Institute of Internal Auditors
UK AND IRELAND

Marie Dempsey
Company Law Section
Department of Enterprise, Trade and Employment
Earlsfort Centre
Hatch Street
Dublin 2
Sent by email to : Marie_Dempsey@entemp.ie

17 April 2009

Ref:

Dear Ms Dempsey

Invitation to comment on DETE proposals for implementing the EU Commission Recommendation on external quality assurance for statutory auditors and audit firms auditing public interest entities

The Institute of Internal Auditors plays an active role in the public arena, challenging organisations to reach the highest standards of corporate governance. We were therefore delighted to receive the invitation to comment on your paper.

In general, we support the implementation of any process to safeguard external audit quality. We believe this will increase stakeholder confidence in the governance of related organisations.

We recognise the importance of balancing effective implementation of such measures with the additional cost to the Exchequer. We agree that Option III will be the most cost effective of the three options for the DETE and the government. Our responses to your other questions are provided below.

To further our aim of enhancing the recognition and professionalism of internal audit in the UK and in Ireland, we are currently consulting with our members and other stakeholders about the award of Chartered status. You can find more information on our **web site**.

We hope you find these comments useful. We recognise and accept that these are part of the public record.

Yours Sincerely

Jackie Cain
Technical Director

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Response from the Institute of Internal Auditors – UK and Ireland

Invitation to comment on Department of Enterprise, Trade and Employment proposals for implementing the EU Commission Recommendation on external quality assurance for statutory auditors and audit firms auditing public interest entities

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1. Introduction

The Institute of Internal Auditors (IIA) is the only body focused exclusively on internal auditing and we are passionate about supporting, promoting and training the professionals who work in it.

We have been leading the profession of internal auditing for over 60 years. Our *International Standards* and *Code of Ethics* unite a global community of 165,000 internal auditors in 165 countries.

The IIA plays an active role in the public arena, building awareness of internal auditing, promoting members' interests and challenging organisations to reach the highest standards of corporate governance.

We are committed to enhancing the recognition and professionalism of internal audit in the UK and in Ireland. To that end, we are consulting with our members and other stakeholders about the award of Chartered status, which will acknowledge qualified internal auditing professionals as experts in their field, offering a clear differentiator between internal audit professionals and others.

2. Detailed response to your questions

Question 1. Which of the options do you consider is the most appropriate for Ireland to adopt?

We do not have a particularly strong opinion about which option to favour. For practical purposes Option III will be the most cost effective . This is similar to the model established in the UK, where the Financial Reporting Council (FRC) has established a Professional Oversight Board to provide independent regulation of the auditing profession.

Question 2. In commenting on one or more of these options please indicate:
a) What benefits you would see accruing from the option's implementation?
b) What disadvantages, if any, would you see resulting from the option's implementation?

The advantages and disadvantages for each option are comprehensively set out in sections 19 to 21 of your consultation document. We do not feel that there is anything further to add.

While all three options are workable according to the requirements of Article 29, set out in section 14, page 11, we feel that Option III has an advantage in that it contains the most valued aspects of Options I and II, while recognising cost implications. The key characteristics of Option III are:

- Recognition of the importance of independent external quality assurance to enhance quality;
- Recognition of the experience that accountancy bodies have in carrying out quality assurance reviews;
- Similarity to other EU and international models that will enhance investor confidence in the quality process;
- Operation of an effective and efficient quality assurance process, while keeping additional costs to a minimum

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Question 3. If you consider the implementation of the "delegated model" option III, is the more appropriate course of action; do you have any observations on the paragraph "How an option 3 model might operate"?

The tables provided at section 22 clearly set out respective roles and responsibilities of the Public Oversight Body (PAB) and the Recognised Accountancy Bodies (RAB). We are pleased to see that the POB has overall responsibility and control of the quality assurance process, while using the resources and experience of the RABs.

Question 4. If your preferred option is to see option 1 implemented a) Do you foresee any difficulties under those circumstances in Ireland being able to successfully advance the argument that its audit regulatory system should be relied upon by 3rd country audit regulators? b) If you envisage such difficulties, how would you suggest such difficulties be addressed?

N/a

Question 5. Do you have any views on the definition of Public Interest Entities (PIEs) with respect to the options, and in particular, as regard the option, which you consider it most, appropriate to adopt.

You have opted to define PIEs as "issuers of equity, issuers of debt and closed ended funds whose securities have been admitted to trading on a regulated market in the EU and whose **home** Member State is Ireland". This differs from the position in the UK – and we understand in several other members states – where PIEs are defined by country of incorporation. We do not know the implications of this for the number of organisations affected but we recommend that you consider using the more widely used definition to avoid creating an anomaly in the single market.

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