



## **BREAKFAST & EVENING BRIEFING SERIES**

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# Why did no one see it coming?

Queen Elizabeth







**To reinforce investor  
confidence in the truth  
and fairness of financial  
statements published by  
European companies.**

Primary objective of the Directive on Statutory Audits  
of Annual Accounts and Consolidated Accounts



To enhance public confidence in the annual & consolidated financial statements of PIEs, and hence contribute to the orderly functioning of markets through greater integrity and efficiency of financial statements.

Primary objective of the Regulation on specific requirements regarding the statutory audit of PIEs





**(Audit) is important in establishing the credibility and reliability of stewardship and other financial information.**

**An auditor is a reporter, a specially qualified and skilled reporter... but an auditor is not the final judge of the issues. The responsibility rests with some other group as to what action follows.....An auditor must be an objective and faithful reporter if the disability of remoteness or lack of access to information on the part of individuals who do have the authority & responsibility for actions is to be overcome**

**Philosophy and Principles of Auditing, An Introduction.  
David Flint.**



## RELEVANT INSTRUMENTS

# WHAT IS EU AUDIT REFORM?



**Directive 2014/56/EU**

**Regulation (EU) No. 537/2014**

**Statutory Instrument No. 312/2016**  
*(Irish Implementation)*

**Potential Future Legislation**



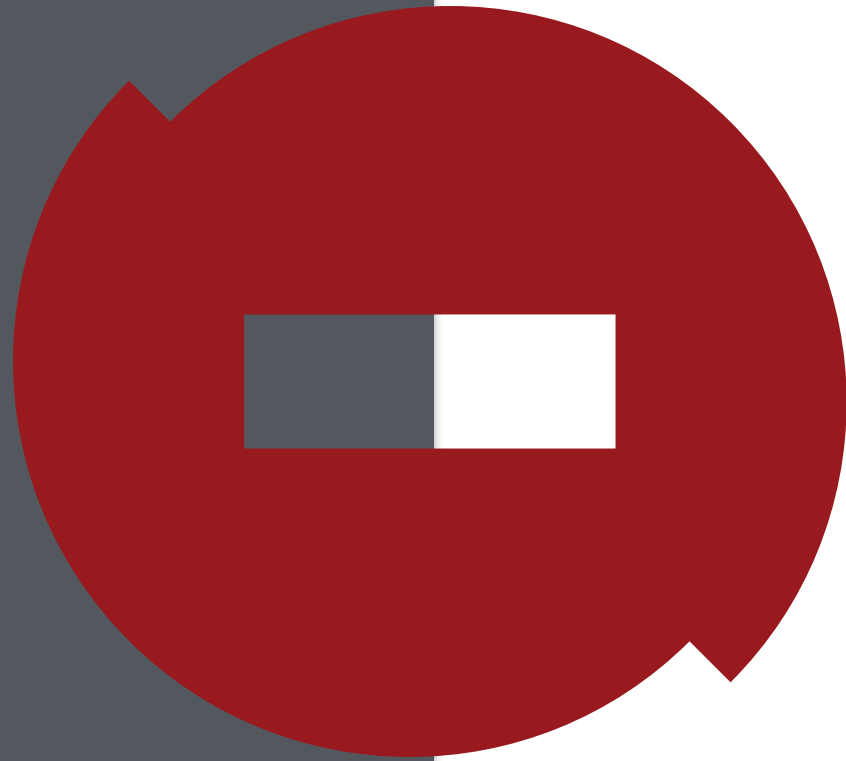


# AUDITOR INDEPENDENCE



AUDITOR INDEPENDENCE

NON-PERMITTED  
SERVICES



DECISION MAKING



AUDITING SHARES



VALUATION SERVICES



FINANCING INVESTMENT



TECHNOLOGY RISK MANAGEMENT



BOOKKEEPING



LEGAL SERVICES



INTERNAL AUDIT



HUMAN RESOURCES

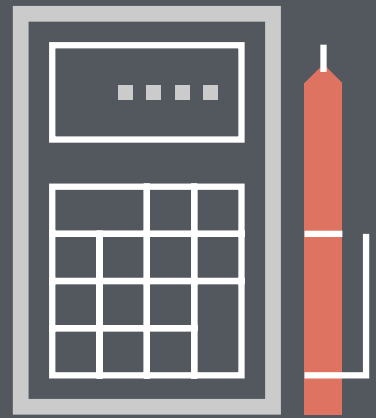


CERTAIN TAX SERVICES



PAYROLL SERVICES

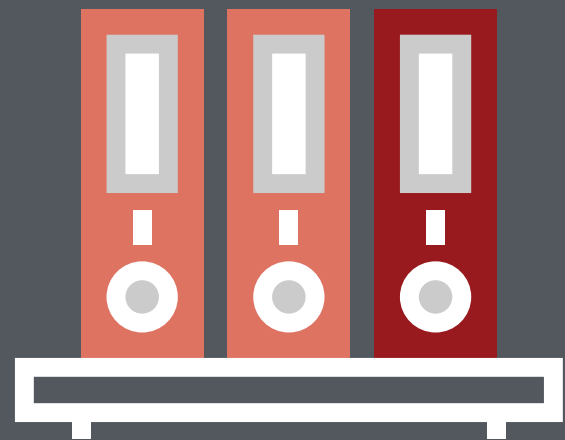




CERTAIN TAX SERVICES



CERTAIN VALUATION SERVICES



STATUTORY AUDIT



OTHER PERMISSIBLE SERVICES

**AUDITOR INDEPENDENCE**

**PERMITTED SERVICES**

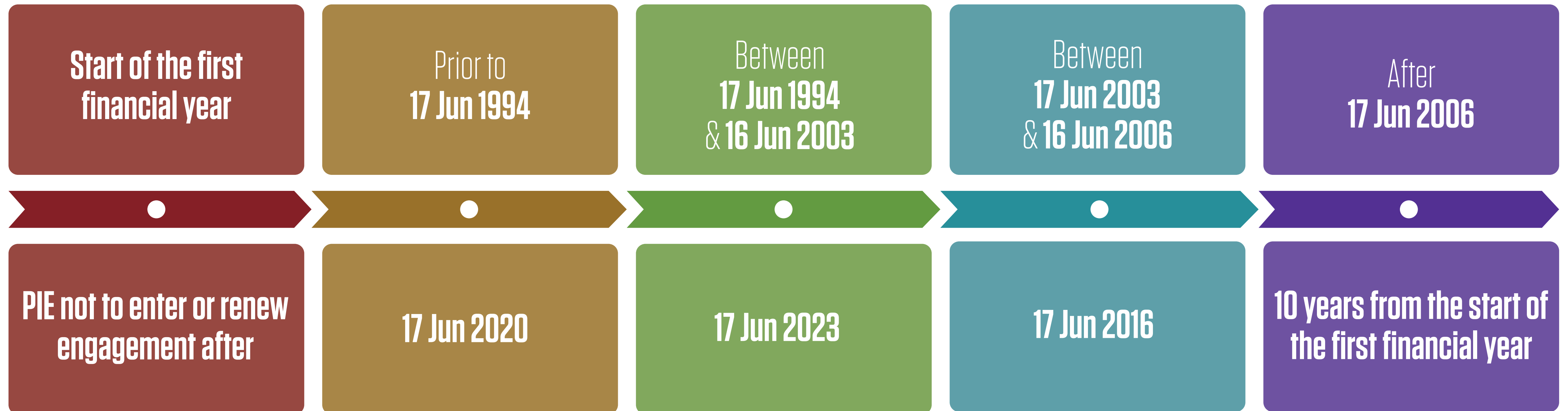


# MANDATORY FIRM ROTATION - TRANSITION MEASURES





# MANDATORY FIRM ROTATION- TRANSITION PROVISIONS

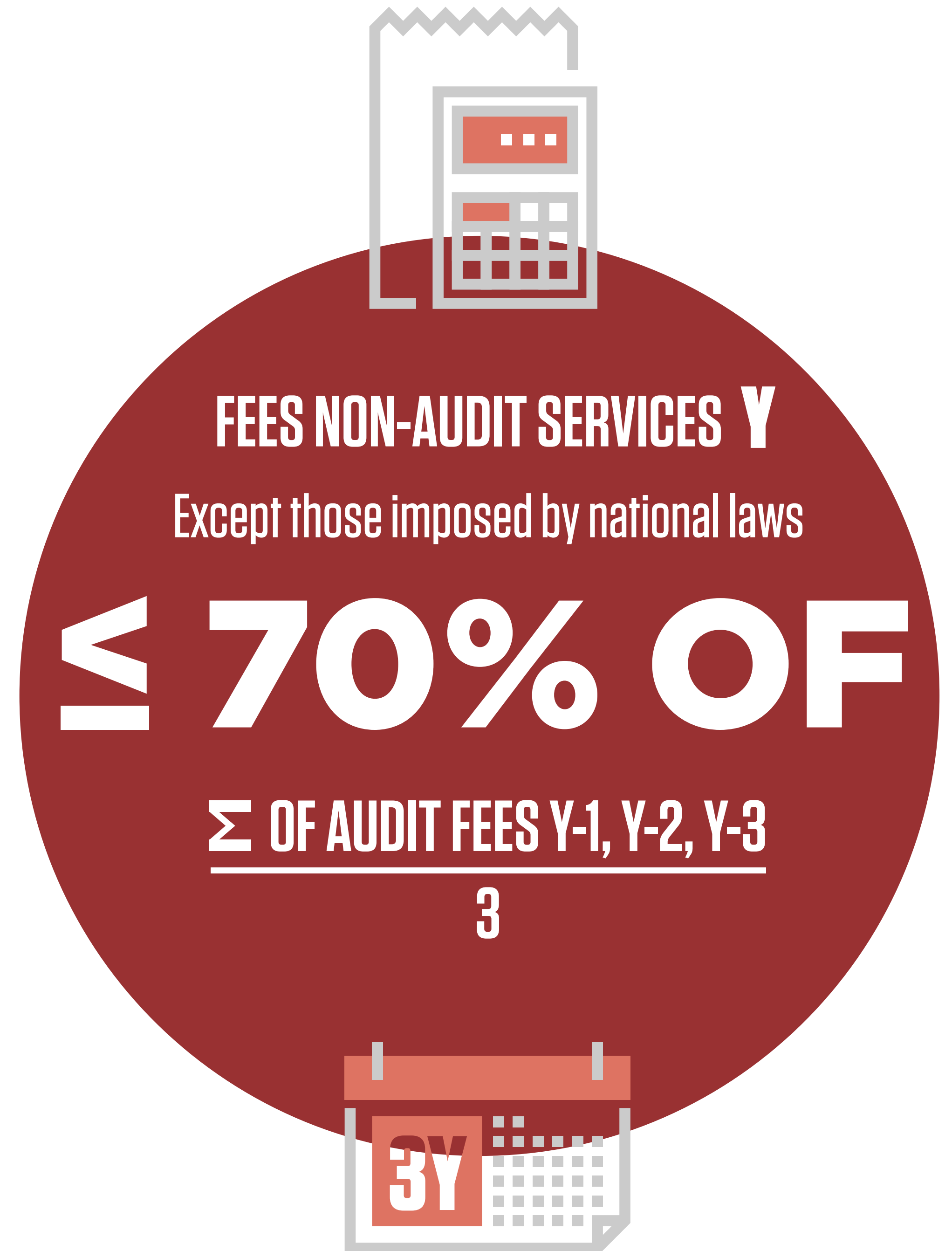




## AUDITOR INDEPENDENCE

### CAP ON NON-AUDIT SERVICES

The audit firm can provide prohibited non-audit services to subsidiaries outside the EU, however to do this the auditor will need to assess if independence has been compromised.

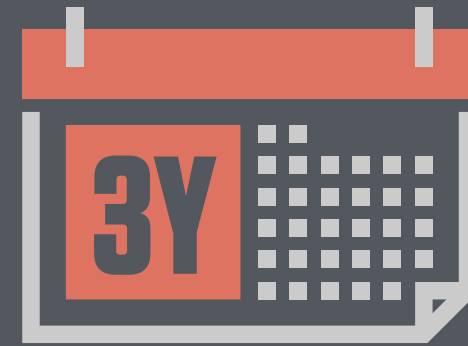






IF THE TOTAL FEES RECEIVED  
FOR AUDIT SERVICES FROM PIE

**> 15%  
OF**



THE TOTAL FEES RECEIVED BY THE  
STATUTORY AUDITOR OR AUDIT FIRM  
DURING 3 CONSECUTIVE FINANCIAL YEARS

**THIS INFORMATION SHOULD BE DISCLOSED TO  
THE AUDIT COMMITTEE WHO THEN**

Analyse the threats to independence and  
measure the possible safeguards.

Examine if the audit engagement must be  
subject to quality control by another auditor.

And if the audit fees continue to surpass the 15%  
threshold, the audit committee cannot engage  
the auditor after a 2 year period.

## **AUDITOR INDEPENDENCE**

# **CAP ON PERCENTAGE OF TOTAL FEES**

Threats to the independence of the  
statutory auditor and/or audit firm





# AUDITOR ROTATION



SELECTING AN AUDITOR

AUDITOR ROTATION



10 2

5 3



## **SELECTING AN AUDITOR**

# **SELECTION PROCESS**

## **AUDIT COMMITTEE**



**Recommends at least 2 potential auditors**

**With a clear preference for 1**

**Stating the recommendation is free from  
3rd party influence / any clause that  
might restrict choice**

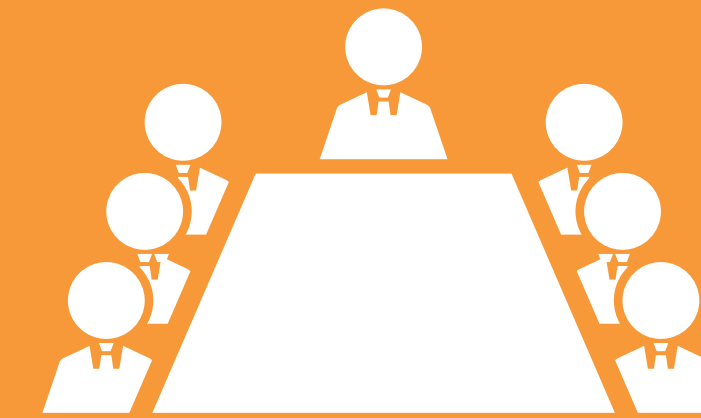
## SELECTING AN AUDITOR

# SELECTION PROCESS

### AUDIT COMMITTEE



### BOARD OF DIRECTORS



**Recommends the appointment of auditors**

**If different from audit committee  
recommendation - explain**



## SELECTING AN AUDITOR

# SELECTION PROCESS

**AUDIT COMMITTEE**



**BOARD OF DIRECTORS**



**SHAREHOLDERS**



**Approved appointment of Auditors**



# AUDIT COMMITTEE



## **AUDIT COMMITTEE**

# **COMPOSITION OF THE AUDIT COMMITTEE**



**Majority of the audit committee must consist of non-executive directors**

**Majority of members must be independent of the audited entity**

**Members as a whole must have competence relevant to the sector in which the audited entity is operating**

**Chairman of the audit committee is elected by the members of the audit committee**

**Must have at least one member with a competence in accounting and auditing**

**Inform the administrative or supervisory body of the PIE about the outcome of the statutory audit**

**Supervise the statutory audit of the annual and consolidated financial statements**

**Monitor the financial reporting process and submit recommendations or proposals to ensure its integrity**

**Monitor the effectiveness of the internal quality control and risk management system**

**Select the auditors following a tender process**

**Review the independence of the auditor**



## **AUDIT COMMITTEE**

# **EXPANDED RESPONSIBILITIES INCLUDE**



## AUDIT COMMITTEE

# ENTITIES EXEMPTED FROM HAVING AN AUDIT COMMITTEE UNDER IRISH LAW



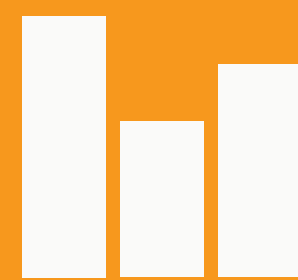
**Subsidiaries of an ultimate parent company,  
where the entity fulfils its requirement at  
group level**

**Any PIE that is an Undertaking for Collective  
Investment in Transferable Securities (UCITS)  
or any Alternative Investment Fund (AIF)**

**PIEs whose sole business is to act as an issuer  
of asset-backed securities**  
*(required to explain why they do not need an  
audit committee)*

**Any credit institution that takes deposits and  
other repayable funds from the public, that  
grants credit for its own account, whose  
shares are not admitted to trading on a  
regulated market of any Member State and  
which has, in a continuous or repeated  
manner, issued only debt securities admitted  
to trading in a regulated market, provided that  
the total nominal amount of all such securities  
remains below €100,000,000**

# AUDIT REFORM SURVEY





Which of the following best describes your function in the organisation?

What best describes your organisation?

What industry sector do you operate in?



**44.2%** Executive Director  
**25.6%** Independent Non-Executive Director  
**30.2%** Other



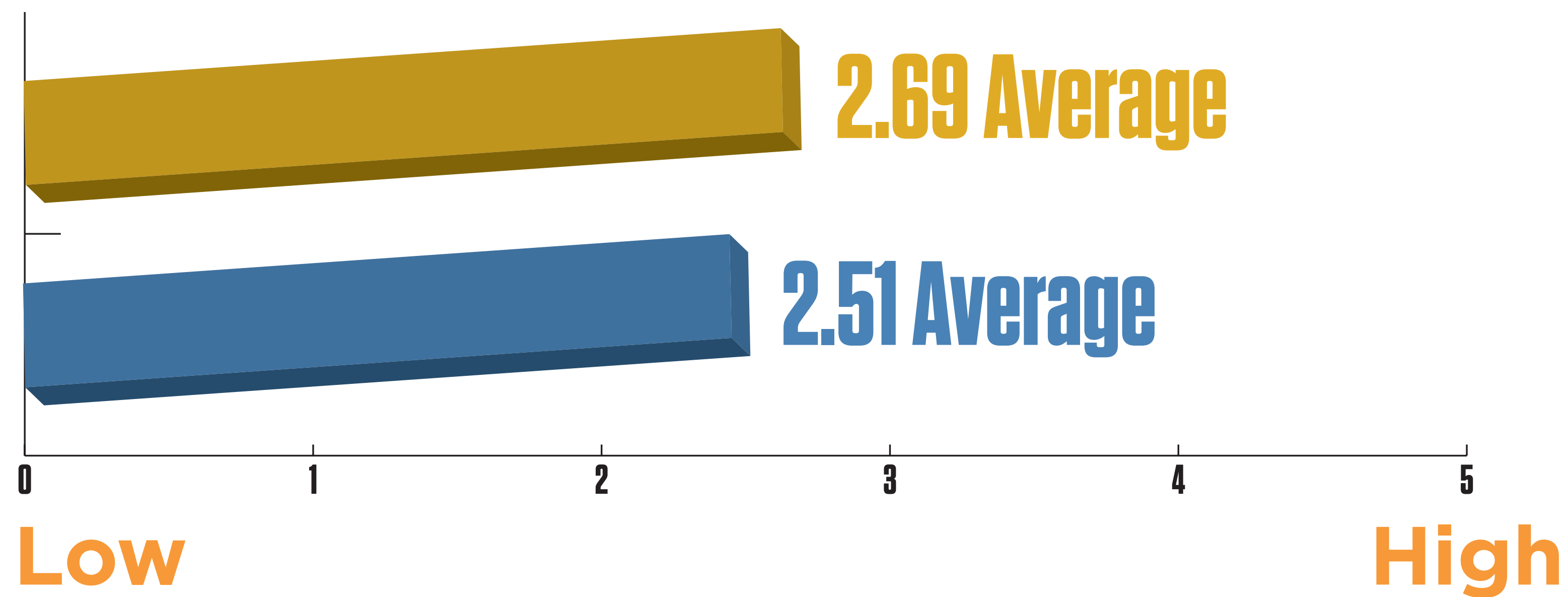
**32.6%** SME  
**16.3%** Not for Profit  
**9.3%** Public Sector  
**9.3%** Large Private Company  
**32.5%** Multinational Organisation



**28.6%** Financial Services  
**11.9%** Pharmaceuticals  
**11.9%** Technology  
**14.3%** Professional Services  
**14.3%** Health  
**9.5%** Public Sector  
**9.5%** Other

# AUDIT REFORM SURVEY

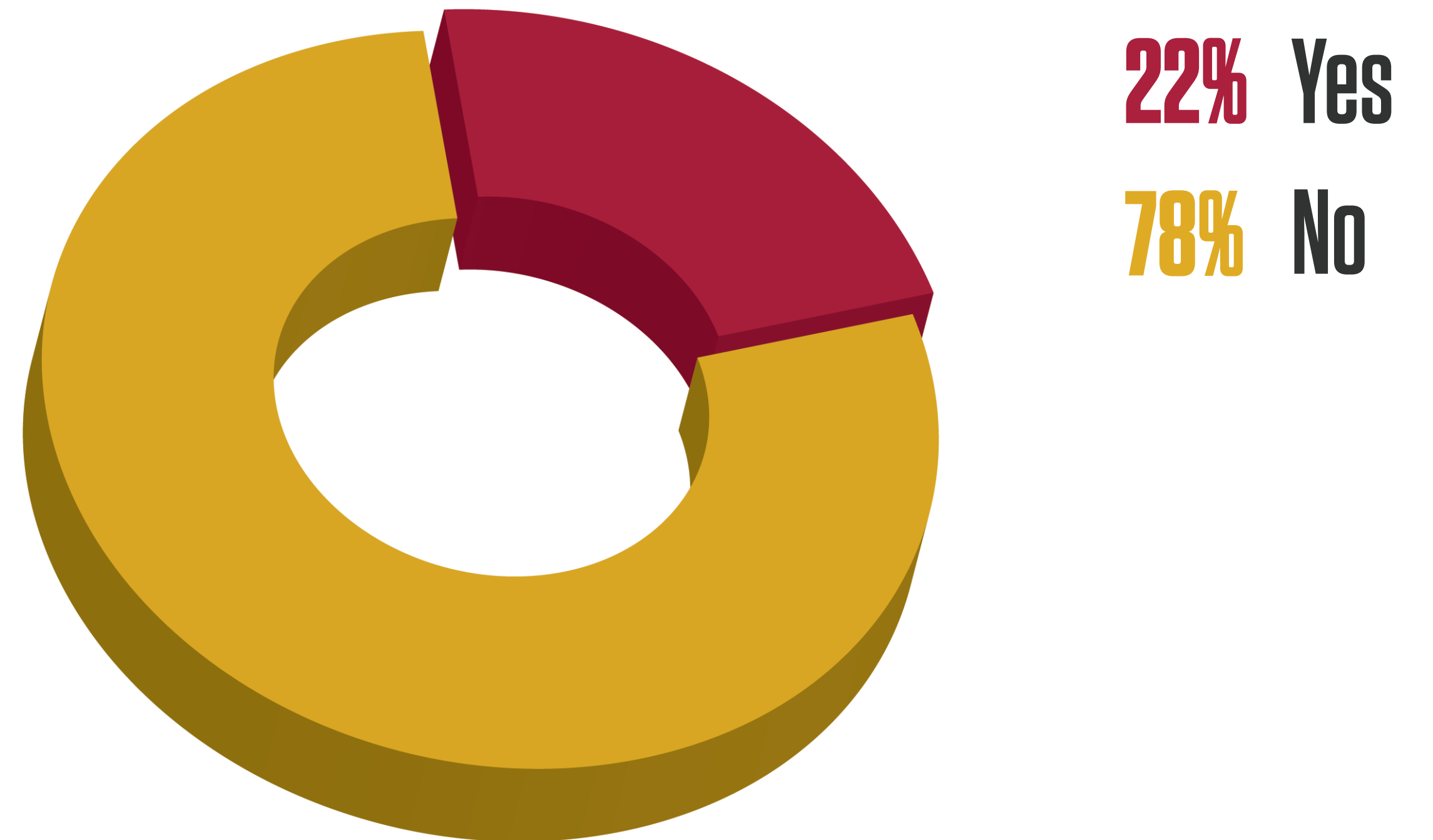
**Your awareness of the legislation and its implications for Directors in Ireland**



**Your preparedness for the implementation of the Directive**



**Has the company reorganised the membership or role of the Audit Committee since the introduction of the legislation in Ireland?**



**What steps has your company taken to assess the independence of your Auditor?**



**10%** Reviewed cap on non-audit services

**12.5%** Reviewed Audit partner rotation

**12.5%** Put the audit out to tender

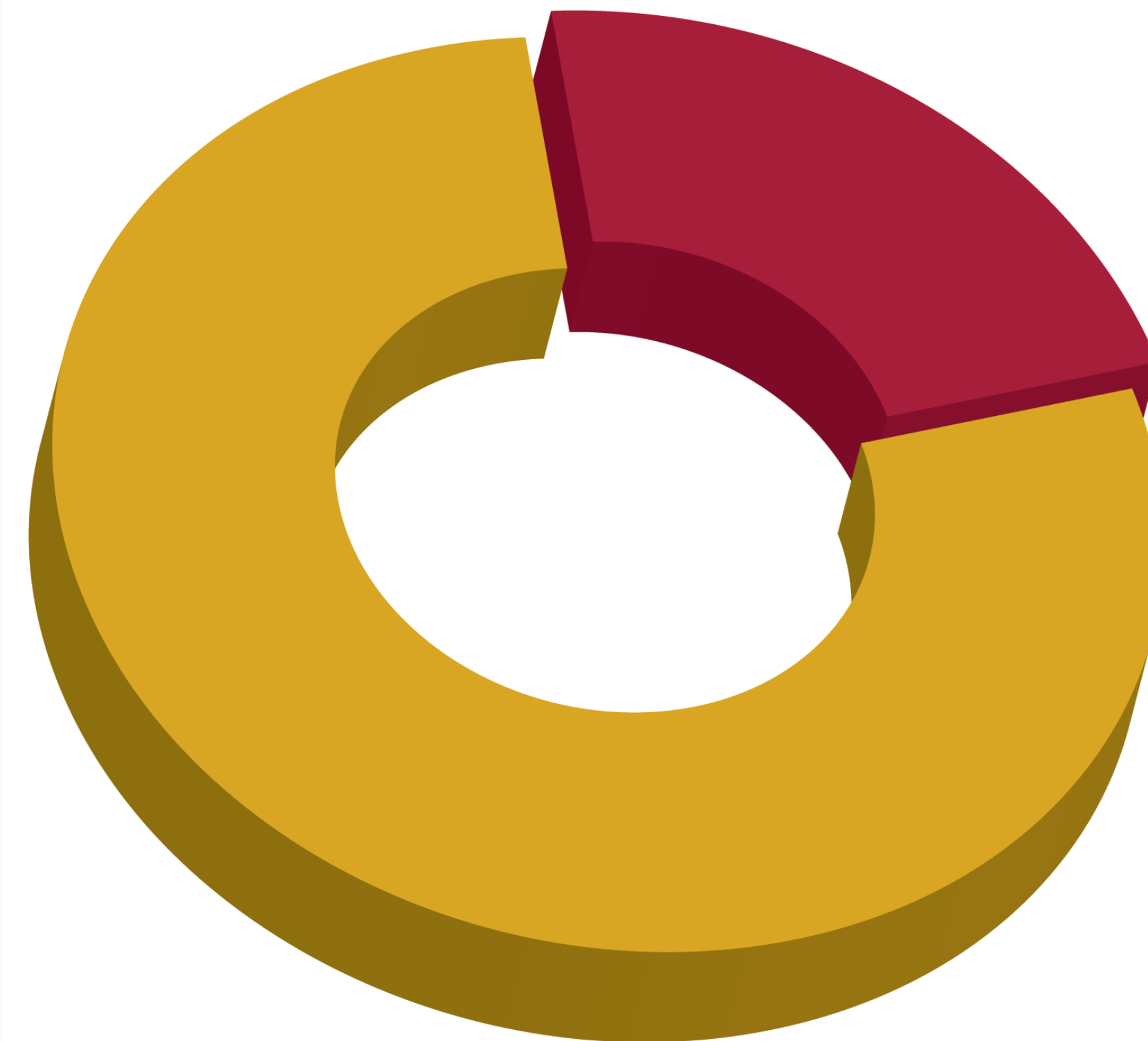
**7.5%** Engaged in an assessment of the independence of your auditor

**45%** None

**12.5%** Other

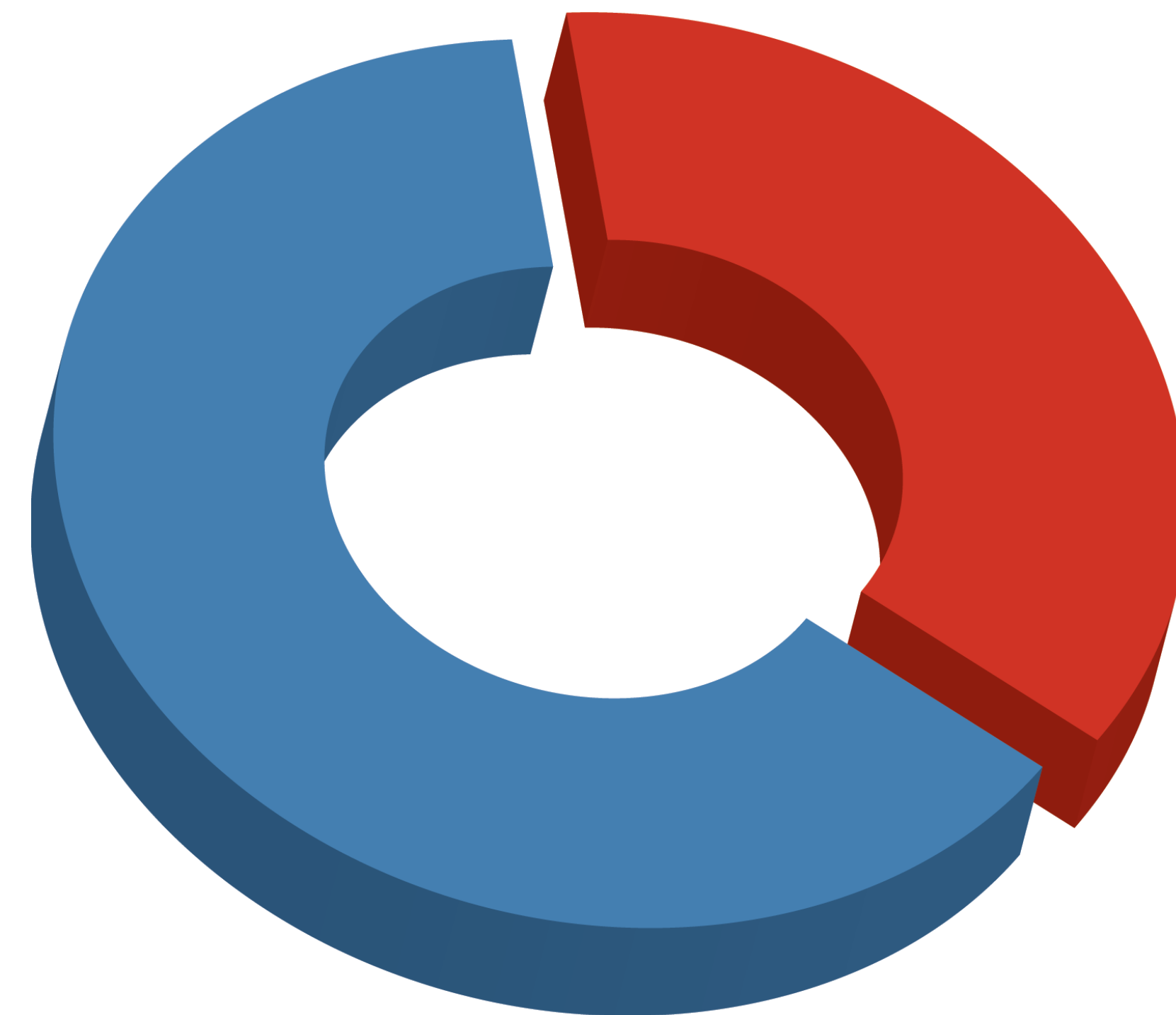


**Has your firm prepared a rotation plan?**



**12.2% Yes**  
**87.8% No**

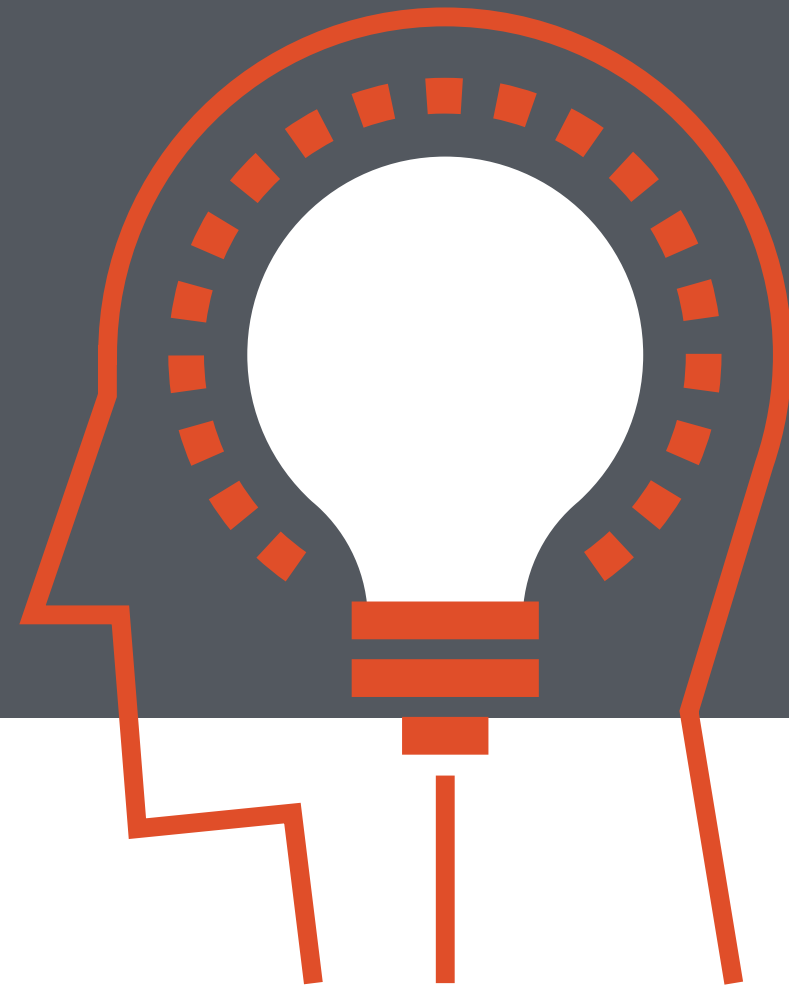
**Do you believe that the legislation as implemented achieves its goals?**



**36.7% Yes**

**63.3% No**





# FINAL THOUGHTS