

Our Ref: NAW/lm

15 June 2009

Mr Pat A Houlihan
Assistant Principal
Company Law (EU/Legislation) Section
Department of Enterprise, Trade and Employment
Hatch Street
Dublin 2

Re: Consultation on Recommendation on external quality assurance for statutory auditors and audit firms auditing public interest entities

Dear Mr Houlihan,

We are pleased to comment on the DETE consultation in respect of the Recommendation on external quality assurance for statutory auditors and audit firms auditing public interest entities relevant to Directive 2006/43/EC.

We welcome the steps to implement a new system of external quality assurance of audits of Public Interest Entities (PIEs) and believe that in the current environment that a strong system of quality assurance is important to the credibility of the Irish business environment, capital markets and Irelands reputation within the international business community. On that basis we would encourage the implementation of a strong independent system of quality assurance for audits of Public Interest Entities (PIEs) which will be widely accepted as being a “world class” and will be accepted by other oversight bodies and regulators (e.g. PCAOB in the USA and AIU in the UK.)

In order to ensure recognition that the system of quality assurance “world class” and will be accepted by other oversight bodies and regulators we believe that option II, the inspection of the audits of PIEs exclusively by the public oversight board (i.e. IAASA), is the most appropriate response.

The approach in option II would subject the audit of PIEs to the most rigorous and independent oversight which would not be open to challenge. While this approach may have additional costs over the system of quality assurance currently in place in the Recognised Accountancy Bodies (RABs) it is our opinion that these costs would not be appreciable different from the increased costs of supervision of RABs and the RABs inspection process required under option III where the Public Oversight Body (i.e. IAASA) may delegate certain activities to RABs.

We believe that option I, while arguably compliant with the Directive in respect to quality assurance, would not meet the objective of having world class oversight of the audit of PIEs which would be accepted by other oversight bodies and regulators. We also believe that there are many challenges in implementing option III which are not addressed in the process outlined in the consultation document (e.g. increased costs for IAASA and RABs, challenges in managing the relationship between RAB and IAASA, challenges in respect to the differing quality assurance requirements of the RABs for non-PIEs and PIEs and the funding of RABs.)

We also consider that the following points need clarification in respect to the proposals.

- The definition of PIEs includes Credit Institutions and Insurance Undertakings but the paper appears to focus only on “listed” entities to the exclusion of the Credit Institutions and Insurance Undertakings when understanding the scope of the entities which should be classified as PIEs.
- The consultation paper does not address the international dimension of PIEs – oversight of PIEs listed on regulated markets outside Ireland but audited by Irish registered auditors – Irish listed PIEs audited by auditors from outside Ireland – both scenarios envisaged by the Directive.
- The paper addresses oversight of auditors of PIE’s – should it not address the oversight of the audit of PIEs rather than their auditors.

However, while we are of the opinion that that the demands of international capital markets in terms of independence, objectivity, and transparency make it inevitable that Option II, independent inspection, will prevail in the long term as the appropriate quality assurance model applicable to public interest audits, we believe that the implementation of Option II will need to be carefully implemented. As a result of the care needed to implement Option II in the interim we believe that Option I will facilitate compliance with the Directive.

We have answered your detailed questions in the appendix to this letter.

If you have any queries please contact me on (01) 417 2445 or by mailing niwalsh@deloitte.ie

Yours sincerely,

Niall Walsh

Response to specific Questions:

Question 1

Preferred option is Option II – direct inspection regime

Question 2

	Option I	Option II	Option III
Benefits	<ul style="list-style-type: none"> • Status Quo • Least Cost • Leverages existing inspection processes • Leverages existing inspectors 	<ul style="list-style-type: none"> • Strongest Oversight • Internationally perceived as best practice by oversight bodies • No complex relationship to manage • IAASA direct interaction with Auditors 	<ul style="list-style-type: none"> • Leverages existing inspection processes • Leverages existing inspectors •
Disadvantages	<ul style="list-style-type: none"> • Weakest form of oversight 	<ul style="list-style-type: none"> • Potential Costs • Requirement to recruit inspectors 	<ul style="list-style-type: none"> • Potential Costs • Difficulties in managing relationship between IAASA and RABs • Conflict between RABs role and independent oversight body role

Question 3

We do not believe Option III is the most appropriate course of action.

Question 4

We do not believe Option I is the most appropriate course of action.

Question 5

We believe the definitions of PIE’s are appropriate as defined in section 3.2. We point out that there is an inconsistency within section 3.2 and with section 13. In section 3.2 the definition defines PIE’s to include Credit Institutions and Insurance Undertakings as well as listed entities but all the further discussion goes on to discuss issuers in respect to the transparency directive – this discussion appears to exclude both the Credit Institutions and Insurance Undertakings. Again in section 13 there is a statement that “PIEs are assumed to mirror the constituency of entities (‘issuers’) coming within the scope of the periodic financial reporting requirements of the Transparency Directive.” This appears to exclude Credit Institutions and Insurance Undertakings resulting in the number of PIEs being identified in the paper being understated.