significant new requirements in ISAs (Ireland) are in the following standards:

- ISQC (Ireland) 1**, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements
- ISA (Ireland) 210**, Agreeing the Terms of Audit Engagements
- ISA (Ireland) 220**, Quality Control for an Audit of Financial Statements
- ISA (Ireland) 250, Section A** - Consideration of Laws and Regulations in an Audit of Financial Statements
- ISA (Ireland) 250, Section B** - The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector
- ISA (Ireland) 260**, Communication with Those Charged with Governance
- ISA (Ireland) 600**, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)
- ISA (Ireland) 620**, Using the Work of an Auditor’s Expert

- **ISA (Ireland) 700**, Forming an Opinion and Reporting on Financial Statements
- **ISA (Ireland) 701**, Communicating Key Audit Matters in the Independent Auditor's Report
- **ISA (Ireland) 720**, The Auditor's Responsibilities Relating to Other Information

The table below provides detail of the key new requirements.

### **Background to ISAs (Ireland)**

IAASA adopts auditing standards for use in Ireland under licence from the Financial Reporting Council (FRC) in the United Kingdom. The FRC framework is based on the international standards issued by the International Auditing and Assurance Standards Board (IAASB<sup>3</sup>).

IAASA issued revised standards, after a consultation process, reflecting changes to the UK and international standards and adapted for Irish requirements, to ensure that the auditing framework in Ireland continues to reflect international best practice.

### **Effective Date**

The ISAs (Ireland) standards are mandatory for use in auditing statutory financial statements of Irish companies with periods beginning on or after 15 July 2021, with early adoption permitted.

### **Application of the standards**

The requirements of the standards 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 standards 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 standards 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 standards 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.

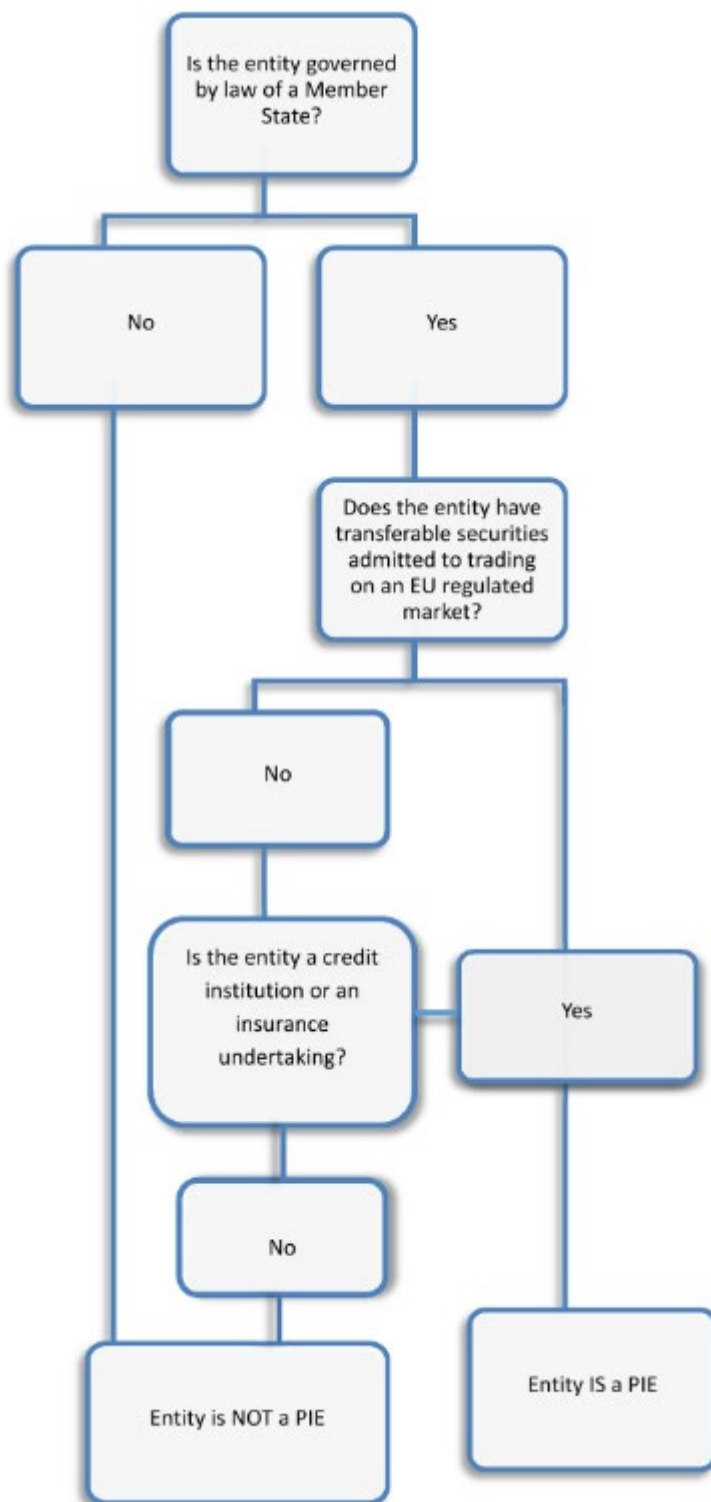
The full definition of PIEs is contained in [Appendix 2](#). A decision tree for determining whether an entity is a PIE is set out below:

### **Illustrative Auditor's Reports**

IAASA has published a Compendium of illustrative audit reports which provides examples of the most commonly used auditor's reports for non-listed entities in Ireland, including private companies, private groups, micro-companies and qualifying partnerships and it is intended to provide a useful reference tool for auditors. This can be downloaded from IAASA's website.

[https://www.iaasa.ie/getmedia/4ba29b0f-0c90-47b8-a817-c6ae69139938/Compendium\\_of\\_Auditors\\_Reports\\_final.pdf?ext=.pdf](https://www.iaasa.ie/getmedia/4ba29b0f-0c90-47b8-a817-c6ae69139938/Compendium_of_Auditors_Reports_final.pdf?ext=.pdf)

### Decision tree for determining if an entity is a PIE



**Table of changes to the standards**

	ISA (Ireland)	Paragraph	Nature of changes	Changes apply to <sup>4</sup>		
				All	Listed	PIE
1.	<b>ISQC (Ireland) 1</b> , Quality Control	<b>12c</b>	IAASA has updated the definition of Engagement partner to state that “An engagement partner is a key audit partner”.	√		
2.		<b>30D-1(c)</b>	The standard requires that for each audit of financial statements, firms shall ensure that the key audit partner is actively involved in carrying out the audit.	√		
3.		<b>12(o)-1</b>	The Public Interest Entity definition is revised for updated regulation/legislation references.			√
4.	<b>210 - Agreeing the terms of audit engagements</b>	<b>A38-1</b>  <b>A38-2</b>	<b>Micro-entities regime</b> In Ireland certain small companies are permitted by law to prepare their financial statements in accordance with the micro-entities’ regime. This financial reporting framework is not considered to be a fair presentation framework as defined in ISA (Ireland) 200 as it does not explicitly or implicitly acknowledge that to achieve fair presentation of the financial statements it may be necessary for management to either provide additional disclosures beyond those required by the framework or to depart from a requirement of the framework. Accordingly, this financial reporting framework is a compliance framework.  Where an audit of financial statements prepared in accordance with the micro entities’ regime is performed, the auditor is required by law to state whether the financial statements give a true and fair view. In accordance with paragraphs 25 and 26 of ISA (Ireland) 700 expressing an unmodified opinion in terms of a true and fair view is reserved for financial statements prepared in			

			accordance with a fair presentation framework. Accordingly, there is a risk that the auditor's report may be misunderstood by users as implying that the micro companies' regime is a fair presentation framework. It may be possible for the auditor to mitigate the potential misunderstanding through the prominent inclusion of an other matter paragraph addressing this in the auditor's report in accordance with ISA (Ireland) 706. <sup>5</sup>			
5.	<b>220</b> <i>Quality Control for an Audit of Financial Statements</i>	<b>7(f)-1</b> <b>7(m)-1</b>	The engagement partner and Public Interest Entity definitions updated as outlined under the ISCQ (Ireland) 1 revisions detailed above.	√		
6.		<b>21-3</b>	This standard widens the role of the Engagement Quality Control Reviewer (EQCR) for audits of group financial statements of PIEs, to consider independence, significant risks, materiality, advice from external experts, misstatements identified, interactions with management and the audit committee, matters discussed with competent authorities and other third parties; and appropriateness of supporting documentation for components (where the work was performed for the group audit) and to discuss the results of the review with each of the relevant key audit partners.			√
		<b>25R-2 (b)</b>	The EQCR must document their consideration of each item as appropriate, and their conclusion thereon.			√
		<b>A31-3</b>	The ISA also guides that the EQCR documentation demonstrates a robust appraisal of the quality of the work performed and the conclusions reached by the engagement team. A simple sign off or completion of a checklist is unlikely to demonstrate a robust appraisal.			√

		<b>A31-4</b>	When assessing the appropriateness of the engagement team’s judgements and conclusions, the EQCR may consider alternative outcomes. In such circumstances, the EQCR may find it beneficial to document such an assessment to demonstrate they have performed a robust appraisal of the work performed and the conclusions reached.			
7.	<b>ISA 250, Section A</b>	<b>13-1</b>	A new paragraph has been added: “When performing risk assessment procedures as required by ISA (Ireland) 315, the auditor shall consider whether there are any indications of non-compliance with laws and regulations. (Ref: Para. A11-2)”	√		
8.		<b>14</b>	Additional application guidance paragraph references added (A11-3-A12-1) - see below for details.	√		
9.		<b>15</b>	Additional application guidance paragraphs added (A11-3, A13 – A14-1) - see below for details.	√		
10		<b>20</b>	Additional text has been added indicated in bold below to clarify the meaning of material in the given context: “If the auditor suspects there may be non-compliance, the auditor shall discuss the matter, unless prohibited by law or regulation, with the appropriate level of management and, where appropriate, those charged with governance. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor’s judgment, the effect of the suspected non-compliance may be material to the financial statements, <b>either quantitatively or qualitatively, and where there is more than one occurrence both individually and in aggregate the</b>	√		

			auditor shall consider the need to obtain legal advice.”			
11		<b>A11-1.</b>	A new application guidance paragraph has been added: “When obtaining audit evidence to understand how the entity is complying with the legal and regulatory framework applicable to the entity, the auditor may obtain that understanding through a combination of inquiries and other risk assessment procedures (i.e., corroborating inquiries through observation or inspection of documents).”	√		
12		<b>A11-2</b>	This has been moved from paragraph A18.	√		
13		<b>A11-3</b>	A new heading and application guidance paragraph has been added to clarify the meaning of materiality in the context of the standard: “Materiality in Relation to Non-Compliance with Laws and Regulations (Ref: paragraph. 6, 12–13). The auditor considers both quantitative and qualitative factors when considering both categories of laws and regulations as described in paragraph 6, including in circumstances where the direct effect on the determination of amounts and disclosures in the financial statements is not quantitatively material. For example, acts of non-compliance may not generate material fines or penalties, but may have a direct effect on disclosures due to the nature of the entity where disclosure of acts of non-compliance are important to users of the financial statements.”	√		
14		<b>A12</b>	Additional text has been added, this is indicated in bold below: Certain laws and regulations are well-established, known to the entity and within the entity’s industry or sector, and relevant to the entity’s financial statements (as	√		



			<p>described in paragraph 6(a)). They could include those that relate to, for example:</p> <ul style="list-style-type: none"> <li>•The form and content of financial statements;</li> <li>•Industry-specific financial reporting issues;</li> <li>•Accounting for transactions under government contracts; or</li> <li>•The accrual or recognition of expenses for income tax or pension costs.</li> </ul> <p>These laws and regulations include those which:</p> <ul style="list-style-type: none"> <li>•Determine the circumstances under which a company is prohibited from making a distribution except out of profits available for the purpose.</li> <li>•Require auditors expressly to report non-compliance, such as the requirements relating to the maintenance of adequate accounting records or the disclosure of particulars of directors' remuneration in a company's financial statements.</li> </ul> <p>Some provisions in those laws and regulations may be directly relevant to specific assertions in the financial statements (e.g., the completeness of income tax provisions), while others may be directly relevant to the financial statements as a whole (e.g., the required statements constituting a complete set of financial statements). The aim of the requirement in paragraph 14 is for the auditor to obtain sufficient appropriate audit evidence regarding the determination of amounts and disclosures in the financial statements in compliance with the relevant provisions of those laws and regulations.</p> <p>Non-compliance with other provisions of such laws and</p>			
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			<p>regulations and other laws and regulations may result in fines, litigation or other consequences for the entity, the costs of which may need to be provided for in the financial statements, but are not considered to have a direct effect on the financial statements as described in paragraph 6(a).</p> <p><b>However, where the auditor identifies or suspects non-compliance with laws and regulations, the auditor takes into account potential fines, litigation or other consequences for the entity when evaluating the possible effect on the financial statements in accordance with paragraph 19(b).</b></p>			
15		<b>A14-1</b>	<p>Additional text has been added this is indicated in bold below:  When determining the <b>nature and extent</b> type of the procedures necessary in a particular instance the auditor takes account of the particular entity concerned and the complexity of the laws and regulations with which it is required to comply. In general, a small entity which does not operate in a regulated area will require few specific procedures compared with a large multinational corporation carrying on complex, regulated business.</p>	√		
16		<b>A14-2</b>	<p>New application guidance paragraph added:  When performing the audit procedures required by paragraph 15(a), the auditor may consider whether the audit evidence obtained through inquiries of management and, where appropriate, those charged with governance, is consistent with the auditor's understanding obtained in accordance with paragraph 13.</p>	√		
17		<b>A16-1</b>	<p>A new application guidance paragraph was added:  Where management or those</p>	√		

			charged with governance have informed the auditor of an instance of actual or suspected non-compliance with laws and regulations (e.g., in response to the inquiries made in paragraph 15(a), through written representations in accordance with paragraph 17 or some other means), the requirements in paragraphs 19–22 apply.			
18		<b>A18-1</b>	New heading and application guidance paragraph added: “Matters Relevant to the Auditor’s Understanding of the Nature of the Act and Circumstances in Which It Has Occurred (Ref: Para. 19(a)) Where the auditor determines that the identified or suspected non-compliance with laws and regulations is intentional, the requirements in ISA (Ireland) 240 (Updated December 2018) apply.”	√		
19		<b>A23-1</b>	New application guidance paragraph added: “Where the auditor identifies or suspects non-compliance with laws and regulations, the auditor may determine that a significant deficiency in internal control exists. In such circumstances, the requirements in ISA (Ireland) 265 apply.”	√		
20		<b>A27-1</b>	Additional text has been added, this is indicated in bold below: In Ireland, when considering whether the financial statements reflect the possible consequences of any identified or suspected non-compliance with laws and regulations, the auditor has regard to the requirements of the applicable financial reporting framework. Identified or suspected non-compliance with laws and regulations may require disclosure in the financial statements because, although the immediate financial effect on the entity may not be material, there could be future material consequences such as fines, litigation or other	√		

			consequences for the entity, <b>or the noncompliance may be qualitatively material</b> . For example, an illegal payment may not itself be material but may result in criminal proceedings against the entity or loss of business which could have a material effect on the true and fair view given by the financial statements.			
21		<b>A28</b>	<p>Additional text has been added, this is indicated in bold below: Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:</p> <p>(a) Law, regulation or relevant ethical requirements require the auditor to report (see paragraphs A29–A29-3);</p> <p>(b) The auditor has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements (see paragraph A30); or</p> <p>(c) Law, regulation or relevant ethical requirements provide the auditor with the right to do so (see paragraph A31); or.</p> <p><b>(c) The matter may be one that ought to be reported in the public interest (see paragraphs A33-1–A33-8).</b></p>	√		
22	<b>ISA 250(B)</b>	<b>13R-1</b>	A new application guidance paragraph references has been added - see below in section 24.			√
23		<b>15</b>	<p>Changes are as set out in the strikethrough text below: When a matter comes to the auditor’s attention which the auditor concludes does not give rise to a statutory duty to report but nevertheless may be relevant to the</p>	√		

			<p>regulator's exercise of its functions, the auditor may:</p> <p>(a) Consider whether the matter should be brought to the attention of the regulator under the terms of the appropriate legal provisions enabling the auditor to report direct to the regulator; and, if so</p> <p>(b) Advise those charged with governance that in the auditor's opinion the matter should be drawn to the regulators' attention. Where the auditor is unable to obtain, within a reasonable period, adequate evidence that those charged with governance have properly informed the regulator of the matter, the auditor shall make a report direct to the regulator as soon as practicable. (Ref: Para. A36-A37)</p>			
24		<b>A35-1-A35-6</b>	<p>New headings and application guidance paragraphs added: "Public Interest Entities (Para: Ref. 13R-1)</p> <p>A35-1. Reports are generally made to the regulator that has the statutory powers to be able to act on the information provided in the report filed by the auditor. For example:</p> <ul style="list-style-type: none"> <li>• For entities in the financial sector – the Central Bank of Ireland.</li> <li>• Reporting on non-compliance with Listing Rules – the Irish Stock Exchange.</li> <li>• Reporting on possible offences under the Companies Act 2014 - the Office of the Director of Corporate Enforcement.</li> </ul> <p>In some cases, the auditor may be required to report to multiple regulators.</p>			√

			<p>A35-2. It may not always be immediately clear what reporting requirements apply to an entity or sector. Nevertheless, the auditor obtains a general understanding of the legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates in accordance with ISA (Ireland) 250 (Revised July 2017) Section A.</p> <p>A35-3. There may be occasions where there is no readily identifiable regulator to which the auditor can make a report, or the matter to be reported would not be of interest or relevance to the Irish Stock Exchange. In that case, the auditor considers whether to make a report to the auditor's competent authority.</p> <p>Material Breach of Laws, Regulations or Administrative Provisions (Ref: Para. 14(a)(i))</p> <p>A35-4. ISA (Ireland) 250 (Revised July 2017) Section A11 establishes requirements and provides guidance for the auditor's responsibility to consider laws and regulations in an audit of financial statements.</p> <p>Material Threat or Doubt Concerning the Continuous Functioning (Ref: Para. 14(a)(ii))</p> <p>A35-5. A material threat or doubt concerning the continuous function of an entity could arise as a result of many factors. For example, the auditor considers matters relevant to going concern as well as threats or doubts arising from principal or emerging risks facing the entity, including those that would threaten the entity's business model, future performance, solvency or liquidity. ISA (Ireland) 570 establishes requirements and provides guidance in respect of the auditor's responsibilities relating to going concern, including matters related to the viability statement.</p>			
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			<p>Qualified, Adverse or Disclaimers of Opinion (Ref: Para. 14(a)(iii))</p> <p>A35-6. ISA (Ireland) 705 establishes requirements and provides guidance in determining where there is a need for the auditor to express a qualified or adverse opinion or disclaim an opinion.</p>			
25	<b>ISA 260</b>	<b>7</b>	<p>Additional text has been added, this is indicated in bold below:</p> <p>In some jurisdictions, law or regulation may restrict the auditor’s communication of certain matters with those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report identified or suspected noncompliance with laws and regulations to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, <b>the issues considered by the auditor</b> may be complex and the auditor may consider it appropriate to obtain legal advice.</p>	√		
26		<b>16-1</b>	<p>This paragraph has been revised for updates to the UK Corporate Governance Code made in the 2018 version of the Code.<sup>6</sup></p>			
27		<b>A28 -1 to A28 - 2</b>	<p>Some explanatory material about directors and audit committee responsibilities under the UK Corporate Governance Code has been deleted<sup>7</sup>.</p>			
28		<b>A28 - 5 and A28 - 6</b>	<p>New headings and application guidance paragraphs have been added:</p> <p>Public Interest Entities (Ref: Para. 16R-2)</p> <p>A28-5. The information to be provided to those charged with</p>			√

			<p>governance may be more useful if it is described in the context of the responsibilities of the respective parties (i.e., information that would be relevant to the audit committee in carrying out their oversight role).</p> <p>A28-6. The auditor also considers the extent of the reporting required by paragraph 16R-2 in the context of the requirement to explain the results of the audit carried out. For example, the auditor would not need to report on a simple valuation method used by management, where the auditor determined that there was not a risk of material misstatement for a particular class of transactions, account balances or disclosures</p>			
29	<b>600 – Special considerations- Audits of Group Financial Statements (including the work of Component Auditors)</b>	<b>9(b)</b>	<p>The definition of a “component auditor” for the purposes of a group audit has been updated. It now states that a component auditor may also be a Key Audit Partner.</p> <p>It also provides further clarity on when a component auditor is a key audit partner by stating that a component auditor is not an engagement partner for the group audit.</p>	√		
30		<b>9(h)</b>	<p>The definition of a “group engagement partner” for the purposes of a group audit has been updated.</p> <p>It now confirms that the group engagement partner is a key audit partner.</p>	√		
31		<b>9(l)-1</b>	<p>The definition of a key audit partner is now included in the standard, being:</p> <p>(i) the statutory auditor(s) designated by an audit firm for a particular audit engagement as being primarily responsible for carrying out the statutory audit on behalf of the audit firm; or</p>	√		



			<p>(ii) in the case of a group audit, at least the statutory auditor(s) designated by an audit firm as being primarily responsible for carrying out the statutory audit at the level of the group and the statutory auditor(s) designated as being primarily responsible at the level of material subsidiaries; or</p> <p>(iii) the statutory auditor(s) who sign(s) the audit report</p>			
32		<b>42D-1</b>	<p>New footnotes are included to clarify the meaning of “evaluate” and “review” in the context of the required work by the group engagement team on the work performed by the component auditor for the purposes of the group audit.</p> <p>These terms are now explicitly defined in IAASA’s Glossary of Terms<sup>8</sup>.</p>	√		
33	<b>620 – Using the work of an Auditor’s Expert</b>	<b>A20-1</b>	<p>The ISA clarifies that where the auditor engages an external expert, the external expert will be subject to the ethical requirements that are relevant to the audit engagement, including independence. The auditor’s external expert will be subject to the requirements in IAASA’s Ethical Standard as applicable to that expert, in addition to any independence requirements that the expert must comply with by virtue of their membership of a particular professional body.</p>	√		
34	<b>700 – Forming an Opinion and Reporting on Financial Statements</b>	<b>29-1</b>	<p>A new requirement has been added to the standard which requires the auditor’s report to explain to what extent the audit was considered capable of detecting irregularities, including fraud.</p> <p>This was already an existing requirement for public interest entities but has now been extended to also apply to listed entities.</p>		√	√
35		<b>45R-1(b)</b>	<p>A new footnote (17a) was added to clarify the interpretation of the</p>			√

			<p>“date of appointment” which must be disclosed in the auditor’s report of a public interest entity. The date of appointment is deemed to be the earlier of:</p> <p>(i) the formal appointment of the statutory auditor(s) or the audit firm at the annual general meeting of the audited entity; and</p> <p>(ii) the agreement of an engagement letter between the statutory auditor(s) or the audit firm and the audited entity</p>			
36		<b>A39-1 to A39-5</b>	<p>Additional application material has been added to the ISA to outline the nature and extent of reporting required in respect of the new requirement included in paragraph 29-1, re: required audit report statement on fraud and irregularity. It also specifically states that the term “irregularity” is not defined in Irish legislation but is deemed to correspond to the definition in ISA(Ireland) 250 (Revised July 2017) of non-compliance and therefore broadly based.</p>		√	√
37	<b>701 – Communicating Key Audit Matters in the Independent Auditor’s Report</b>	<b>13(b)</b>	<p>In communicating key audit matters, the ISA now clarifies that in describing each key audit matter and how the matter was addressed in the audit, this description should include an overview of the significant judgements made by the engagement team with respect to the matter.</p>		√	√
38		<b>13R-1(c)</b>	<p>New application material has been included at A51-1 to assist with this requirement. Paragraph 13R-1(c) requires the auditor to include key observations where relevant for each key audit matter. The new application material linked to this requirement also provides helpful guidance to interpret the meaning of a key observation and when it would be relevant to consider inclusion for a KAM.</p>		√	√

39		<b>16-1</b>	A new requirement is now added requiring the auditor to report “performance materiality” and to provide an explanation of the significant judgements made by the auditor in determining performance materiality, in the audit report.		√	√
40	<b>720 – The Auditor’s Responsibilities Relating to Other Information</b>	<b>22-1</b>	<p>New requirements were added to clarify other reporting responsibilities by the auditor. If the auditor is required to report on “statutory other information” (as defined by paragraph 12(d)) in accordance with law or regulation, the auditor must include the following in the auditor’s report:</p> <p>(a) A description of the auditor’s responsibilities relating to statutory other information; and</p> <p>(b) A conclusion thereon</p> <p>In respect to statutory other information, the standard’s application material has also been updated with further guidance on the legislative reporting requirements in Ireland.</p>	√		
41			<p>Paragraph A53-4 of the standard’s application material provides guidance on the auditor reporting required by the Companies Act 2014 on the Directors’ Report. This guidance includes an important clarification in regard to “non-financial statements” required to be disclosed by applicable companies as defined in the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 (SI 360 of 2017). It explicitly confirms that the requirements of the Companies Act 2014 relating to the auditors’ report do not apply to the “non-financial statement” where disclosed within the directors’ report.</p>			√

42		22-2 22-3	Updated paragraphs to reflect the required auditor reporting to be made for entities that apply the UK Corporate Governance Code and Irish Corporate Governance Annex. This reporting must be included in a separate section in the auditor's report under a heading titled "Corporate Governance Statement".			√
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## Appendix 1 Definitions

### Public Interest Entities (PIEs)

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.” IAASA may issue their own interpretation of this definition.

### **Entities applying the Corporate Governance Code.**

Since the 1995 Irish Stock Exchange Act, the Listing Rules of the Irish Stock Exchange have required every company listed on the Main Securities Market to state in its annual report how the principles of the UK Corporate Governance Code have been applied and whether the company has complied with all relevant provisions. Where a company has not complied with all relevant provisions of the UK Corporate Governance Code (the 'UK Code'), it is required to set out the nature, extent and reasons for non-compliance. The Irish Corporate Governance Annex (the 'Irish Annex') is addressed to companies with a primary equity listing on the Main Securities Market of the Irish Stock Exchange ('ISE'). Companies listed on the Main Securities Market of the Irish Stock Exchange should provide meaningful descriptions of how they apply the provisions of the UK Code and the Irish Annex. Entities may decide to report voluntarily on their compliance with the UK Code and/or the Irish Annex in which case the requirements of the ISAs (Ireland) applicable to entities applying the Code will apply.

**Appendix 2 List of all International Standards on Auditing (Ireland) – November 2020**

<b>ISA (Ireland)</b>	<b>Name</b>	<b>Issued</b>	<b>Level of changes</b>
200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing	December 2018	
210	Agreeing the terms of Audit Engagements	November 2020	See table above.
220	Quality Control for an Audit of Financial Statements	November 2020	See table above.
230	Audit Documentation	December 2018	
240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	December 2018	
250A	Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2020	See table above.
250B	Section B – The Auditor's Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2020	See table above.
260	Communication with Those Charged with Governance	November 2020	See table above.
265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	June 2016	
300	Planning an Audit of Financial Statements	June 2016	
315	Identifying and Assessing the Risks of Material Misstatement Through	October 2020	

	Understanding the Entity and its Environment		
320	Materiality in Planning and Performing an Audit	June 2016	
330	The Auditor's Responses to Assessed Risks	August 2018	
402	Audit Considerations Relating to an Entity using a Service Organisation	June 2016	
450	Evaluation of Misstatements Identified During the Audit	July 2017	
500	Audit Evidence	June 2016	
501	Audit Evidence – Specific Considerations for Selected Items	June 2016	
505	External Confirmations	June 2016	
510	Initial Audit Engagements – Opening Balances	June 2016	
520	Analytical Procedures	June 2016	
530	Audit Sampling	June 2016	
540	Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures	December 2018	See TA 02 2020 <sup>9</sup>
550	Related Parties	June 2016	
560	Subsequent Events	June 2016	
570	Going Concern	October 2019	See TA 03 2020 <sup>10</sup>
580	Written Representations	December 2018	
600	Special Considerations – Audits of Group Financial Statements (including the Work of Component Auditors)	November 2020	See table above.
610	Using the Work of Internal Auditors	June 2016	
620	Using the Work of an Auditor's Expert	November 2020	See table above.
700	Forming an Opinion and Reporting on Financial Statements	November 2020	See table above.

701	Communicating Key Audit Matters in the Independent Auditor's Report	November 2020	See table above. Also related changes in the application guidance.
705	Modifications to the Opinion in the Independent Auditor's Report	June 2016	
706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	June 2016	
710	Comparative Information – Corresponding Figures and Comparative Financial Statements	June 2016	
720	The Auditor's Responsibilities Relating to Other Information	November 2020	See table above.

### **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 audits 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.

<sup>1</sup> TA 02/2021 and TR 02/2021 provide further guidance on the revised Ethical Standard for auditors.

<sup>2</sup> Feedback statement [https://iaasa.ie/getmedia/e73b46f6-1f47-4295-b605-9982ee254608/ES ISAs Feedback Paper Nov 2020.pdf?ext=.pdf](https://iaasa.ie/getmedia/e73b46f6-1f47-4295-b605-9982ee254608/ES_ISAs_Feedback_Paper_Nov_2020.pdf?ext=.pdf)

<sup>3</sup> The International Auditing and Assurance Standards Board (IAASB) is an independent standard-setting body that serves the public interest by setting high-quality international standards for auditing, quality control, review, other assurance, and related services, and by facilitating the convergence of international and national standards. <https://www.iaasb.org/>

<sup>4</sup> See [Appendix 2](#) for definition

<sup>5</sup> See IAASA’s Compendium of Illustrative Auditor’s Reports <https://www.iaasa.ie/Publications/Auditing-standards/Guidance-Notes/Compendium-of-Illustrative-Auditor%E2%80%99s-Reports>

<sup>6</sup> Applies to UK Code only

<sup>7</sup> Applies to UK Code only

<sup>8</sup> <https://www.iaasa.ie/Publications/Auditing-standards/Standards-Guidance-for-Auditors-in-Ireland/Glossary-of-Terms>

[9 https://www.charteredaccountants.ie/knowledge-centre/guidance/Technical-Releases-and-Technical-Alerts/Technical-Alerts](https://www.charteredaccountants.ie/knowledge-centre/guidance/Technical-Releases-and-Technical-Alerts/Technical-Alerts)

[10 https://www.charteredaccountants.ie/knowledge-centre/guidance/Technical-Releases-and-Technical-Alerts/Technical-Alerts](https://www.charteredaccountants.ie/knowledge-centre/guidance/Technical-Releases-and-Technical-Alerts/Technical-Alerts)