Consultation on a model for the apportionment of a levy on auditors of Public Interest Entities

Comments from ACCA to the Irish Auditing & Accounting Supervisory Authority

November 2015

Ref: TECH-CDR-1351

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 178,000 members and 455,000 students in 181 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of 92 offices and centres and more than 7,110 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

www.accaglobal.com

Further information about ACCA’s comments on the matters discussed here can be requested from:

Sundeep Takwani
Director – Regulation
Email: sundeeptakwani@accaglobal.com
SUMMARY

ACCA works in the public interest and actively seeks to enhance the public value of accounting and audit in society. We do this through international research and by taking a progressive stance on global issues.

ACCA welcomes the implementation of Regulation 537/2014 and IAASA assuming responsibility for inspecting the quality of audit work performed by the auditors of Public Interest Entities (PIEs). The issue of the funding of the work of the Audit Inspections Unit (AIU) is a matter that is important for public confidence in the audit function and for competition in the sector.

We support the principles set out on page 1 of the consultation paper, which IAASA will consider when finalising the apportionment model for the AIU levy. A further consideration must be that the model must not give rise to unintended adverse consequences, e.g. through relating levy charges to audit fees, which would threaten objectivity and audit quality – especially with so few PIEs in Ireland to be included within the calculations.

SPECIFIC COMMENTS

In this section of our response, we answer the specific questions set out in the consultation paper.

a) Please indicate your favoured levy model, of those outlined in sections 6 to 9 above, for use by IAASA in levying the costs of the AIU on the Firms and specify your reasons for this choice.

We do not consider all options to have been explored in this area, as a levy directly on the audited entities (similar to the USA and Canada models) has not been considered. A levy on PIEs would enhance auditor independence by removing some fee dependence risk. Paying for inspection indirectly via the audit fee would increase the absolute amount of the audit fee, potentially making the fee exceed the independence threshold of 10% (particularly relevant to smaller audit firms). Whether the AIU costs are incurred directly by the PIEs or indirectly via the audit fees they incur should not concern the PIEs, and the reasonably limited number of PIEs involved would not make this difficult to administer.

However, some Firms will be relatively cooperative and assist the AIU, while others will procrastinate and delay the AIU. This is as relevant a factor in allocating costs as the size and complexity of audit clients. On this basis we believe that, although the fixed costs of the AIU could be borne (directly or indirectly) by the PIEs on a flat rate basis, the variable costs of inspections
should be charged on an hourly basis, according to the time spent carrying out those inspections.

The consultation offers five broad options: flat rate levy, pro rata levy (based on the number of PIE audit clients or fee income from PIE audits), cost per inspection, and a two tier levy. We agree with the possibilities that have already been excluded from the consultation, as generally they might be considered arbitrary bases. The model used must not discourage new entrants into the market, but it must be fair, so that costs are borne by Firms (and PIEs) in respect of which most costs are incurred.

b) Are there any further advantages or disadvantages to any of the models outlined in this paper that you believe should be considered by IAASA when selecting a levy model?

We believe that the advantages and disadvantages as outlined in the consultation paper include all the relevant factors to be considered.

c) Do you think that another method not outlined in this paper should be considered as the funding model for the AIU? If so, please outline this model and specify your reasons for its use.

As stated under (a) above, imposing a levy directly on PIES has not been considered. PIES and their stakeholders benefit from inspection of their auditors by the AIU, not only because it allows them to retain their auditors and continue as PIES, but also because the inspections are intended to enhance public confidence, reduce perceived audit risk, and so reduce the cost of capital.

d) Do you think that there should be a minimum charge levied on each Firm? Please provide reasons for your answer.

In accordance with the principles set out on page 1 of the consultation paper, the charge should be based on the time and costs incurred. A Firm that is a new entrant to the PIE audit market is likely to start with a smaller audit client. A flat rate fee would disproportionately affect smaller audit Firms, and so discourage entry into the market. An hourly rate for AIU inspections is simple and straightforward to administer, and is fair, workable and transparent.
e) Do you think that the costs set out in section 3 above fairly reflect the types of costs which should be levied on the Firms? If not, please a) note what costs you think should be excluded and a proposed alternative mechanism for funding such costs; and b) set out the nature of any additional costs you think should be further included and the reasons for same.

Yes, we agree that the costs set out in section 3 of the consultation paper fairly reflect the types of costs that should be levied on the Firms. If there is any question of “overspending”, then IAASA should be willing to submit to a value for money audit by the Office of the Comptroller and Auditor General.

f) Do you agree that the specific case costs of investigation and discipline should be shared in accordance with the apportionment model across all Firms or should the individual Firm being investigated pay the specific costs of such a case? Please provide reasons for your answer.

The fixed costs of IAASA’s functions of investigation and discipline are necessary to meet the requirements of Regulation 537/2014 in respect of PIEs, and so the costs should be shared across all firms with PIE audit clients. Only the costs in respect of investigation and discipline where wrongdoing is proven may be recovered from those found to be at fault. In the case of investigations that fail to identify any wrongdoing, the costs should not be met by those Firms being investigated, but apportioned between all Firms with PIE audit clients, along with the fixed costs.

g) Please provide any additional comments you may have on the proposals set out in this consultation paper.

We have no further comments, except to conclude by stating that a levy must ultimately be borne by the PIEs that require audits that fall within the scrutiny of the AIU. A fair apportionment model must be based on the time incurred in carrying out inspections of the relevant audit firms, although fixed costs of inspections may reasonably be allocated between Firms or PIEs at a flat rate, and the costs of investigation and discipline in respect of cases proven should be shared among wrongdoers.