



# The Report of the Review Group on Auditing

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## Foreword

As Chair of the Review Group on Auditing, I wish to thank each and every member of the Group for their selfless contributions and for their diligent and admirably focused approach to the work. Following its establishment by Ms Mary Harney, T.D., Tánaiste and Minister for Enterprise, Trade and Employment, the Review Group had its first meeting in late February 2000 and concluded its business before the end of June 2000. It is a reflection of the members' dedication that they completed in four months an assignment that the Committee of Public Accounts estimated would take six.

The shape and chapter titles were decided at the very first meeting. To ensure rapid progress, the main work was initially considered through two working groups under the very able direction of the Review Group's Vice-Chairs, Ann Fitzgerald and Professor Niamh Brennan. These working groups dealt with the general themes of Self-Regulation and Auditor Independence respectively. As part of its *modus operandi*, all documentation was communicated electronically, in order to save time and improve efficiency.

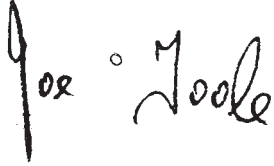
The members of the Review Group gave unstintingly of their time and knowledge, contributing both in writing and orally always constructively, and where necessary, robustly. This Report represents the outcome of many hours and days of consideration, discussion, argument and compromise.

The Review Group would wish me to thank in particular the staff from the Department of Enterprise, Trade and Employment who were the Secretariat to the Group. Paul Appleby, Geraldine Hurley, Mary Solan-Avison and Nuala Moloney provided substantial drafting, secretarial and co-ordinating support to the members of the Group, as well as liaising with third parties in carrying our work forward. Their crucial and central inputs as authors of a large number of high quality papers, were the catalysts to the progress which we were able to make in such a very short time-frame. Their extraordinary grasp of the subject combined with their ability to articulate quite diverse views in coherent text was fundamental to developing the Report.

The members of the Review Group also appreciate all those who took the trouble to make submissions to the Group. These assisted us enormously.

Thanks must also go to the professional accountancy bodies and their representatives. In addition to preparing submissions and occasional working papers to assist the Review Group's work, we also required the six recognised accountancy bodies to complete a detailed questionnaire on their activity in the regulation area which has been of great assistance to us. Many other bodies and individuals, too numerous to mention individually, also gave of their time to assist us, and our appreciation is extended to all of them.

For myself, all I can say is that it was a privilege to work with such a talented and committed group of people. I thank them for their co-operation at all times, and I conclude with the hope that our work will result in the legislative and other changes which we recommend should be implemented.

A handwritten signature in black ink that reads "Joe O'Toole". The signature is written in a cursive style with a small circle above the 'O' in "Toole".

Senator Joe O'Toole  
Chair  
Review Group on Auditing  
11 July 2000

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# **Chapter 1**

Executive Summary



## 1. Executive Summary

### 1.1 Introduction

Following media reports in 1998 which suggested that bogus non-resident accounts were being used as a means of evading Deposit Income Retention Tax (DIRT), the Committee of Public Accounts (PAC) of Dáil Éireann made enquiries of the bank involved, AIB plc, and the Revenue Commissioners. This led to a Resolution of the Dáil requesting the PAC to inquire into the incidence of DIRT evasion across the Irish deposit-taking system. Special legislation was also enacted to facilitate the inquiry.

On behalf of the PAC, the Comptroller and Auditor General (C&AG) conducted, in co-operation with the financial institutions and State authorities involved, an extensive investigation of the available papers, and relevant persons were interviewed. The Comptroller's Report<sup>1</sup>, published in July 1999, established that evasion of DIRT was pervasive and that the relevant State authorities were well aware of the problem.

In Autumn 1999, the PAC's Sub-Committee on Certain Revenue Matters held public hearings at which representatives of a number of financial institutions, State authorities and other relevant parties (including auditors of the relevant financial institutions) were examined on oath. The PAC's subsequent Report<sup>2</sup> in December 1999 recommended *inter alia* that the Department of Enterprise, Trade and Employment establish a Review Group to examine in detail a number of matters, including auditor independence, the auditing of financial institutions and the role of the external auditor in ensuring statutory compliance.

Having considered the PAC's recommendation, Ms Mary Harney, T.D., Tánaiste and Minister for Enterprise, Trade and Employment, decided to establish a Review Group on Auditing with twelve terms of reference. Aside from dealing with all of the issues suggested by the PAC, two of these terms of reference were new and dealt with self-regulation in the auditing profession.

In late December, the Department of Enterprise, Trade and Employment placed advertisements in the national media inviting submissions on the Review Group's terms of reference by 31 January, 2000. A copy of the advertisement, incorporating the terms of reference, is at **Appendix I** to this Report. Submissions were subsequently received from 37 different sources, and these formed the basis for the Review Group's initial consideration of its mandate.

The Tánaiste announced the composition of the Review Group on 17 February. Following its first meeting on 23 February, the Review Group worked intensively, and it successfully concluded its deliberations by the end of June 2000.

<sup>1</sup> Report by the Comptroller and Auditor General entitled "Investigation into the Administration of Deposit Interest Retention Tax and Related Matters during the period 1 January 1986 to 1 December 1998" (19 July, 1999), Pn. 7260.

<sup>2</sup> Parliamentary Inquiry into D.I.R.T. - First Report by the Committee of Public Accounts (15 December, 1999), Pn. 7963.

## 1.2 General Comment

Despite recent events, the Review Group believes that very many auditors and accountants continue to observe the highest professional standards, but for others, the present system of auditing regulation has not operated as a corrective counterweight to the pressures of the marketplace.

The Report of the Review Group points to the need for a process of renewal in auditing and accountancy in much the same way as other areas of professional life in Ireland are undergoing a process of change at present. In particular, the Review Group considers that the system of auditing regulation should operate to enhance the quality of audit and thereby to maintain public confidence in the value of the audit function. The Review Group believes that better lines of accountability need to be established:

- between the State and the recognised accountancy bodies which are delegated in law with the responsibility of supervising the auditing profession and
- between the accountancy bodies and the individual members of the profession in ensuring that members adhere to the standards which the law and professional duty requires of them.

In examining the auditor/client relationship, the Review Group was aware that many international bodies and jurisdictions, such as the EU and USA, are considering similar issues at present. The Review Group's view is that Ireland should be at the forefront of international best practice in establishing and implementing rules governing auditor independence while at the same time maintaining Ireland's competitive position as a small extremely open economy.

On a more general level, the Review Group was conscious of the increasing global dimension to auditing issues and the growing involvement of the EU in such matters in the context of the completion of a single financial services market.

In approaching its work, the Review Group assessed the extent to which existing regulatory structures, statutory provisions, professional and other rules required to be changed. In general, the Review Group concluded that additional measures were necessary to enhance the operation of the present system. It considers that a more demanding and effective system of regulation and accountability is needed for the future, if the value of the audit and the reputation of auditors and accountants in the public mind are to be strengthened.

### 1.3 Structure/Summary of the Report

The Report comprises sixteen chapters and is organised in three Parts. It contains 80 recommendations which are located in Chapters 7 to 16 inclusive. The following summarises our main findings and recommendations in relation to each of the terms of reference which are identified (a) to (l) in the following pages. This Executive Summary also includes the chapter or recommendation number, in order to facilitate access to the detailed discussion preceding the recommendation in the main body of the Report.

#### **(a) "Whether self-regulation in the auditing profession is working effectively and consistently"**

The Review Group considers the term "self-regulation" to be inappropriate, in that the relevant accountancy bodies are recognised and supervised by the Minister for Enterprise, Trade and Employment under the statutory powers laid down in sections 191 and 192 of the Companies Act, 1990. A more accurate term is "delegated self-regulation".

The Review Group has noted that there are differences in the manner in which the system of delegated self-regulation is operated across the six recognised accountancy bodies.<sup>3</sup> In addition, weaknesses have been identified in the following areas, some of which have been recognised by the bodies and have been, or are being, remedied:

- while the Review Group accepts that the monitoring of members' practices has helped to improve general standards in the profession, monitoring has not been effective in deterring a number of significant instances of corporate malpractice over a prolonged period;
- while the investigation, disciplinary and appeals structures within the recognised accountancy bodies for handling complaints of professional misconduct against their members are broadly similar, differences are apparent in the operation of these structures across the bodies;
- the sanctions imposed on members for professional misconduct are generally light and the maximum level of fine which may be imposed is inadequate;
- the practices of the recognised accountancy bodies in publicising the sanctions imposed on the members involved have varied substantially until recently.

The Review Group also concluded that legal constraints and insufficient State resources applied to oversight of the auditing profession have contributed to some extent to the lack of effectiveness of existing regulation. (**Chapters 5 and 6**).

<sup>3</sup> The six recognised accountancy bodies whose members may be authorised to practise as auditors in the State are the Institute of Chartered Accountants in Ireland, the Institute of Certified Public Accountants in Ireland, the Association of Chartered Certified Accountants, the Institute of Incorporated Public Accountants, the Institute of Chartered Accountants in England and Wales and the Institute of Chartered Accountants of Scotland.

**(b) "Whether any new or revised structures and arrangements are necessary to improve public confidence, and if so, what form they should take"**

The Review Group considers that the recognised accountancy bodies should continue to regulate their members within a reformed framework of supervision comprising some persuasive external influence. The Review Group recommends that this take the form of a statutory Oversight Board established as a distinct legal entity on a stand alone basis (**Recommendation 9.1**). In parallel with the publication of the necessary draft legislation, the Oversight Board should be established on an interim basis (**Recommendation 9.2**).

The Oversight Board should be independent (**Recommendation 9.3**). It should comprise eight members broadly representative of the main stakeholders in the accounting area, no more than two of whom should be accountancy professionals (**Recommendation 9.5**). Following consultations with the Department of Enterprise, Trade and Employment and the accountancy profession, the Oversight Board should decide its annual budget, which should be funded on a 60/40 basis by the profession and the State respectively (**Recommendation 9.8**). The Oversight Board should determine within its budget the number of staff and the skills required to carry out its work effectively (**Recommendation 9.7**).

The Oversight Board should assume the supervisory responsibilities currently exercised by the Minister for Enterprise, Trade and Employment. It should be given adequate statutory powers of approval, direction and intervention to satisfy itself on an ongoing basis that the structures, procedures and professional standards in the recognised accountancy bodies are operating to high standards (**Recommendations 7.2, 8.1 and 8.2**).

Proper accountability structures should be established. Each recognised accountancy body should regularly prepare and submit to the Oversight Board a Business Plan of its regulatory activity, and it should annually report to the Oversight Board on its progress in meeting defined performance indicators (Part of **Recommendation 8.2**).

The Oversight Board should similarly engage in regular business planning, and it should annually report progress in meeting its business objectives to the Minister for Enterprise, Trade and Employment and the Oireachtas. The Oversight Board should be required to make itself available for discussions with a relevant Committee of the Oireachtas (**Recommendation 9.11**).

The Review Group considers that a Liaison Group should be established to ensure a good flow of communication between the Oversight Board and other regulators, such as the Central Bank/the proposed Single Financial Regulator, the Revenue Commissioners and the Office of the Director of Corporate Enforcement (**Recommendation 9.12**).

The recognised accountancy bodies should continue to manage investigation and disciplinary matters within an open and transparent framework, subject to the overall supervision of the Oversight Board (**Recommendation 10.1**). This reformed system should include the following common features:

- each recognised accountancy body should prepare, in consultation with the Oversight Board, and make freely available to its members and the general public information on its investigation and disciplinary procedures (**Recommendation 10.2**);
- when complaints are being considered by each recognised accountancy body, both the member and the complainant should be given the opportunity to attend and be heard at each stage of the hearing of the complaint (**Recommendation 10.4**);
- the proceedings at Disciplinary and Appeal Committee levels should be heard in public (**Recommendation 10.3**);
- a majority of independent persons, i.e., non-members of recognised accountancy bodies, should comprise the membership of the Investigation, Disciplinary and Appeal Committees (**Recommendation 10.5**);
- notifications of decisions made in response to complaints should contain the reasons for the decisions made (**Recommendation 10.6**);
- the Oversight Board should be invested in law with a right to intervene in relation to any decision of an accountancy body in a case involving the alleged misconduct of a member (**Recommendation 10.9**);
- the level of fines should be substantially raised (if necessary with statutory backing), in order to apply more meaningful penalties against members breaching their duties of professional conduct (**Recommendation 10.11**);
- following completion of the disciplinary process, the sanctions imposed on a member should generally be circulated for publication to appropriate national, local and professional publications (**Recommendation 10.12**);
- the Oversight Board should have the right to determine if a public concern case should be investigated independent of the recognised accountancy bodies (**Recommendation 10.20**).

The Review Group also proposes that the Minister for Enterprise, Trade and Employment should consider, following consultations with relevant parties, extending the remit of the Oversight Board in the investigation and disciplinary area to other professional accountancy bodies<sup>4</sup>, with a view to ensuring a consistent application of standards across the entire accountancy profession (**Recommendation 10.18**).

<sup>4</sup> Examples of professional accountancy bodies which are not recognised as auditing bodies under the Companies Acts are the Chartered Institute of Management Accountants and the Chartered Institute of Public Finance and Accountancy.

Having examined audit in the public sector, the Review Group believes that the Office of the C&AG and the Local Government Audit Service should prepare and publish explicit goals and performance indicators and that the quality of their audit service should be subject to regular peer review (**Recommendation 10.19**).

The Review Group also considers that other complementary measures are required to improve public confidence in the value of auditing regulation, including:

- each of the recognised accountancy bodies should adopt a risk-based approach to the selection of members/member firms for monitoring visits, with those members in larger practices or having audit clients in higher risk categories (e.g., those operating in the financial area) receiving more frequent scrutiny (**Recommendation 11.9**);
- in approving the monitoring plan of each recognised accountancy body, the Oversight Board should pay particular attention to the proposed monitoring arrangements of the "Big Five" firms, so as to ensure that the persons engaged in such monitoring have the calibre and experience required for effective review (Part of **Recommendation 8.2**);
- individual auditors, who are Ministerially authorised and are not supervised, should be regulated by the recognised accountancy bodies (**Recommendation 11.1**);
- each recognised accountancy body should make publicly available on its website and in hard copy format an up-to-date list of its register of members, identifying inter alia the status of each member and the nature of the activity which each is authorised to undertake (**Recommendation 11.5**);
- the Registrar of Companies should also display an up-to-date list of registered auditors on the Companies Registration Office website (**Recommendation 11.5**);
- the Registrar of Companies should arrange that his Office institute a systematic checking of the annual returns of companies to ensure that the firm or person who signs the audit report attached to those returns is an auditor registered with his Office (**Recommendation 11.6**);
- unqualified persons should be prohibited by law from holding themselves out as an auditor, regulated auditor or registered auditor (**Recommendation 11.2**);
- the Companies Acts should require that the annual audit reports of unlimited companies (which are required to have an audit undertaken but which are exempt from filing accounts) and of other exempted companies (as defined in section 2(1) of the Companies (Amendment) Act, 1986) be promptly filed with the Registrar of Companies after the end of their financial year (**Recommendation 11.7**).

**(c) "The role of the external auditor in providing other services to the same institution"**

**(d) "The impact of other functions such as tax advice and consultancy on the external audit process"**

**(e) "The possible introduction of a maximum term of five years for an auditor to a financial institution"**

The Review Group agrees with the PAC that the provision by an auditor of non-audit services to its client company can pose a threat to auditor independence. This threat to auditor independence is increasing as the scope and profitability of non-audit services expands both in absolute terms and in relation to audit services **(Chapter 12)**.

The Review Group also examined international developments in the area. It notes that while both the EU and the Securities and Exchange Commission (SEC) in the USA consider that existing auditor independence rules need to be strengthened, neither intends to introduce an absolute rule prohibiting audit firms from providing non-audit services to audit clients. In these circumstances, the Review Group considers that implementing rules significantly out of step with current international practices, such as recommending a complete prohibition on audit firms providing non-audit services to audit clients, would damage Ireland's competitive position as a small open economy, particularly in the financial services sector **(Chapter 12)**.

However, the Review Group concluded that additional safeguards in the Companies Acts and in the rules of the recognised accountancy bodies are necessary to protect the independence of auditors **(Recommendation 12.1)**. The Review Group recommends that Ireland adopt an approach to improving auditor independence in which the proposed Oversight Board plays a central role in ensuring that Ireland establishes and implements rules at the forefront of best international practice. Within this framework, the additional safeguards recommended by the Review Group are that:

- existing provisions in company law requiring the disclosure by a company of audit fees in its annual financial statements should be amended to require, in addition, the disclosure of the non-audit fees paid to its audit firm, and the nature of those services should also be analysed in adequate detail **(Recommendation 12.2)**;
- where the non-audit fees earned by the audit firm from a client company exceeds the audit fee, the Audit Committee of the company must explain in an annual report to shareholders why the non-audit services were obtained from the audit firm and confirm that it is satisfied that this does not compromise the independence of the auditor **(Recommendation 12.3)**;

- revised ceilings of 5% (in the case of listed and other public interest companies) and 10% (for all other companies), representing the maximum proportion of total audit and non-audit fee income contributed to the audit firm by any one client company or group of client companies, should be introduced to reduce the dependence of the audit firm on any one client (**Recommendation 12.4**);
- within audit firms, procedures should be put in place to ensure that an audit engagement partner is aware of all other business relationships between the audit firm or associated firms and the client company that could affect the audit firm's responsibilities as auditors (**Recommendation 12.6**);
- audit firms should be required to document how risks to auditor independence are dealt with (**Recommendation 12.7**).

There was extensive discussion within the Review Group on whether specific non-audit services should be prohibited. Within the wide spectrum of non-audit services provided by auditors to client companies, the Review Group encountered the same difficulty as other international experts in precisely identifying services that compromise auditor independence in all circumstances. In concluding that audit firms should not audit their own work or be permitted to provide valuation services or internal audit services to audit clients (either directly or via associated firms), the Review Group recommends that an auditing standard, acceptable to the Oversight Board, be developed to implement this decision (**Recommendation 12.5**).

The Review Group considers that the above recommendations should be mandatory for public limited companies, financial institutions and other public interest companies. Some of these recommendations should also apply to small and medium enterprises (SMEs) (**Chapter 12**).

The Review Group recognises that ongoing developments may require changes to the approach to auditor independence recommended in this Report. In particular, the Review Group believes that after an implementation period of three years, the Oversight Board should conduct a review of these auditor independence safeguards taking account both of international developments and domestic experience in implementing the recommendations contained in this Report. More specifically, the Review Group recommends that the Oversight Board undertake a review of the impact of non-audit fees on auditor independence and make known its judgement as to whether or not any new rules are required (**Recommendation 12.9**).

The Review Group recognises that the mandatory rotation of auditors after a fixed number of years could improve the appearance of auditor independence. However, the Review Group concluded that the mandatory rotation of auditors could also impact negatively on the quality of an audit as, for example, a new audit firm would be less familiar with the audit client **(Chapter 12)**.

On the related question of mandatory tendering, the Review Group is of the view that there must at all times be an open transparent process in the awarding of audit contracts. This should include consideration on an annual basis by the Audit Committee as to whether the audit contract should be put out to tender and the Committee should justify its recommendation to shareholders **(Recommendation 12.8)**.

*(f) "The determination of fees, bearing in mind shareholder interests"*

*(g) "The relationships between an external auditor and the management that appoints and remunerates him"*

The Review Group considers that a central component of the framework for ensuring auditor independence is the development of suitable corporate governance structures within audit client companies. Having examined international developments, particularly in the USA, the Review Group proposes enhancing the role of audit committees within those structures **(Chapter 13)**.

In summary, the Review Group has concluded that the primary relationship between the auditor and the client company should be with its Audit Committee which is in a better position than management to protect the interests of shareholders as well as the wider public interest. The Review Group accordingly recommends that:

- Boards of Directors be required by law to establish audit committees representative of independent non-executive directors **(Recommendation 13.1)**;
- audit committees have regular meetings every year **(Recommendation 13.2)**;
- audit committees have formal written charters, approved by the Board of Directors, that specify the scope of the Committee's responsibilities and how it carries out those responsibilities, including structures, processes and membership requirements **(Recommendation 13.3)**;
- shareholders approve the appointment of auditors and set their fees, based on a recommendation from the Audit Committee rather than from management as is currently often the case **(Recommendation 13.4)**.

The Review Group recommends that in its Charter, the Audit Committee be responsible for:

- obtaining from the external audit firm a formal written statement of all current and relevant previous business and personal relationships between the audit firm and the company;
- actively engaging in a dialogue with the audit firm, so that all relationships that may impact on the objectivity and independence of the auditor are fully disclosed;
- approving the procedures for the appointment of the audit firm to provide any other services;
- assessing and clearing in advance all proposed contracts and business and personal relationships between the client company and the audit firm;
- monitoring the number of former employees of the audit firm currently employed in management positions in the company and assessing its impact on auditor independence;
- reviewing the audit firm's statement concerning its general policy on risks to independence;
- approving any contract with the audit firm, payment for which is to be made on a contingent basis – such contingent contracts should be rare (**Recommendation 13.5**).

Audit committees should meet with the external auditor regularly each year, both in the presence of management and without management being present. Such meetings must be held at the planning stage of the audit and on its completion (**Recommendation 13.6**).

On the subject of management letters from the external auditor, the Review Group recommends that management letters be made available to the Audit Committee and to the members of the Board of Directors, in advance of the approval of financial statements (**Recommendation 13.7**).

The Review Group considers that an effective internal audit function is central to a proper system of internal control within companies. It should be adequately resourced and be set up independently of management and the external auditor (**Recommendation 13.8**). Specifically, the Audit Committee should endorse the appointment of the internal auditor (**Recommendation 13.10**). It should also meet with the internal auditor regularly, at times without management being present (**Recommendation 13.9**). All internal audit reports and findings should automatically be made available to the external auditor (**Recommendation 13.11**).

In addition to reporting to the Board of Directors, the Review Group recommends that the Audit Committee prepare a separate report for presentation to shareholders in the company's annual report. This should outline its work during the year with company management and with the internal and external auditors and indicate any disagreements with respect to any issues in the company's financial statements (**Recommendation 13.12**).

The Review Group considers that these recommendations relating to audit committees should be mandatory for public limited companies, financial institutions and other public interest companies and should, in appropriate circumstances, be applied as best practice in the audit of SMEs (**Chapter 13**).

*(h) "The statutory provisions on auditing in the Companies Acts and related codes"*

*(i) "The role of the external auditor in ensuring compliance with statutory provisions"*

The Review Group has noted the low level of reporting to statutory bodies by external auditors and considers it likely that some auditors are failing to exercise their statutory obligations. However, the Review Group is clear that while there is a need to expand the role of external auditors in improving companies' compliance with statutory provisions, this duty remains the primary responsibility of the company's directors (**Chapter 14**).

Against this background, the Review Group recommends that:

- Directors of a company be required to report on an annual basis to the shareholders on the company's compliance with its obligations under company law, taxation law and other relevant statutory or regulatory requirements. The report should confirm that any instances of non-compliance have been reported to the relevant regulatory authority and that in all other respects, the company has complied with its obligations under company law, taxation law and other relevant statutory or regulatory requirements (**Recommendation 14.1**);
- external auditors be required to report as to whether, in their opinion, the directors' report on the company's compliance with its obligations is reasonable (Part of **Recommendation 14.2**);
- in making their report, the auditors specifically address whether the directors have made appropriate disclosure concerning any circumstances of which the auditors are aware that give reasonable grounds to believe the company has not, or may not have, fulfilled its statutory obligations (Part of **Recommendation 14.2**);
- where the auditors consider that any such circumstances have not been so disclosed by the directors and the directors have not amended their report, the auditors include the relevant information in their report which should be appended to the annual financial statements (Part of **Recommendation 14.2**);

- where the directors have not issued their compliance report to the shareholders or the appropriate statutory body within a specific period, the auditors be required to report that failure to the Director of Corporate Enforcement (**Recommendation 14.3**). In the case of financial institutions, the auditors should report instead to the Central Bank or other relevant regulator (**Chapter 15**).

The Review Group considers that **Recommendation 14.1** should apply to all companies and should be enshrined in legislation. In addition the Review Group considers that **Recommendations 14.2** and **14.3** should apply to all companies whose accounts are audited, including those no longer required to have a statutory audit, but who decide not to avail of the audit exemption (**Chapter 14**).

*(j) "The possible role of the Central Bank in regard to management letters issued by external auditors to financial institutions"*

*(k) "The possible strengthening of audit standards relating to financial institutions"*

*(l) "The suitability of having joint auditors to financial institutions with one being appointed by the Central Bank"*

The Review Group considers that there are areas of common interest between the Central Bank and the external auditor of financial institutions in ensuring that there are effective corporate governance and internal control systems in place. While the Review Group appreciates external auditors' concerns over breaches of their confidentiality rules to their clients, the Review Group considers that the present arrangements for external auditors' providing information to the Central Bank are insufficient (**Chapter 15**).

The Review Group therefore recommends that:

- the accountancy profession begin work as a matter of urgency on updating and strengthening auditing pronouncements relating to the audit of Irish financial institutions, in order to cover the issues identified in both the DIRT Inquiry Report and this Report (**Recommendation 15.1**);
- external auditors of financial institutions provide an annual positive statement to the Central Bank on whether anything has come to their attention that gives rise to a legislative duty to report to the Central Bank (**Recommendation 15.2**);
- there be increased liaison between the Central Bank and external auditors of financial institutions. To facilitate this, a protocol on the exchange of information, including audit working papers, should be agreed between the Central Bank and the accountancy profession and should be backed by statute if necessary (**Recommendations 15.3** and **15.5**).

- the Central Bank have the power to obtain reports from external auditors or other reporting accountants on financial institutions' accounting and other records, their internal control systems and any other issues that, in the opinion of the Central Bank, are appropriate or necessary for regulatory purposes (**Recommendation 15.4**);
- the Central Bank automatically receive management letters from the external auditors of financial institutions at the same time as the 'final' management letter (i.e., that incorporating the management response) is issued to the regulated entity (**Recommendation 15.6**).

The Review Group considers that all of these recommendations should be extended to other regulated financial sectors, such as insurance undertakings and credit unions. In implementing the recommendations, advance consultations should be held between the relevant Departments, regulators and the accountancy profession (**Chapter 15**).

Having noted that the Central Bank is already empowered to appoint an external auditor (or other "appropriate person") to a financial institution to assist the Bank's performance of its statutory functions, the Review Group has concluded that after implementation of the above recommendations, no further advantage would accrue from introducing a requirement to have joint auditors in financial institutions, one of which would be appointed by the Central Bank (**Recommendation 15.7**).

#### 1.4 Conclusion

This Report seeks to define a new set of relationships:

- between the audit client company and the auditor,
- between the auditor and his or her professional body and
- between the accountancy profession as a whole and the State.

In framing its recommendations, the Review Group has been very conscious of the need to address comprehensively all of the issues set out in its terms of reference, in order to encourage better standards of corporate governance. The Review Group considers that its recommendations will if implemented place Ireland at the forefront of best international practice in the field of auditing. At the same time, the Review Group was also anxious to limit the regulatory burdens on business in a competitive marketplace. In particular, it did not wish to propose rules significantly out of step with current international practice. The Review Group believes that it has achieved in this Report a satisfactory balance between objectives of high standards and limited regulation.

The Review Group considers that in the light of the DIRT Inquiry Report and other events, priority should be given to implementing this Report. In particular, it recommends that the statutory and other associated changes relating to the auditing profession be implemented within twelve months of the publication of this Report (**Recommendation 16.1**).