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IRELAND

Audit Conference

April 2024

A background image showing a group of people in a conference room, looking towards the left. The image is overlaid with a dark blue semi-transparent filter. The people are dressed in professional attire, and some are looking at laptops or documents.

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Thank you!

Your Member Experience Team

Linda, Paul, Chris, Emma, Shannon, Sonia and Ian





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Audit Update and File Reviews

Conal Kennedy

16 April 2024





What's coming down the tracks in 2024?



Some key developments to watch out for

- ISA 505
- ISQM
- FRS 102
- Increase in company size limits
- CSRD
- Solicitors Regulations

ISA (Ireland)/(UK) 505 – External Confirmations



- Both standards are effective for periods commencing on or after 15 December 2024
- Early adoption is permitted
- The standards stress the importance of external confirmations
- Require the auditor to obtain alternative evidence in the case of non-responses
- Require the auditor to question the reliability of responses
- Reliance on negative confirmations is prohibited
- Guidance on non-receipt of bank confirmation letters
- Guidance includes observing client staff accessing online bank statements

ISQM 1

- The first anniversary was 15 December 2023
- You should carry out your first Evaluation of your System of Quality Management
- What were the results of your most recent cold file reviews?
- Were any other shortcomings in your audits noted over the past year and a half?
- How robust was your risk assessment process?
- Did you identify the root causes of matters arising?
- Have you identified remedial actions?



FRS 102 – changes due to Periodic Review

- Effective for periods commencing 1 January 2026 at the earliest
- Changes to leasing and income recognition
- Most leases will be put on the balance sheet as right of use assets
- Do you fully understand the changes?
- What is the timing
- What are the audit issues?
- Review and understand lease agreements
- What is the economic substance of lease agreements
- Any issues with onerous contracts?
- What discount factor will be applied and why?
- Review and understand current income recognition policies, sales contracts and terms

Increase in company size limits

- Size limits to increase by 25% in ROI, which is the maximum permitted under EU rules
- ROI implementation to be co-ordinated with CSRD legislation
- Size limits to increase by 50% in the UK.
- Timings and precise mechanisms to be confirmed.
- What will this mean for your audit portfolio?



- This will impact large companies and large groups
- For periods commencing on or after 1 January 2025
- How many of your clients will be affected?
- Who will prepare the CSRD report for your clients?
- Requirement to include a limited assurance report
- Who will provide these reports for your clients?

Solicitors Accounts Regulations

- Applies to solicitors in the Republic of Ireland
- Apply to accounting periods starting on or after 1 July 2023
- Balancing statements every three months
- Reporting accountant's report to be submitted within five months of the reporting period end
- Compliance partner to be appointed by solicitor
- Solicitors are required to list client ledger balances outstanding for two years or more - appendix
- Deficits to be rectified within seven days, or reported by the accountant
- Reporting of resignation or cessation of operations by the accountant

Audit files – what can go wrong!



What do we see on file reviews?

Actually, most files are pretty good!



Two different perspectives

- Let's take a few different topics and consider them from the following perspectives:
- How to improve a very bad file
- How to make a good file better

Audit planning

- What is the point of audit planning?
- What is the point of identifying risks?
- Understand the difference between inherent risk and control risk
- Don't use the boilerplate text from your audit procedures
- How well are you tailoring a response to the most complex issues such as work in progress, income recognition, retention clauses, or warranties.
- Watch out for ethical issues, such as long association, and preparation of financial statements.
- Obtain an assessment of going concern from you clients.



Audit Fieldwork

- Accounting work placed on file as audit schedules
 - Samples not identified
 - No indication of work done, matters arising, conclusions
- Ownership of land and buildings – review title deeds, or online registers
- Income completeness not addressed
- Evidence regarding unsold inventory, retentions on contracts, warranties.
- Make a record of multi-year plans, where you rotate certain tests from year to year.

Audit Completion

- Auditor's report – most recent format and appropriate wording
- Work programmes for completion sections ticked, but no further evidence on file
- Evidence of assessment of going concern
- Letters of representation could be improved by addressing specific issues arising on the audit files
- Make the Memorandum of Significant Matters work for you. At best it makes a good file better, and catches issues that might slip through the net.

Thank you.
Questions?



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Sustainability Reporting & Assurance Updates

Dr Seán O'Reilly - University College Dublin
Yvonne Lynch - Deloitte

Audit Conference
16th April 2024



Overview

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Sustainability Reporting

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Local developments



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Sustainability Reporting

Dr Seán O'Reilly - University College Dublin

Audit Conference
16th April 2024



Introduction

- The CSRD supports the European Green Deal and is part of the Sustainable Finance package.
- The directive contains specific provisions requiring sustainability information to be subject to assurance.
- The reported sustainability information should form part of the management report.
- Accuracy in all material aspects and well as providing a complete picture.
- Independent assurance service providers or statutory auditors.



Sustainability Reporting - CSRD

Key Dates:

- December 2022: Adoption EU-Directive in member states legislation
- July 2023: First set of Sustainability Reporting Standards (European Sustainability Reporting Standards)
- 2025: Reporting of Sustainability Metrics for 2024 and assurance over report

Scope: All large companies

- > 250 employees and/or
- > €40M Turnover and/or
- > €20M Total Assets
- Listed companies
- Large companies currently incorporates companies not established in the EU that are listed on EU regulated markets and EU subsidiaries of non-EU companies
- Listed-SMEs to follow in 2026 / Voluntary SMEs in 2028 (proposed)

Sustainability Reporting - ESRS

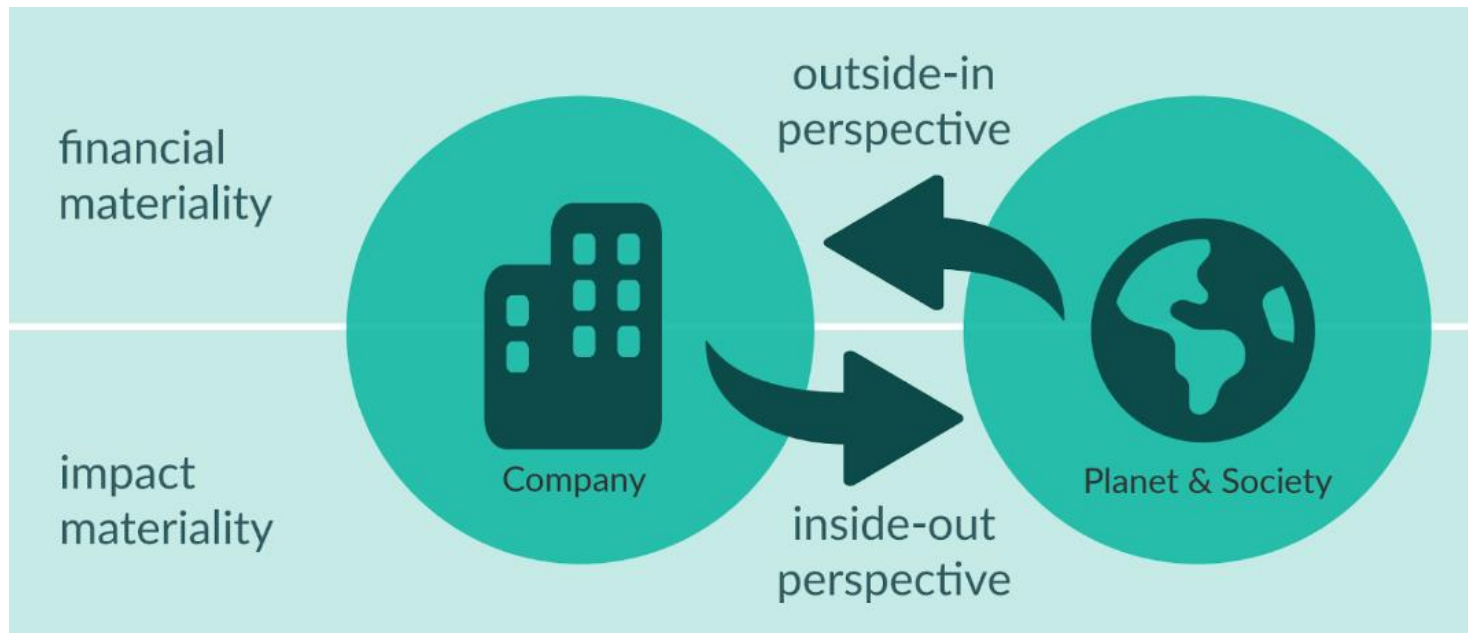
General	Environment	Social	Governance
ESRS 1 General requirements	ESRS E1 Climate change	ESRS S1 Own workforce	ESRS G1 Business conduct
ESRS 2 General disclosures	ESRS E2 Pollution	ESRS S2 Workers in the value chain	
	ESRS E3 Water and marine resources	ESRS S3 Affected communities	
	ESRS E4 Biodiversity and eco systems	ESRS S4 Consumers and end-users	
	ESRS E5 Resource use and circular economy		

Sustainability Reporting - ESRS

- What exactly is required? What are the data points?
- [EFRAG](#)
- [ESRS Details and Data Points](#)
- [High-Level Overview](#)

Sustainability Reporting - ESRS

- Double Materiality
- Double materiality is a concept which provides criteria for the determination of whether a sustainability matter must be included in a company's sustainability report. The principle of double materiality drives companies to approach sustainability from two different perspectives:
- Outside-in perspective ("Financial Materiality")
- Inside-out perspective ("Impact Materiality")



Sustainability Reporting – ESRS and SMEs

- Requirements from big suppliers?
- The trickle-down effect?
- ESRS S2 – Workers in the value chain?

22/01/2024 - EFRAG'S PUBLIC CONSULTATION ON TWO EXPOSURE DRAFTS ON SUSTAINABILITY REPORTING STANDARDS FOR SMES

- [Sustainable Finance Platform ESRS LSME ED and VSME ED](#)

EU Green Taxonomy

- Regulation (EU) 2020/852 establishes the basis for the EU Green Taxonomy - EU Taxonomy Climate Delegated Act.
- Disclosure obligations under the Taxonomy Regulation will apply from 1 January 2025 with respect to the 2024 financial year.
- The EU Taxonomy is a classification system, establishing a list of environmentally sustainable economic activities.
- It is expected to create security for investors, protect private investors from greenwashing, help companies to plan the transition, mitigate market fragmentation and eventually help shift investments where they are most needed.
- The Taxonomy supports the CSRD.



EU Green Taxonomy

- The Taxonomy establishes six environmental objectives:
 1. Climate change mitigation
 2. Climate change adaptation
 3. Sustainable use and protection of water and marine resources
 4. Transition to a circular economy
 5. Pollution prevention and control
 6. Protection and restoration of biodiversity and ecosystems



EU Green Taxonomy

Required Disclosures:

- Contribution to objective(s)
- Adherence to the Do No Significant Harm (DNSH) principle
- Key Performance Indicator (KPIs):
 - % Turnover
 - % Operational Expenditure
 - % Capital Expenditure
- Adherence to certain minimum social safeguards
- Compliance with technical screening criteria
- [Taxonomy Regulation](#)
- [Taxonomy Annex - Technical Report](#)





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Sustainability Assurance Updates

Yvonne Lynch - Deloitte

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Assurance of Sustainability Information

Current Landscape

Limited assurance on sustainability information now mandated at EU level under CSRD.
To date, many companies who report ESG data have opted for voluntary assurance.

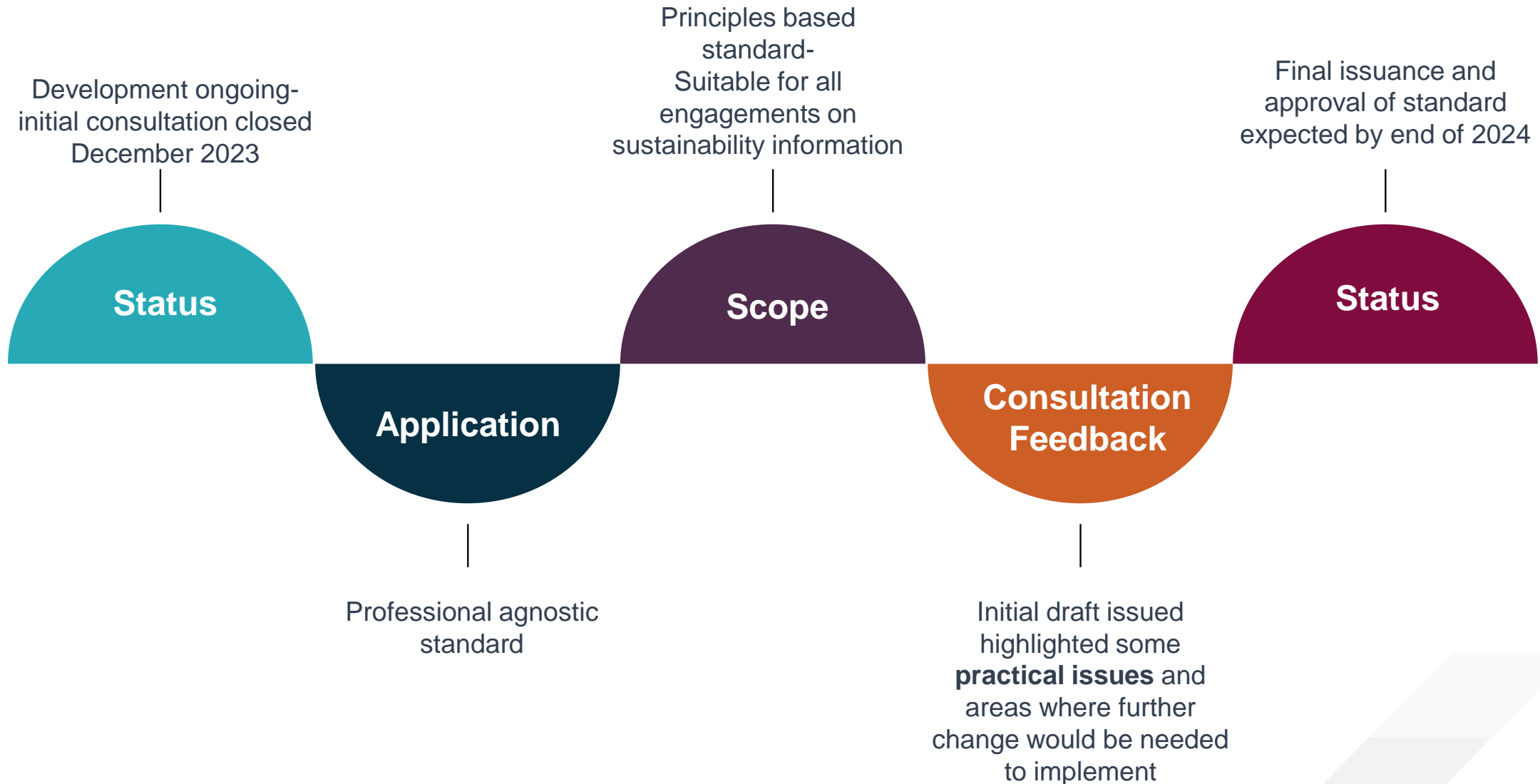
The NFRD* only requires the statutory auditor to check that a non-financial statement has been disclosed within the management report or a separate report has been provided, but not to check its content.

The NFRD also provided Member States with an option to require verification of the non-financial/sustainability information by an independent assurance service provider.
Three Member States – France, Italy, Spain – opted for mandatory independent assurance

The US SEC climate rule also introduces mandatory assurance

Under the CSRD, the company's statutory auditor, another auditor (Member State option) or an independent assurance services provider (IASP) (Member State option) can provide the required assurance.

International Standard on Sustainability Assurance 5000 (ISSA 5000 Exposure Draft)



Local developments

We still await the transposal of CSRD into Irish legislation- expected mid-July 2024.

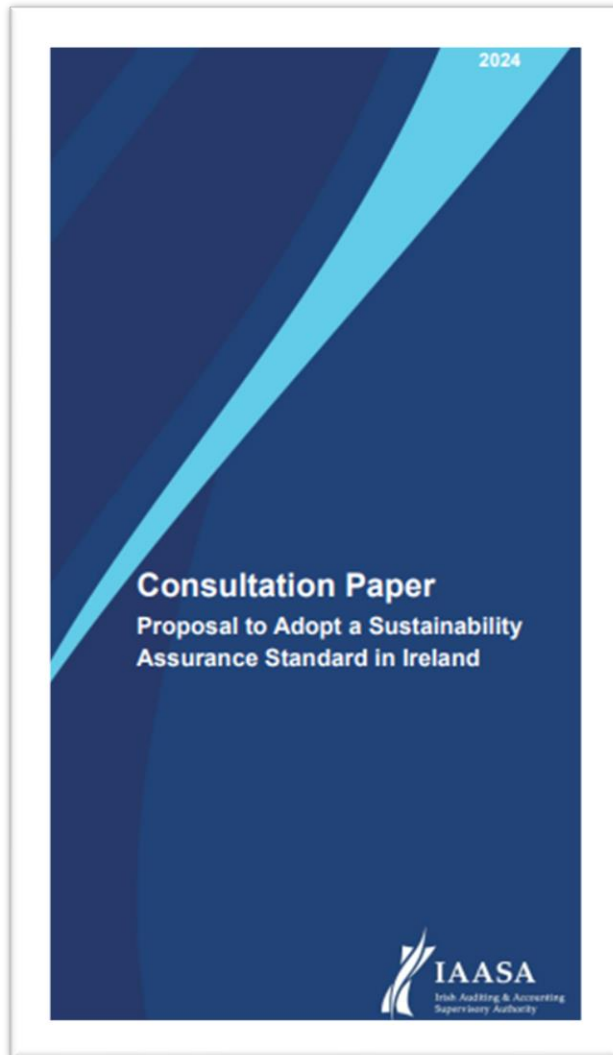
CSRD assurance engagements will be performed by statutory auditors in Ireland.

Independent Assurance Service Providers (IASP)- infrastructure and regulatory regime required before this could be practically implemented in Ireland.

Accreditation requirements in place- registration required with CAI as a Sustainability Assurance Service Provider (with some transitional grandfathering arrangements to be in place).

Delay in transposal is causing some practical difficulties!

Local developments



IAASA consultation issued on what sustainability assurance standard should be used in Ireland (Closing date for comments Friday 19th April).

It sets out 3 options:

1. Development of a local standard
2. Adoption of ISAE 3000(Revised) as issued by the IAASB
3. Adoption of the proposed ISSA 5000

The consultation paper also seeks views on how the provisions of the IAASA Ethical Standard for Auditors should be amended/disapplied for the purposes of providing sustainability assurance.



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Questions

Dr Seán O'Reilly - University College Dublin
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ISA 600(Revised) - Audits of Group Financial Statements (including the work of Component Auditors) (“ISA 600R”)

Understand the change. Recognize the current state. Identify the impact

Yvonne Lynch (Deloitte)



Understand the key changes

ISA 600R is effective for audits of group financial statements for periods beginning on or after 15 December 2023.

Revisions affect **both** group and component auditors, large and small.

ISA 600R expands on the DSR requirements in ISA 220R, which are currently effective.

Key concept changes

The concept of 'significant components' has been removed.

Increased flexibility in determining at which components to perform audit work and scope of work to be performed.

Flexibility and opportunity to re-evaluate the extent to which component auditors will be involved in the group audit.

The Group Auditor performs direction, supervision, and review (DSR) of the work performed by component auditors throughout the audit.

Key definitional changes

A **group audit** is the audit of *group financial statements*.

Group financial statements are financial statements that include the financial information of more than one entity or business unit *through a consolidation process*.

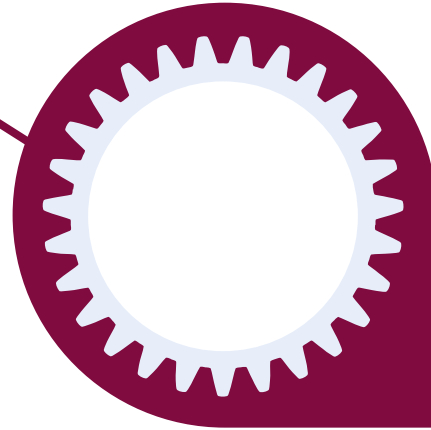
A **component** is an entity, business unit, function, or business activity, or some combination thereof, *determined by the group auditor* for purposes of planning and performing audit procedures in a group audit.

Key changes

Definition of Engagement team

Definition has changed- now updated to reflect the change to ISA 220 & ISQM 1

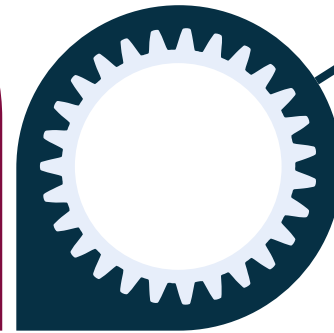
Wider scope now includes component auditors. *Multiple impacts- Quality Management, Ethics, DSR*



Controls & IT

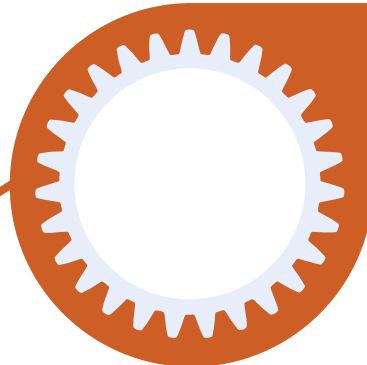
Must understand the extent to which the group's business model integrates the use of IT

Similar/common systems/controls- can they be grouped together? Impact on testing strategy



Scoping & Risk Assessment

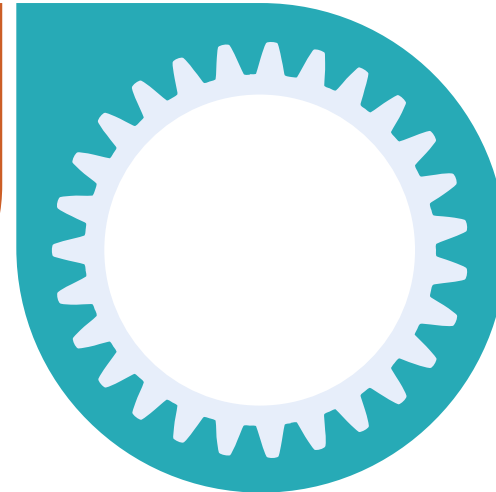
Significant components no longer defined- provides a lot more flexibility to the group auditor in determining where work is needed



Component Materiality

No specific requirement to set overall materiality for a component however you must determine PM

This is not a simple mechanical calculation-multiple factors to be considered within standard.



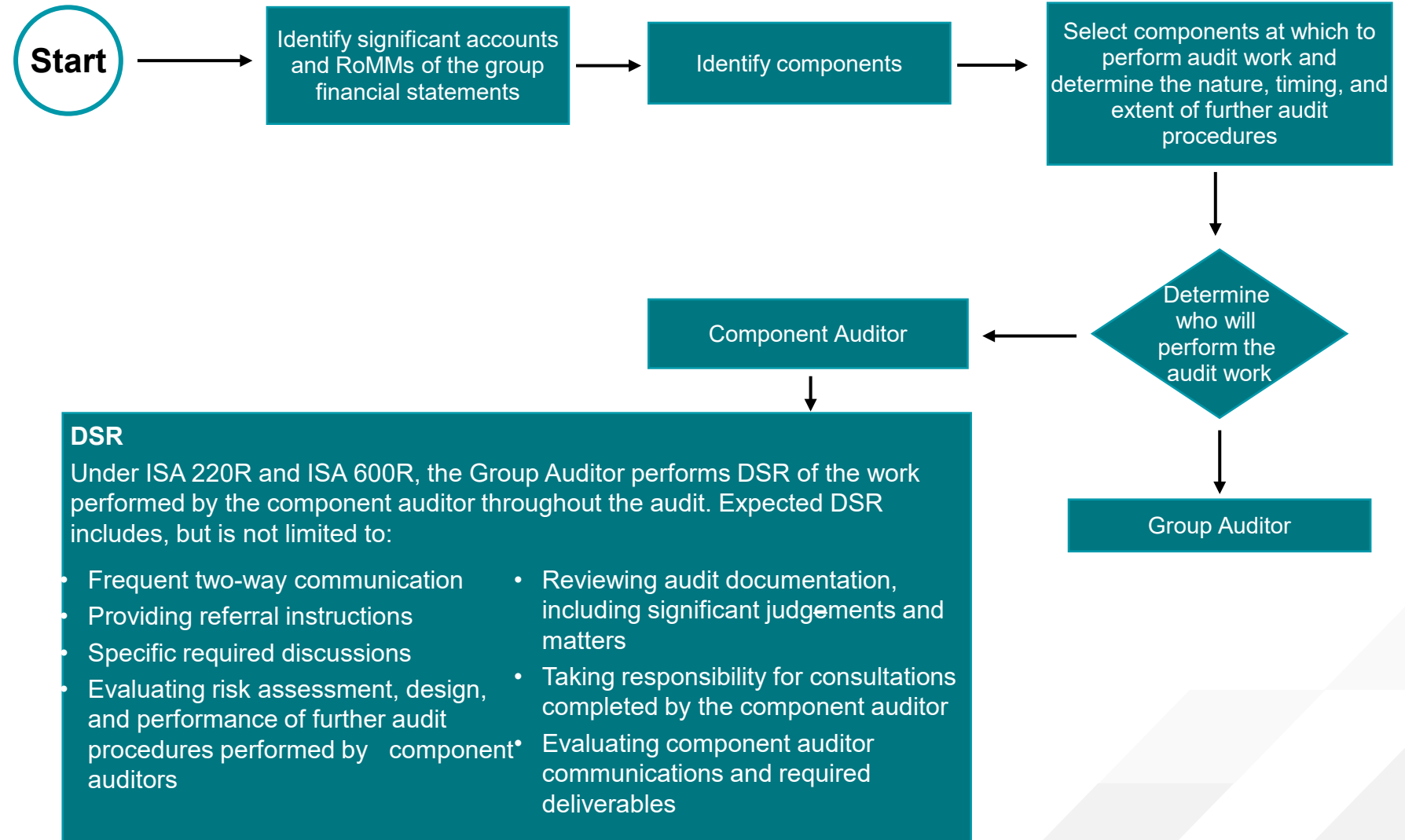
Operational impact

ISA 600R removes the prescriptive requirements to determine :

Components that are “*financially significant*” and perform an audit of financial information; and

Components that are “*significant due to risk*” and perform an audit of financial information, audit of one or more account balances, or specified audit procedures.

The **safety net** of selecting significant components and concluding sufficient work has been performed on the group audit, has been removed.



Evaluate the impact

Opportunity to challenge prior year conclusions:

Only performing audit work at significant components (i.e., no non-significant components were selected for testing)

Selecting components for testing for the group audit only because they were also subject to a statutory audit (e.g., because it was “easy evidence”)

Under ISA 600R, the group auditor:

Thoughtfully selects components for testing, such that the audit evidence obtained will reduce audit risk for a significant account to an appropriately/acceptably low level.

Considers whether an “*audit of the financial information*” is necessary to request a component auditor to perform, as it may result in the need for the group auditor to perform DSR over accounts for which audit evidence isn’t needed.

Will still likely select “*larger*” components for testing; however, considers the significant accounts that should be tested, as well as considers if there are “*smaller*” components for which audit evidence for a significant account is needed (need to consider an element of unpredictability in selection).

Component auditor involvement

Involvement of a component auditor is a professional judgment and based on the facts and circumstances of each audit.

Reminder-Matters that influence the decision:

- How is the group structured?
 - Involvement of component auditors is more likely when components are dispersed across multiple locations.
- How centralized is the group's system of internal control?
 - Involvement of component auditors is more likely when the system of internal control is decentralized.
- Does audit work at the component require specialized knowledge of the local industry, laws or regulations, business practices, language or culture?
- Are there any access arrangements where the group auditor's access to a component is restricted?

Key Takeaways

1

Changes affect all group audits-big and small

2

Impacts both the group auditor and component auditors

3

Concept of 'significant' components now gone

4

Audit Smart- challenge prior year conclusions and need for component auditor involvement

5

Watch out for impact of your conclusions on non-account balances- journals, laws and regs etc.



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Thank you

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Audit Conference (ROI/NI) 16 April 2024

Martin Kelly

Senior Inspector, IAASA



Introduction

Presentation and comments are confidential

Section 940, Companies Act 2014

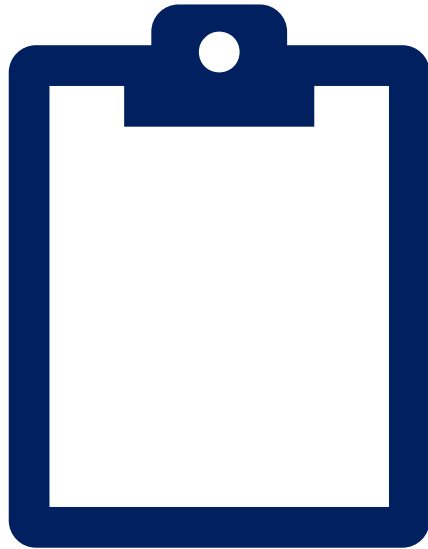
No person shall disclose, except in accordance with law, information that:

- (a) comes into IAASA's possession by virtue of performing any of its functions, and
- (b) has not otherwise come to the notice of members of the public

Disclaimer

The views expressed are my own and do not necessarily reflect the views of the Authority, Board or the staff of IAASA

Agenda



Audit inspection
results &
publications

General Update

Audit Inspection results & publications

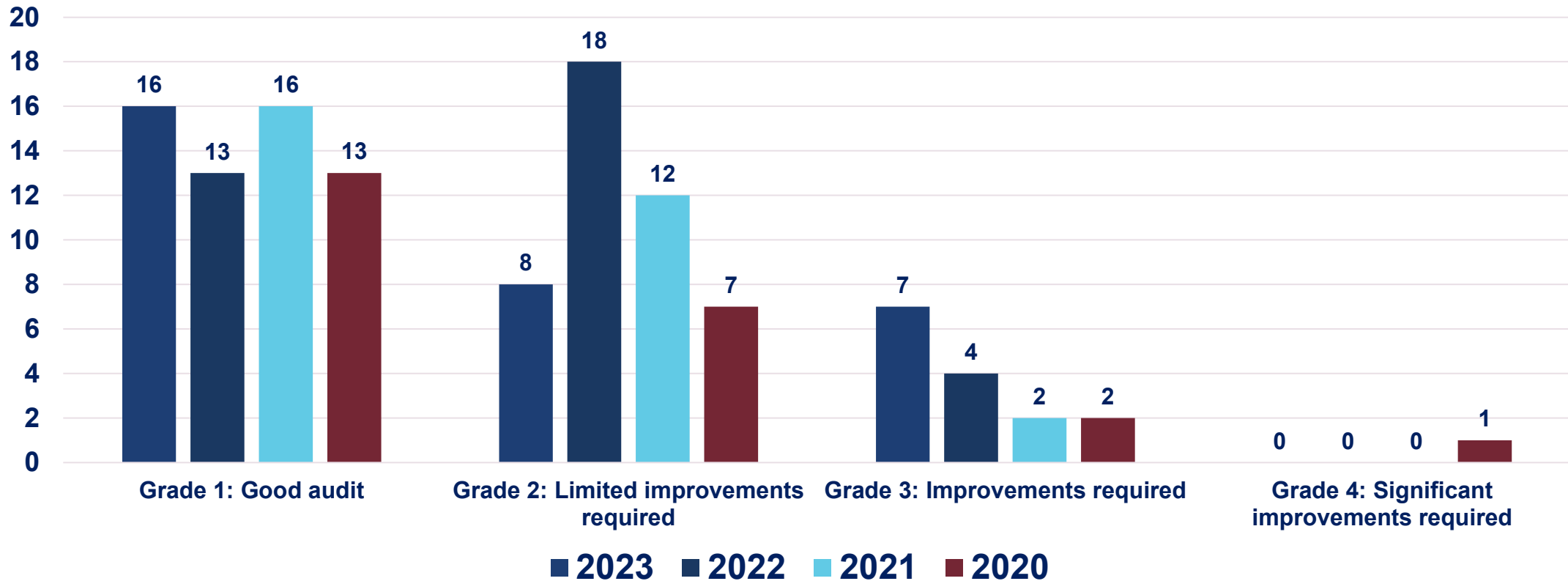
Quality Assurance/Inspections

- AIU is responsible for setting up a system of quality assurance for PIE auditors since 17 June 2016
- Each PIE auditor must be visited at least once every 3 years
- In practice, IAASA visits all firms visited annually
- Following an inspection, a report with recommendations for improvement is issued
- Firms must implement recommendations within 12 months

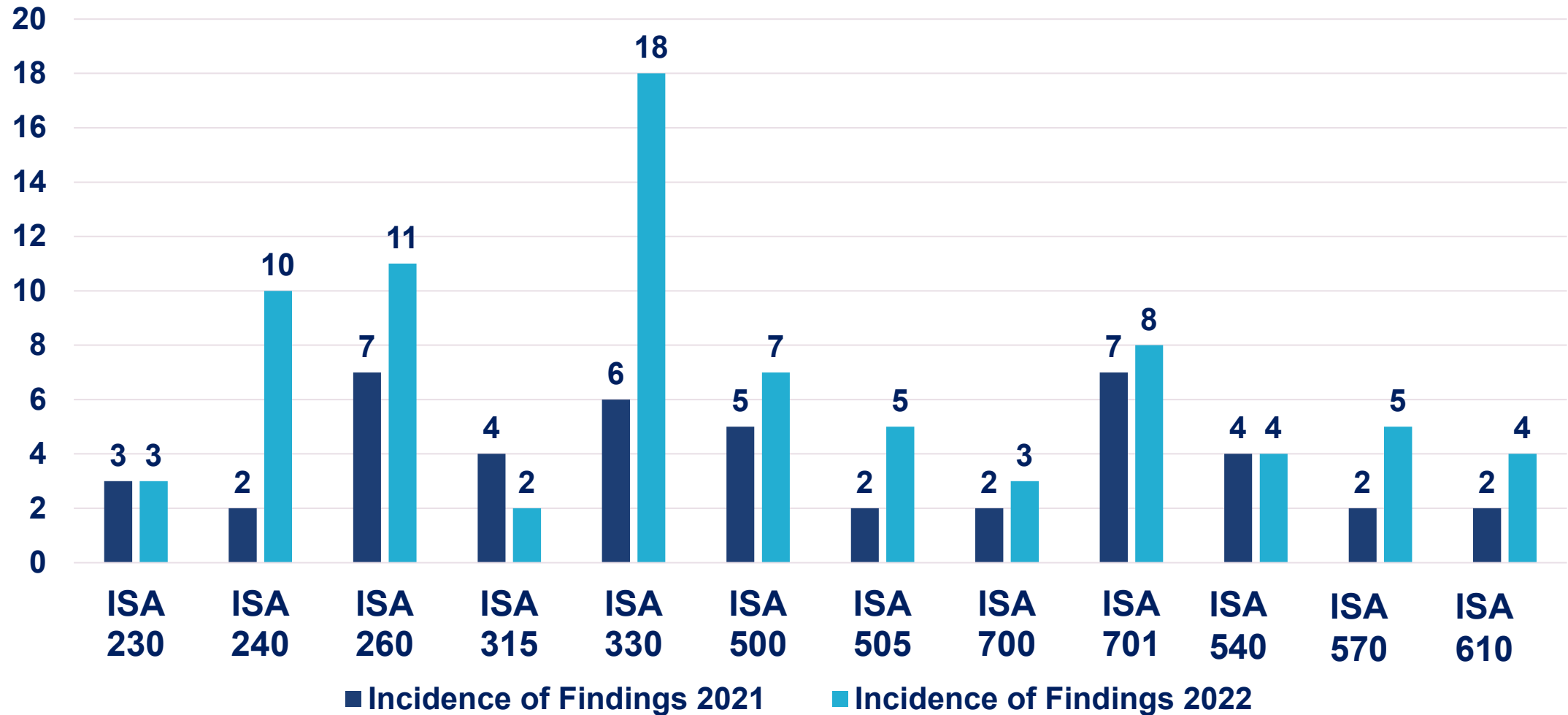
Audit inspections – grading

Individual Audit Inspections: 1 → 4 Grading

Grading of PIE audits



Incidence of Findings – Audit Inspections



Key Findings – Audit Inspections

Key findings arising from audit inspections

- ISA 330: Risk assessment response (18)
- ISA 260: Communications with those charged with governance (11)
- ISA 240: Auditor's Responsibilities Relating to Fraud (10)

Key Findings – Audit Inspections

Key findings arising from audit inspections

- ISA 701: Key Audit Matters (8)
- ISA 500: Audit Evidence (7)
- ISA 505: External Confirmations (5)

2024 audit inspection areas

- Audit Evidence Areas – specific to audit
- Communication with TCWG
- Financial Statement Review
- EQC Review
- ISA 315

Related party transactions

- 1.** Sufficiently evidence the engagement team's evaluation of management's assertion that the related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction.

- 2.** Clearly evidence procedures performed in gaining an understanding of the controls in place to identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework.

- 3.** Risk assessment performed for related parties should be clearly documented throughout the audit file.

- 4.** Consider the completeness, accuracy and reliability of the information received from management and whether it is sufficiently precise and detailed for the auditor's purpose.

- 5.** Clearly evidence the procedures performed by the engagement team in relation to the nature of the relationships between the entity and the entity's related parties.

- 6.** Clearly evidence procedures performed to ensure that the financial statements appropriately disclose related party relationships as well as information about the related party transactions and outstanding balances in accordance with IAS 24 Related Party Disclosures.

Fraud

- The auditor shall maintain professional skepticism throughout the audit
- Fraud discussion shall place particular emphasis on how and where the entity's financial statements (including the disclosures) may be susceptible to material misstatement due to fraud, including how fraud might occur
- The auditor shall obtain an understanding of, and make inquiries of management regarding fraud
- The auditor shall test the appropriateness of manual or automated journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, including consolidation adjustments

Communications with TCWG

- 1.** Ensure all required communications under ISA (Ireland) 260 “Communication with those charged with governance” and ISA (Ireland) 265 “Communicating deficiencies in internal control” have been communicated;

- 2.** Ensure the required communications are easily identified within the reporting document(s);

- 3.** Clearly communicate fraud risk identified as a significant risk;

- 4.** Clearly communicate with TCWG those matters the auditor has determined to be the key audit matters;

- 5.** Communications with TCWG should accurately reflect the work performed and evidenced on the audit file;

- 6.** Communications with TCWG should be consistent with the documentation on the audit file;

- 7.** All non-audit services should be communicated to TCWG.

General Update

Slido

- What is your level of knowledge of CSRD & ESRS?
 - No understanding
 - Basic understanding
 - Advanced understanding
- Will the sustainability directive and associated sustainability standards have any impact on your day-to-day work?
 - No
 - Yes, marginal impact
 - Yes, substantial impact

CSRD & IAASA functions



Standard setting + sustainability assurance
standard

Oversight of accountancy bodies + overseeing
regulation of sustainability assurance providers

Financial Reporting Supervision + CSRD
reporting = Corporate Reporting Supervision

Audit inspections + inspection of assurance
engagements for PIEs

Enforcement + CSRD related enforcement

European Sustainability Reporting Standards (ESRS)

- Double materiality
 - Required to report on how sustainability matters affect the entity (financial materiality); AND
 - The impact of the activities of the company on people and the environment (impact materiality)
 - Double materiality = material from impact perspective, financial perspective or both
- Value chain
 - Entities own operations
 - Its products and services
 - Its business relationships
 - Its supply chains
 - Includes information that covers third countries where value chain extends beyond the union
 - Includes upstream and downstream

CSRD

Assurance:-

- Companies required to seek an assurance opinion – can be the statutory auditor but doesn't have to be
- Initially 'limited assurance'
- Commission must adopt a standard by 1 October 2026
- Commission must consider if it is feasible to move to reasonable assurance and if so, adopt a standard by 1 October 2028

IAASA: AQU

- IAASA required to inspect assurance engagements on sustainability for PIEs
- Assurance on sustainability reporting for non-PIEs will fall to RABs
- Inspections will assess compliance with legislation, standard adopted by IAASA/EC and firms' own methodologies

CSRD – key facts for SMEs

- CSRD applies to:-
 - Large companies already subject to NFRD (2024)
 - Other large companies (2025)
 - Listed SMEs (2026)
 - Non-European companies with significant business in the EU (2028)

CSRD – key facts for SMEs

- But
 - Companies are required to report on their value chain
- So
 - Private SMEs who are part of a company's value chain may need to provide the information to that company for reporting
- Also
 - Private SMEs may wish to voluntarily report in accordance with CSRD for a multitude of reasons

CSRD – key facts for SMEs

- European Sustainability Reporting Standards are the relevant reporting standards for those who have to/wish to report in accordance with CSRD
- Full suite of 12 standards with approximately 1,200 data points
- Exposure Drafts of standards for listed SMEs and for non-listed SMEs who volunteer to comply

Useful links

[IAASA.ie](https://iaasa.ie)

[Quality Assurance Reports 2023](#)

[Annual Audit Programme & Activity report](#)

[Thematics and Observations](#)