
ANNUAL REPORT 2012

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OUR MISSION

To support and enhance public confidence in the accountancy profession and financial reporting through the exercise of effective, independent oversight and the promotion of adherence to high standards.

Introduction

It is with pleasure that I submit IAASA's seventh Annual Report to the Minister for Jobs, Enterprise and Innovation, Richard Bruton TD, in accordance with section 22(1) of the Companies (Auditing and Accounting) Act 2003. This is my first Report as Chairperson of IAASA, having being appointed on 3 January 2013.

The financial reporting and auditing environment

The financial crisis has called into question the quality of audited financial statements and the audit report. Considerable work is being done by those involved in financial reporting and auditing to identify the factors that contributed to this and to establish what actions are required to rectify deficiencies and to restore trust. Rebuilding public confidence in financial reporting represents a significant challenge and one that requires the collective efforts of all stakeholders, including IAASA.

Effective financial reporting requires consistent and faithful application of high quality accounting standards, rigorous independent audit and strong enforcement. As an oversight body with responsibilities covering both financial reporting and statutory auditing, IAASA is playing its part in rebuilding public trust and confidence in these processes.

Despite being a small organisation, we actively participate in European and international fora and in discussions on how to produce better standards and the application of those standards by both preparers and auditors. As an enforcer of financial reporting standards, we mainly take a risk-based approach to enforcement, identifying the higher-risk factors and devoting appropriate resources to them where possible. Our supervision of the auditing and accounting profession is robust and seeks to ensure that regulation of the profession by the nine Prescribed Accountancy Bodies is rigorous and of a high standard. This Annual Report sets out in detail how IAASA fulfilled its statutory role in the financial reporting and auditing environment during 2012.



Brendan Walsh, Chairperson

Audit reform – contributing to the debate

In late 2011, the European Commission published major audit reform proposals. The Authority contributed to national consideration of these proposals in 2012, including appearing before the Oireachtas Joint Committee on Jobs, Enterprise and Innovation to assist the Committee with its scrutiny of the proposals. The Authority's appearance proved to be a very constructive engagement, not only for IAASA to assist the Committee with its work, but also to contribute to the debate on the audit reform proposals. The Committee noted that it intends to engage more regularly with IAASA on matters of mutual relevance. IAASA views this as a very welcome opportunity to assist policy-makers and also to provide its perspective as a supervisory authority with significant insight into the operation of the financial reporting and auditing processes.

In 2012, the Authority provided the Department with ongoing assistance as it prepared to move the audit reform proposals through the Council of the EU and this will continue into 2013. Ireland's presidency of the EU in 2013 presents us with a leadership opportunity in bringing these proposals to fruition.

Future outlook

As we look to 2013 and beyond, there are significant developments which will bring both challenge and opportunity to our activities and which I would like to highlight briefly.

Impact of ESMA

IAASA undertakes its financial reporting enforcement activities in the context of major changes in the European regulatory framework and supervisory structures. In particular, the establishment of ESMA, the European Securities and Markets Authority, has already had an effect on IAASA's financial reporting supervision activities. For example, during the year IAASA participated in a number of ESMA led EU-wide surveys of issuers' financial reporting practices. The Authority also invested considerable resources in chairing the Sub-Group on Materiality of ESMA's European Enforcers' Coordination Sessions and providing input into the development of common EU enforcement priorities.

In the context of the EU audit reform proposals, ESMA is also likely to have a future impact on IAASA's supervision of the auditing profession. It is important that ESMA's future regulatory framework is appropriately structured to ensure that oversight of the auditing profession continues to gain status and authority. This will enable national authorities, including IAASA, to exercise their audit oversight roles effectively.

Independent audit inspections

The Authority's view that direct quality assurance inspections of the auditors of public interest entities should be performed by IAASA has been well articulated in previous Annual Reports. In July 2010, the Department decided to implement an EU recommendation to confer on IAASA the statutory function to perform such quality assurance directly. Consideration of how to effect this decision from a legislative and resource perspective is ongoing between the Department and the Department of Public Expenditure & Reform. These functions, when transferred to IAASA, will represent a major expansion of the Authority's existing role of enforcing financial reporting standards and supervising the auditing and accountancy profession. Securing resources commensurate with the increased responsibilities will be crucial to IAASA's success in performing its expanded role. It is a priority for me that IAASA obtains the appropriate resources and powers to take on this important function as soon as possible.

Reform of Irish GAAP

Following a long period of development, the FRC has recently issued a suite of three new accounting

standards which comprise the revised accounting framework for Irish and UK entities, applicable from 2015. This is a significant change, which will have consequences for the vast majority of unlisted Irish entities as well as some listed entities. For those affected issuers coming within IAASA's financial reporting supervisory remit, this change to the accounting framework will present a challenge. We are cognisant that the potential for inadequate and/or incorrect implementation of the new requirements is high. This will lead to an increased supervisory requirement, particularly in the first year of application.

Changes in the Board's composition

In the period since IAASA's last Annual Report, there have been several changes to the Board's composition, which are set out in detail in Chapter 1. On behalf of the Board I wish to extend a sincere thanks to the previous Chief Executive, Ian Drennan, and the previous Chairperson, Karen Erwin. Each provided exceptional leadership and made a very significant contribution to the work of IAASA since its establishment, and I wish them every success in their future endeavours. Additionally, Joe O'Toole and Tony Kelly stepped down on the expiry of their terms of office. On the Board's behalf I would like to thank them for their service to the Board over many years and wish them well for the future.

Concluding remarks

The achievements of the last year would not have been possible without a dedicated executive team and a dedicated Board. In this context, I would like to thank all staff members and my fellow directors, both past and present, for their considerable commitment and work rate during 2012. I would also like to express my gratitude to the Minister, Richard Bruton TD, and the management and staff of the Department for their ongoing support to IAASA over the course of the year.

As IAASA starts 2013 with a new Chief Executive and Chairperson, I hope that we can build on the achievements of our predecessors by continuing to focus on delivering effective and independent enforcement and supervision for the benefit of all stakeholders.

Professor Brendan Walsh
Chairperson

30 APRIL, 2013

Introduction

2012 was a year of change for IAASA, with the departure of the previous Chief Executive and the previous Chairperson's term of office coming to an end. While I was appointed Chief Executive of IAASA in the final days of the year, there is a significant measure of continuity due to my having been a member of IAASA's management team since it commenced operations in February 2006.

The purpose of this review is to set out a brief overview of the activities undertaken in pursuit of IAASA's mission to support and enhance public confidence in the accountancy profession and in financial reporting. This Annual Report details the significant amount of work that was undertaken during the year, against a background of the continuing impact of the global financial crisis on financial reporting and auditing.

Supervision of the accountancy profession

The four key activities that form the bedrock of IAASA's supervision of the accountancy profession are:

- i. supervisory engagement with the nine Prescribed Accountancy Bodies ('PABs');
- ii. registration of third country auditors;
- iii. handling of complaints, enquiries and referrals; and
- iv. Statutory Enquiries.

Supervisory engagement with the PABs

IAASA issued final supervisory visit reports to three PABs and work was ongoing at year end in respect of one further supervisory visit and one follow-up review. In addition to monitoring the relevant PABs' compliance with previously attached conditions, a further five conditions were attached by the Board. We granted 20 approvals in respect of the PABs' constitutional documents and 20 further approvals were in progress at year end. We continued to supervise the work being done by the Institute of Chartered Accountants in Ireland to assess the quality of the audits of significant financial institutions before the financial crisis.



Helen Hall, Chief Executive

Registration of third country auditors

The registrations of 16 third country audit firms were approved during the year with four additional applications under active consideration at 31 December 2012.

Handling of complaints, enquiries and referrals

During the year a total of 29 complaints, 205 enquiries and 72 referrals were handled.

Statutory Enquiries

Under section 23 of the Companies (Auditing and Accounting) Act 2003, the Authority can initiate enquiries to determine whether a PAB has breached the investigation and disciplinary procedures approved by IAASA. During 2012, a section 23 committee appointed by the Board completed one Preliminary Enquiry, finding a *prima facie* case against a PAB which was referred to a Full Enquiry. Additionally, one new Preliminary Enquiry was established.

Based on our experience to date, we have decided to review the processes involved in initiating and conducting Section 23 Enquiries, in order to evaluate how we can improve their effectiveness. Among the matters to be considered are what issues should be dealt with by way of the section 23 process and what issues are more appropriately dealt with as supervisory matters.

Further details on our supervision of the profession are set out in Chapter 2 of this Report.

Financial reporting supervisory activities

The examination of financial reports is an important element of our financial reporting supervisory activities. At year end, 142 issuers fell within IAASA's financial reporting examination remit, comprising 25 equity issuers, 30 fund issuers and 87 debt issuers. Financial reports are chosen for examination using risk based indicators supplemented by cyclical and random selection. During 2012 we examined 31 periodic financial reports. We also increased our emphasis on thematic reviews, undertaking two such thematic examinations in 2012 covering 30 periodic financial reports.

As result of this work, a total of 91 voluntary undertakings for future improvements in their financial reporting were provided by issuers' directors, 40 in respect of full scope reviews and 51 in respect of focused and follow-up reviews.

The prolonged duration of the current financial crisis continues to present challenges in many areas of financial reporting and requires directors to make judgments and estimates on complex and uncertain matters, such as the recognition, measurement and presentation of income, expenses, assets and liabilities and the disclosure of risks. It is therefore not surprising that matters observed during our examinations of issuers' reports in 2012 were of a recurring nature.

Other areas of activity to which we devoted resources in 2012 were:

- cooperating with EU national competent authorities to promote the consistent enforcement of International Financial Reporting Standards across the EU;
- cooperating in the development of accounting standards; and
- providing accounting advice to the Minister.

Further details of our activity, and of the issuers whose periodic financial reports were subject to review, are set out in Chapter 3 of this Report.

Advocacy and advisory

In 2012, we increased our advocacy activity to raise awareness amongst issuers under our financial reporting remit and in order to promote adherence to best practice in the areas of auditing and accounting. Principal outputs of this activity during 2012 were the publication of:

- i. an information note: *Financial reporting considerations relevant to the disclosure requirements of the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006*;
- ii. the Authority's, by now annual, observations on key financial reporting matters. This publication had been brought forward by 3 months to late 2012 so as to achieve maximum value for its target audience; and
- iii. *Alternative Performance Measures – A survey of their use together with key recommendations*.

During the year the Authority also provided specialist advice to the Minister and his officials on a range of matters. Examples of such matters include the EU Audit reform proposals, a proposal for a Directive on the annual accounts of micro-entities, the Companies Bill 2012 and a proposal for a single Directive to replace the two current accounting Directives.

IAASA's confidentiality regime

Providing information regarding our work and being transparent about outcomes is challenging given the confidentiality regime set out in section 31 of the Act. As that section is currently drafted, except in restricted circumstances, we are prohibited from disclosing information that is obtained in performing the functions or exercising the powers of IAASA that has not otherwise come to the notice of members of the public. Consequently, we have limited ability to disclose information, despite a desire to publish the results of the nature of our work and it being beneficial to impart such information in certain circumstances. For example, we view the provision of information on the results of our financial reporting examinations, without necessarily identifying the name of the issuer involved, as assisting in building an awareness of, and confidence in, financial reporting.

These confidentiality provisions have had and continue to have an adverse impact on IAASA's advocacy role. We have had initial discussions with the Department on this matter and plan to engage further in 2013. The intention is to explore amendments to these confidentiality provisions as part of IAASA's consideration of the Companies Bill 2012, with a view to striking a balance between the protection of confidential information provided to IAASA and the desirability of transparent reporting on IAASA's activities.

Concluding remarks

Mindful of the limited resources available, we remain committed to maximising their use in order to discharge our responsibilities to the highest standard. In this regard, and cognisant of likely new statutory functions and increasing demands from ESMA, we will continue to reassess the most effective use of those resources in a manner that is both balanced and proportionate.

Finally, I would like to thank the Board of IAASA for their support, advice and guidance. I would also like to acknowledge the ongoing hard work and dedication of the staff of IAASA and express my gratitude to my colleagues for their continued professionalism during what has been a significant time of change for IAASA.

Helen Hall
Chief Executive

30 APRIL, 2013

CHAPTER 1

Governance

Governance

1. Legal structure

Under section 5 of the Act, IAASA discharges its functions and exercises its powers through a company limited by guarantee designated for that purpose.

Members of the company are listed in Table 1.1.

Table 1.1: Members of the Authority

Association of Chartered Certified Accountants*	Institute of Chartered Accountants of Scotland*
Association of International Accountants*	Institute of Incorporated Public Accountants*
Chartered Institute of Management Accountants*	Irish Association of Investment Managers
Chartered Institute of Public Finance & Accountancy*	Irish Business & Employers' Confederation
Central Bank of Ireland	Irish Congress of Trade Unions
Director of Corporate Enforcement	Irish Stock Exchange
Institute of Certified Public Accountants in Ireland*	Law Society of Ireland
Institute of Chartered Accountants in England & Wales*	Pensions Board
Institute of Chartered Accountants in Ireland*	Revenue Commissioners

* Denotes a Prescribed Accountancy Body

2. Principal goals

The Board has set the following as being IAASA's principal goals:

- to support and enhance public confidence in the accountancy profession through effective, independent supervision and, where appropriate, Statutory Enquiry and Investigation;
- to support and enhance public confidence in financial reporting through the exercise of effective, independent supervision and, where appropriate, enforcement action;
- to support and enhance public confidence in the accountancy profession and in financial reporting through the promotion of adherence to high professional standards and the provision of high quality advice to the Minister for Jobs, Enterprise and Innovation; and
- to provide a consistently high standard of service to all stakeholders.

Activities during the year in seeking to achieve these goals are set out in Chapters 2 and 3 of this Report.

3. Board of Directors

3.1. Method of appointment

The Authority is governed by a Board of 15 directors, 14 of whom are non-executive and appointed by the Minister having been nominated by those entities set out in Table 1.2. The remaining director is the Chief Executive, who is appointed by the Board. Whilst the non-executive directors are nominated by the nominating bodies prescribed under the Act, they are independent. They do not either represent the interests of their nominating bodies or consult with their members on matters related to IAASA.

Table 1.2: Board of Directors – nominating bodies

Nominating body	Nominees
Minister	2
Prescribed Accountancy Bodies (jointly by agreement)	3
Central Bank of Ireland	1
Director of Corporate Enforcement	1
Irish Association of Investment Managers	1
Irish Business & Employers' Confederation	1
Irish Congress of Trade Unions	1
Irish Stock Exchange	1
Law Society of Ireland	1
Pensions Board	1
Revenue Commissioners	1
Total	14

As required by the Act, a maximum of four directors, excluding the Chief Executive, may be members of a PAB.

3.2. Appointment of Board members during the year

During the year the following directors were appointed or re-appointed to the Board:

Table 1.3: Details of appointments to the Board during the year

Director	Date appointed	Nominating body	Reason for vacancy	Term
Deirdre Behan	3 January 2012	Revenue Commissioners	Expiration of Tadhg O'Connell's term of office	3 years
Marie Daly	3 January 2012	IBEC	Expiration of Ms. Daly's previous term of office	3 years
Máiréad Devine	3 January 2012	Central Bank	Resignation of Michael Deasy	3 years
Helen Hall (Chief Executive)	18 December 2012	Appointed by other directors	Resignation of Ian Drennan	5 years
Seán Hawkshaw	3 January 2012	IAIM	Expiration of Mr. Hawkshaw's previous term of office	3 years
Sylvia McNeece	3 January 2012	Pensions Board	Expiration of Brendan Kennedy's term of office	3 years
Conor O'Mahony	1 March 2012	Director of Corporate Enforcement	Resignation of Paul Appleby	to 2 Jan, 2014
Muireann O'Neill	1 September 2012	Minister	Expiration of Brian Shiel's term of office	3 years

3.3. Board of Directors as at 31 December 2012

As at 31 December 2012 the composition of the Authority's Board of Directors was as set out in Table 1.4.

Table 1.4: Composition of Board at year end

Board member	Occupation	Nominating body	Date first appointed
Karen Erwin (Chairperson)	Founder & Principal, Erwin Mediation Services	Minister	3 January 2006
Helen Hall*	Chief Executive	Appointed by the Board	18 December 2012
Deirdre Behan	Principal Officer, Revenue Commissioners	Revenue Commissioners	3 January 2012
Marie Daly	Head of Legal & Regulatory Affairs, IBEC	IBEC	3 January 2006
Máiréad Devine	Head of Governance, Accounting and Auditing Policy, Central Bank	Central Bank	3 January 2012
Seán Hawkshaw	Chief Executive, Kleinwort Benson Investors Limited	IAIM	3 January 2006
Tony Kelly*	Partner, Byrne Curtin Kelly, Certified Public Accountants & Registered Auditors	PABs	3 January 2006
Sylvia McNeece	Head of Legal, Pensions Board	Pensions Board	3 January 2012
David Martin*	Company Director	PABs	30 May 2011
Kevin O'Donovan*	Principal, KPMG, Chartered Accountants & Registered Auditors	PABs	30 May 2011
Conor O'Mahony	Principal Officer, ODCE	Director of Corporate Enforcement	1 March 2012
Muireann O'Neill*	Accountant	Minister	1 September 2012
Joe O'Toole	Former senator	ICTU	3 January 2006
Michael Quinlan	Principal, Dixon Quinlan, Solicitors	Law Society of Ireland	3 January 2010
Gerard Scully	Director of International Primary Markets, ISE	ISE	11 July 2007

* Denotes membership of a Prescribed Accountancy Body

3.4. Board of Directors at the date of issue of this Report

The following were not directors at the balance sheet date, having been appointed since 1 January 2013:

Table 1.5: Board appointments from 1 January to 30 April 2013

Member	Nominating body	Date first appointed
Professor Brendan Walsh (Chairman)	Minister	3 January 2013
Paddy Keating	ICTU	3 January 2013
Bernadette McGrory-Farrell	PABs	3 January 2013



3.5. Directors' biographies

Set out below are brief biographies of those persons who were members of the Board as at the date of issue of this Report.

1 Brendan Walsh is Professor Emeritus in the School of Economics at University College Dublin. He is author of several studies of the Irish economy. He has served as a consultant on numerous public bodies in Ireland and has worked for the OECD, the World Bank and the Harvard Institute of International Development. He is currently a member of the European Statistical Advisory Committee (Eurostat).

2 Helen Hall was appointed Chief Executive of IAASA on 18 December 2012. Helen is a qualified accountant, having trained with PwC in Dublin. After her time with PwC, she spent time in Malawi where she worked with the United Nations, the World Bank, and subsequently as an audit partner with Deloitte. She subsequently served as a senior internal audit manager with the United Nations World Food Programme, based in Rome, before returning to Ireland in 2006 to become IAASA's Head of RMS.

3 Deirdre Behan is a Principal Officer in the Corporate Business & International Division of the Revenue Commissioners. Her responsibilities include corporation tax policy, legislation and interpretation. Previously, she managed the Financial Services (Banking) Unit in Revenue's Large Cases Division. Her career experience includes a secondment to the International Financial Services Centre section of the Department of Finance. Deirdre holds a Masters Degree in Taxation and is an Associate of the Irish Tax Institute.

4 Marie Daly is Head of Legal and the in-house legal advisor with IBEC. She qualified as a solicitor in 1987, working initially in Dublin Corporation's Law Department before joining the then Federation of Irish Employers in 1991 as an employment solicitor. She is also a member of the CLRG and the High Level Group on Business Regulation.

5 Máiréad Devine is the Head of Governance, Accounting and Auditing Policy in the Central Bank. Máiréad was previously a director in the PwC Regulatory Advisory Services team where she specialised in the provision of prudential, governance, risk management and compliance services across the financial services spectrum. Máiréad previously worked as a prudential specialist with PwC UK in the Financial Services Regulatory Practice. Prior to that, she was a manager in the Regulatory Policy Division at the Bank of England. She started her career as an Economist in the Economic Analysis and Research Department of the Central Bank. Máiréad holds a Bachelor of Business Studies and a Master of Letters (Financial Economics) from Trinity College Dublin.

- 6 Seán Hawkshaw** is Chief Executive of Kleinwort Benson Investors Limited, an institutional asset management firm based in Dublin providing specialist equity product to Irish and international investors. He is also a board member of the IAIM.
- 7 Paddy Keating** is National Secretary/General Manager of IMPACT, a mainly public sector trade union. He was formerly General Secretary of the Irish Tax Officials Union and Deputy General Secretary of the Union of Professional and Technical Civil Servants. He has over 30 years experience as a trade union official dealing with a wide range of industrial, work organisation and socio/economic issues and has been involved in negotiations with Government Departments on many employment legislation and socio/economic matters, including tax policy.
- 8 David Martin** is a former Group Financial Director of IAWS Group plc (now Arysza AG). He is currently a director of 151plc, FBD Insurance plc and a number of private companies. He is a former director of the Dormant Accounts Board. David is a Fellow of CIMA.
- 9 Bernadette McGrory Farrell** is Past President of the ICPAI, and is a partner in a public accountancy practice. Bernadette is a former Board member of the International Federation of Accountants (IFAC), 2005 to 2011, the first ever nominee of an Irish accountancy body to be appointed to the Board. She is a former Chair of IFAC's Audit Committee, Small and Medium Practices Review Task Force and of its Planning and Finance Committee. She is also a former member of the Court of the University of Ulster, and is currently a member of the Audit Committee of Dublin Institute of Technology. Bernadette is a member of the ICPAI and has a Masters in Business Administration.
- 10 Sylvia McNeece** is Head of the Legal and Corporate Services Unit in the Pensions Board. Sylvia qualified as a solicitor in 1993 and joined the Pensions Board as its legal advisor in 2004. Sylvia joined the Pensions Board from the Law Society, where she was responsible for the Society's Legal Diplomas programme for solicitors. Sylvia previously worked as a solicitor in private practice for a number of years and as an in-house solicitor with a software company. Sylvia has an LLM (Commercial law) and an MBA.
- 11 Kevin O'Donovan** is a former audit partner in KPMG Ireland and now principally serves in a risk management role for KPMG internationally in addition to being a director of CBK Corporate Governance Services Limited. Previously, Kevin served as a member of the APB, Head of Audit in KPMG Ireland and as Chairman of the Audit Committee Institute in Ireland from 2004 to 2012. Kevin holds a Bachelor of Commerce Degree and is a Fellow of the ICAI.
- 12 Conor O'Mahony** is currently a Principal Officer in the ODCE where he has responsibility for matters relating to insolvent companies. He previously headed up the Small and Medium Enterprise Policy Unit in the Department and before that worked in the Department of Finance and the Revenue Commissioners. Conor was a member of the Review Group on Auditing that led to the establishment of IAASA.
- 13 Muireann O'Neill** is employed by Cork Institute of Technology, lectures for the ICAI and is recognised as one of Ireland's leading auditing and management accounting lecturers. Muireann also holds a directorship on the Board of Inland Fisheries Ireland ('IFI') and is chairperson of the IFI Audit Committee. She has in the past worked for the Department of Finance where she was appointed a member of the Advisory Forum on Financial legislation in 2007 by the then Minister for Finance. Muireann is a Fellow of the ICPAI and is also a member of this Institute's CPE Compliance Committee.
- 14 Michael Quinlan** is a practicing solicitor in private practice with Dixon Quinlan in Dublin. He is an elected member of the Council of the Law Society since 2000 and a Past Chairman of the Society's Regulation of Practice Committee. Michael is a former President of the Dublin Solicitors Bar Association.
- 15 Gerard Scully** is Director of International Primary Markets at the ISE, with responsibility for the Debt and Investments Fund Listing Departments. He joined the ISE in March 2004. From 1987 until 1997 he worked in London as a legal advisor, including six years as legal advisor on derivatives and capital markets matters, including some of the first "euro" debt transactions. Since his return to Ireland in 1997 Gerard has worked in a variety of legal and compliance roles. Gerard is a qualified solicitor in England & Wales and Ireland.
- 16 John G. O'Malley** is the Company Secretary and IAASA's Head of Legal Services.

3.6. Board procedures

The Board holds regular meetings and its procedures further provide for the convening of unscheduled meetings should the need arise. Board members receive regular and timely information in a form and of a quality appropriate to enable them to discharge their duties.

The Board has put in place a formal Schedule of Matters reserved specifically to it for decision, which covers key areas of policy and IAASA's statutory functions and powers. Certain matters are delegated to Board Committees, as outlined in section 4 of this Chapter, and the Board has also put in place a system of formal delegations of authority to the Chief Executive.

Service on a statutory Board such as IAASA requires integrity, independence, objectivity and good faith on the part of Board members. Whilst it

is recognised that members of the Board have responsibilities to their nominating organisations, their overriding responsibility as directors of the Authority is to act in accordance with the relevant legislation and to act in, and protect and promote, the best interests of IAASA. In this regard, all Board members bring independent judgment to bear on issues dealt with by the Board. The Board has a formal policy in place for dealing with conflicts of interest that may arise, including disclosure obligations and requirements that directors absent themselves from any discussions or decisions in respect of any such conflicts.

3.7. Board meetings

During the year, the Board held nine meetings. The membership of the Board during the year, together with details of the number of meetings attended by each director, is set out in Table 1.6.

Table 1.6: Directors' attendance at Board meetings

Director	Meetings attended/ Meetings eligible to attend
Karen Erwin (Chairperson)	9/9
Ian Drennan (Chief Executive to 28 August 2012)	6/6
Helen Hall (Chief Executive from 18 December 2012)	1/1
Paul Appleby	1/1
Deirdre Behan	8/9
Marie Daly	9/9
Máiréad Devine	7/9
Seán Hawkshaw	5/9
Tony Kelly	6/9
David Martin	8/9
Sylvia McNeece	8/9
Kevin O'Donovan	8/9
Conor O'Mahony	7/8
Muireann O'Neill	3/3
Joe O'Toole	7/9
Michael Quinlan	6/9
Gerard Scully	6/9

4. Committees

The Board has established a number of Committees to assist it in discharging its functions and responsibilities. All Committees have written terms of reference and report regularly to the Board. Details of Committees' mandates and memberships are set out in Table 1.7.

Table 1.7: Board Committees – mandates and membership

Committee	Mandate	Membership at 31 December 2012
Audit Committee	Monitoring the integrity of the Authority's financial statements, the effectiveness of the Authority's internal control and risk management systems and monitoring and reviewing the effectiveness of the internal and external audit processes.	Gerard Scully, (Chairperson) Seán Hawkshaw Muireann O'Neill
Section 23 Committees	The Authority from time to time establishes PECs and Full Enquiry Committees for the purpose of determining whether a PAB has complied with its approved investigation and disciplinary procedures. Section 23 Committees operate independently of the Board and Executive in discharging their investigative mandates.	Board members are nominated to Enquiry Committees as and when the need arises.

4.1. Audit Committee

The Audit Committee comprises three non-executive Directors and its terms of reference are set out in its Charter. A copy of the Charter of the Audit Committee is included at Appendix 1.

In order to discharge its responsibilities, the Committee:

- met seven times during 2012;
- met with the Authority's external auditors, the C&AG;
- met with the Authority's internal auditors, Crowleys DFK;
- reviewed the annual financial statements for 2011;
- reviewed and proposed amendments to its Charter;
- reviewed various accounting policies;
- approved the internal audit plan and its amendment during the year; and
- reviewed the Authority's risk register and framework.

In addition:

- the external auditor and internal auditor have access to the Audit Committee Secretary whenever required; and
- where requested by the Audit Committee Chairperson, the Chief Executive and Heads of Function took part in the meetings of the Audit Committee during 2012.

5. Organisational Structure

5.1. Overview

The Authority is structured into four Units, i.e.:

- Regulatory & Monitoring Supervision, which is concerned principally with supervision of the PABs, registration of third country auditors and audit entities, and ancillary activities;
- Financial Reporting Supervision, which is concerned principally with financial reporting review and ancillary activities;
- Legal Services, which, in addition to providing in-house legal advice and related services to the Authority, provides a Secretariat to the Board and to certain of its Committees; and
- Finance & Administration, which provides corporate services support to the Authority.

5.2. Approved staff complement

The numbers, grades, and terms & conditions of the Authority's staff are determined by IAASA with the approval of the Minister, given with the consent of the Minister for Public Expenditure & Reform. Accordingly, any amendments to IAASA's approved staff complement require both Ministers' prior approval. Details of the Authority's approved and actual staff complements are set out in Table 1.8.

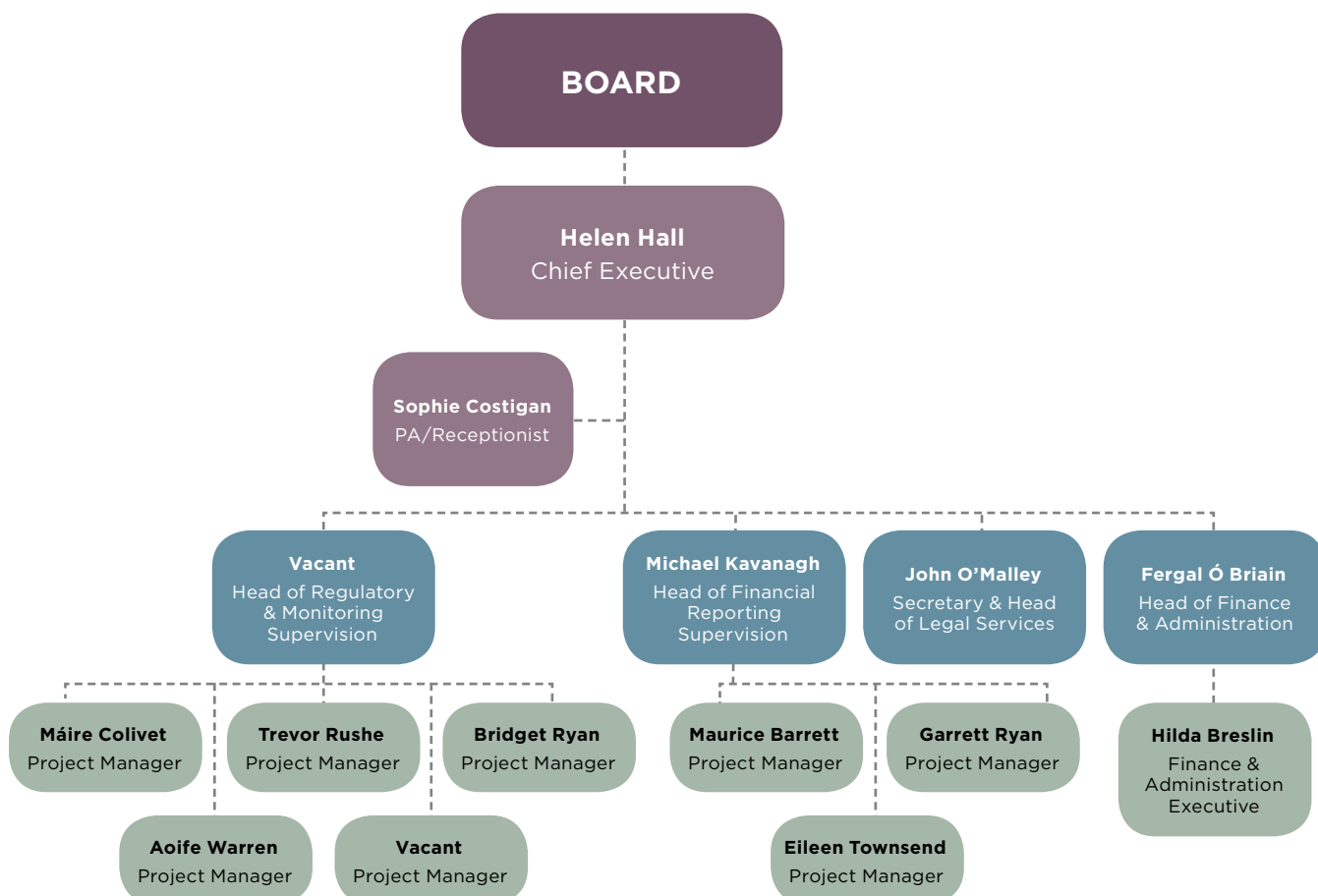
Ms. Helen Hall was appointed as Chief Executive on 18 December 2012, having been formerly employed as the Authority's Head of RMS (Head of Function). At year end, the position of Head of RMS remained vacant. As IAASA is subject to the Government moratorium on recruitment, specific approval is required from the Department of Public Expenditure & Reform in order to recruit a replacement Head of RMS. Should such approval be forthcoming, the approved staff complement at Head of Function level and the total approved staff complement will increase to three and 15 respectively.

Table 1.8: Approved and actual staff complements as at year end

Grade	Approved	Actual
Chief Executive	1	1
Heads of Function (see Section 5.2)	2	2
Project Managers	8	7
Head of Finance & Administration	1	1
Administrative Executive	1	1
Clerical Support Staff	1	1
Total	14	13

5.3. Organisational chart

The Authority's organisational structure as at 31 December 2012, including the Head of RMS post referred to above, was as set out in the organisation chart below.



6. Corporate Governance Statement

6.1. Introduction

The Board is committed to operating and maintaining the highest standards of corporate governance and to ensuring compliance with the Authority's various legal and other obligations. As a body established under statute, the Authority is subject to the provisions of the Code of Practice for the Governance of State Bodies ('the Code'), as issued by the Department of Finance. The Code sets out the principles of corporate governance applicable to State bodies.

In addition to complying with the Code, in 2011 the Board also voluntarily adopted the UK Corporate Governance Code ('UK Code') and the Irish Corporate Governance Annex to the UK Code as promulgated by the ISE ('Irish Annex'). This Corporate Governance Statement, together with the contents of this Annual Report, describes how IAASA applies the principles of the Code, the UK Code and the Irish Annex ('the Irish and UK Codes').

Except where otherwise stated, the Directors believe that the Authority has complied with the provisions of the Irish and UK Codes.

6.2. Statement of compliance

The Authority has taken the following steps to ensure its ongoing compliance with the Irish and UK Codes:

- adopted a Schedule of Matters Reserved to the Board and adopted formal and documented delegations of authority to Board Committees and to the Chief Executive (which are reviewed from time to time);
- documented the Chief Executive's and Chairperson's respective roles;
- put in place measures whereby directors have access to the advice and services of the Secretary and to independent legal advice where considered necessary;
- put in place mechanisms by which the Board is regularly apprised of significant matters pertaining to the Authority's supervisory and enforcement remits and to its finances;
- put in place measures to ensure that the Board receives regular, high quality information on which to base its decision making;
- implemented measures to ensure that new directors are provided with a specialised directors' orientation briefing upon appointment to the Board including a detailed outline of their fiduciary duties under law;
- adopted Codes of Conduct for both directors and employees;
- appointed an Audit Committee comprising of non-executive directors;
- appointed an external provider of internal audit services;
- developed and approved Charters for both the Audit Committee and internal auditors which reflect both best practice and the Code's requirements;
- developed risk management policies and procedures designed to identify and quantify key business risks and to assist the Authority in the management of those risks;
- put in place a system of documented internal controls and related procedures which address IAASA's obligations under public sector procurement requirements;
- adopted a whistle blowing procedure, whereby employees of IAASA can, in strict confidence, raise any concerns that they might have regarding possible irregularities in financial reporting or other matters directly with the Chairperson of the Audit Committee;
- introduced formal procedures for addressing any instances in which Board members have a concern that cannot be resolved, registering of such concerns and bringing of such concerns to the Board's attention;
- adopted requirements regarding the disclosure of interests by directors;
- ensured that appropriate directors' and officers' insurance is in place;
- resolved that the topic of risk management should become a standing agenda item at Board meetings, conferred responsibility for monitoring risk management on the Audit Committee and appointed a Chief Risk Officer at a senior level;

- adopted a policy whereby the Authority shall comply with all Department of Finance circulars regarding travel and subsistence (requirements in this regard were previously reflected in IAASA's internal financial procedures and the adoption of the above policy was merely to reflect the Code's requirements);
- conducted Board meetings in the absence of the Chief Executive; and
- adopted a Customer Charter to provide information on the standards of service that stakeholders can expect from IAASA.

The Authority's directors and senior management are also subject to the provisions of Ethics in Public Office legislation, which requires, amongst other things, the annual disclosure of any interests that could materially influence them in relation to the performance of their official functions.

Certain of the provisions of the UK Code and the Irish Annex are not applicable to a body such as IAASA having regard to its corporate status (i.e. as a company limited by guarantee as opposed to limited by shares), the legislative provisions governing its establishment and on-going governance arrangements. Set out in Appendix 2 in summary form are the principal provisions of the UK Code and Irish Annex which are not applicable to IAASA or with which the Authority did not otherwise consider it practicable or appropriate to comply, together with summary explanations for the associated reasons.

7. Other public sector and governance obligations

7.1. Legal and governance obligations as a body established under statute

The Board is principally assisted in ensuring compliance with its legal and governance obligations by the Secretary & Head of Legal Services and the Head of Finance & Administration respectively. Where applicable, other members of the Authority's staff and management contribute as required to IAASA's ongoing compliance with its obligations.

7.2. Legal requirements under the Companies Acts

During the year, in compliance with the Authority's obligations as a company, the directors:

- held the Authority's sixth Annual General Meeting on 3 July 2012; and

- filed the company's Annual Return with the Registrar of Companies on 16 July 2012.

The Authority has taken the steps necessary to ensure that, in compliance with section 202 of the Companies Act 1990, proper books of account are maintained. Similarly, the Secretary is charged with maintaining the Authority's statutory Registers and ensuring that all filings are made to the Registrar of Companies within prescribed timeframes.

7.3. Principal legal requirements under legislation

The Authority has also taken the necessary steps to ensure its compliance with a range of other legal requirements, including:

- health and safety legislation;
- employment and related legislation;
- tax law;
- Ethics in Public Office law;
- European Communities (Energy End-use Efficiency and Energy Services) Regulations ('SI 542 of 2009'); and
- the European Communities (Late Payments in Commercial Transactions) Regulations, 2002.

The provisions of SI 542 of 2009 (alluded to above) do not apply to IAASA as it is not being a 'Public Body' as defined by that SI. Nevertheless, IAASA is committed to aims and principles set out in these Regulations. In this regard, IAASA is located in one office location, and has no motor vehicles or other area of energy usage. IAASA's energy consumption in 2012 comprises:

- 49 MWh of oil in respect of space heating *via* radiators, which are controlled by the landlord on a shared services basis; and
- 40 MWh of electricity in respect of air conditioning, hot water, lighting and office equipment, which are directly controlled by IAASA.

Certain other requirements typically applicable to statutory bodies such as the Disability Acts and the Official Languages Act do not apply to IAASA as it has not been designated for such purposes at this time. Nevertheless, IAASA voluntarily adheres to the requirements of these Acts insofar as practicable, and within the constraints of other legislative obligations.

CHAPTER 2

Supervision of the Accountancy Profession

Supervision of the Accountancy Profession

1. Introduction

This Chapter provides a summary of IAASA's activities during the year to achieve its mission of supporting and enhancing public confidence in the accountancy profession through the exercise of effective, independent oversight of the PABs' regulation and monitoring of their members.

IAASA's activities in this regard fall into six main areas:

- (a) supervision, regulation and monitoring of the nine PABs, which falls broadly into the following categories:
 - complaints handling (Section 3);
 - supervision of the PABs' responses to matters of public interest (Section 4);
 - Statutory Enquiries (Section 5);
 - approval of the PABs' constitutional documents (Section 6);
 - supervisory visits and meetings (Section 7);
 - attachment of conditions to the RABs' recognitions (Section 8); and
 - the PABs' annual return process, which is detailed in a separate publication on statistics entitled *Profile of the Profession 2012*;
- (b) responding to queries from members of the public (Section 9);
- (c) implementation of the Statutory Audit Directive Regulations (Section 10);
- (d) registration of third country auditors and audit entities (Section 11);
- (e) cooperation with IAASA's EU and international counterparts, as well as with other national and EU authorities (Section 12); and
- (f) monitoring of the EC's proposals to reform the European audit market (Section 13).

2. Overview of supervisory activities

2.1. IAASA's principal functions relating to the PABs

The Act provides that IAASA's principal functions relating to the PABs include:

- granting approval to the PABs' constitutions and other related rules, regulations and standards applying to their members, and to all proposed amendments thereto;
- supervising the operation of the PABs' investigation and disciplinary processes;
- supervising the manner in which the RABs monitor their members and member firms; and
- performing the functions conferred upon IAASA by the Statutory Audit Directive Regulations.

Detailed information regarding IAASA's functions in respect of the PABs was provided in its first Annual Report (i.e. the 2006 Annual Report), which can be accessed on the IAASA website.

2.2. PABs and RABs

A PAB is any accountancy body that comes within IAASA's supervisory remit. There are currently nine PABs:

- **ACCA** Association of Chartered Certified Accountants;
- **AIA** Association of International Accountants;
- **CIMA** Chartered Institute of Management Accountants;
- **CIPFA** Chartered Institute of Public Finance & Accountancy;
- **ICAEW** Institute of Chartered Accountants in England & Wales;
- **ICAI** Institute of Chartered Accountants in Ireland;
- **ICAS** Institute of Chartered Accountants of Scotland;
- **ICPAI** Institute of Certified Public Accountants in Ireland; and
- **IIPA** Institute of Incorporated Public Accountants.

Six of the nine PABs are also RABs. A RAB is a body that has been recognised for the purposes of the Statutory Audit Directive Regulations and section 187 of the 1990 Act. RABs are permitted to register or license their members/member firms for the purpose of entitling them to practice as auditors. The six RABs are the ACCA, ICAEW, ICAI, ICAS, ICPAI and the IIPA.

3. Complaints handling

3.1. Overview

A 'complaint' includes any expression of dissatisfaction with professional services provided by members/member firms of the PABs and/or with the regulation of accountants by the PABs, whether communicated to IAASA by members of the public or otherwise.

Under the model of supervised self regulation provided for by the Act:

- the PABs are responsible for carrying out investigations into their members' activities where necessary; and
- IAASA is responsible for supervising the PABs' compliance with their approved disciplinary procedures.

The examination of complaints is an important element of IAASA's supervision of the PABs as it enables it to determine whether the issues complained of are of an isolated nature or indicative of wider issues within a PAB.

During the year, IAASA responded to complaints received from members of the public, providing them with the information necessary to:

- understand IAASA's and the PABs' respective roles in the complaints/disciplinary processes; and
- direct their complaints to other relevant authorities, where appropriate.

3.2. Complaints received

In 2012, IAASA received 29 complaints, further details of which are set out in Table 2.1. The principal issues raised by complainants related to:

- allegations of unsatisfactory work;
- alleged breach(es) of standards by a PAB member/member firm;
- dissatisfaction with some aspect of the PABs' disciplinary procedures; and
- dissatisfaction with fees charged.

Table 2.1: Complaints received

	2012	2011
Complaints on hand as at 1 January	13	9
Complaints received during the year	29	26
Complaints closed during the year	(29)	(22)
Complaints on hand as at 31 December	13	13
<i>Analysed as:</i>		
Complaints under consideration at year end	10	10
Matters ongoing under the Section 23 process (see Table 2.2)	3	3

Where IAASA receives a complaint which has not, in the first instance, been made to the relevant PAB, it refers the matter to the PAB for processing under its approved investigation and disciplinary procedures. Of the 29 complaints closed during the year, 23 were referred to the relevant PAB.

3.3. Referrals from other regulators

In 2012, IAASA received a total of 19 referrals from the ODCE and 53 referrals from the Central Bank. Issues identified in the ODCE's and Central Bank's referrals included:

- the duty of credit union auditors to report to the Central Bank within one month of the date of the auditor's report;
- the duty of credit union auditors to provide the Central Bank with a copy of any report issued to a credit union on a matter which has come to the auditor's attention;
- the provision of an audit report not appropriate for an audited entity's legal structure (e.g. guarantee companies);
- the appropriateness or otherwise of audit opinions;
- various company law related omissions and errors;
- lack of qualification to audit; and
- the duty of auditors to report to the ODCE.

All of the PABs concerned are processing these referrals through their approved investigative and disciplinary processes. Consequently, during the year IAASA continued to monitor the PABs' responses to referrals through the routine supervision of their investigation and disciplinary processes.

4. Supervision of the PABs' responses to matters of public interest

4.1. Overview

As detailed in Section 3.1, the PABs are primarily responsible for their disciplinary processes, which are subject to IAASA's oversight. Accordingly, IAASA normally focuses on the proper operation

of the PABs' investigative and disciplinary systems and processes rather than on the PABs' handling of individual cases. However, where IAASA identifies issues which appear to be of a public interest nature, they are brought to the attention of the relevant PAB and the responses are monitored accordingly. Such issues are typically identified through IAASA's ongoing monitoring of the media, PAB review meetings, complaints handling and interaction with its domestic and international counterparts.

4.2. ICAI's response to events at Anglo Irish Bank Corporation Limited and Irish Life & Permanent plc

As reported in IAASA's 2011 Annual Report, following a request from the DPP, the ICAI adjourned disciplinary proceedings against Messrs. Seán Fitzpatrick, David Drumm, William McAteer and Peter Fitzpatrick and Ernst & Young pending a decision as to whether she will direct prosecutions in these and/or related matters. At year end the DPP had not withdrawn her request that the ICAI adjourn these matters.

4.3. ICAI's review of its relevant member firms' audits of the Covered Institutions

As detailed in IAASA's 2011 Annual Report, in the wake of the banking crisis and following engagement with IAASA, in September 2010 the ICAI commenced a review of the audits of the Covered Institutions. IAASA agreed with the ICAI that the review would be overseen by an independent expert possessing relevant experience and from outside the jurisdiction (Mr. David Spence, a fellow of the ICAS).

IAASA met with Mr. Spence during the year and continues to monitor the progress of the review. At year end, the review had been completed and the process for the firms to comment on the review findings had commenced.

4.4. PABs' responses to other matters of public interest

During the year IAASA also continued to monitor the relevant PABs' regulatory responses in relation to their members' involvement in events at Bloxham Stockbrokers, Quinn Insurance Limited and Custom House Capital Ltd.

5. Statutory Enquiries

5.1. Section 23 Enquiries

Section 23 of the Act empowers IAASA to initiate Statutory Enquiries to determine whether PABs have complied with their approved investigation and disciplinary procedures. An overview of the Section 23 process is available on the IAASA website.

Table 2.2 below details the Section 23 Enquiry activities during the year.

Table 2.2: Summary of Section 23 Enquiry activity

	Preliminary Enquiry Stage	Full Enquiry Stage	Total
Section 23 Enquiries ongoing at 1 January 2012	2	1	3
Preliminary Enquiries completed during the year	(1)	-	(1)
Full Enquiries initiated during the year on foot of <i>prima facie</i> cases having been found by a Preliminary Enquiry Committee	-	1	1
New Preliminary Enquiries initiated during the year	1	-	1
Full Enquiries completed during the year	-	(1)	(1)
Section 23 Enquiries ongoing at 31 December 2012	2	1	3

5.2. Confirmation of Section 23 Decision by the High Court

As noted in Table 2.2, one Full Enquiry was completed in 2012. In this instance, the Committee enquired into, amongst other matters, whether the ICAI:

- may have failed to properly investigate whether an ICAI member firm, in acting as auditor to a listed company, failed to comply with the ICAI's standards; and
- may have failed to afford to an individual the rights of a Complainant as set out in the ICAI's bye-laws.

Following completion of the Full Enquiry, it was determined that the ICAI had failed to comply with its approved investigation and disciplinary procedures and it was decided to:

- annul the relevant decision of the ICAI's Complaints Committee;
- direct the ICAI to undertake a fresh investigation of the Complaint; and
- require the ICAI to pay €15,000 to IAASA.

The decision and associated sanctions were confirmed by the President of the High Court on 26 November 2012. The full text of the Decision was published on the IAASA website in January 2013.

6. Approval of the PABs' constitutional documents

IAASA is responsible for the approval of the PABs' constitutional documents (i.e. the PABs' charters, memoranda & articles of association, bye-laws, rules, regulations, codes and standards) and any

amendments thereto. These approval activities enable IAASA to ensure that the PABs' rules and regulations provide a suitable framework for the regulation and monitoring of their members.

As can be seen from Table 2.3, IAASA approved 20 constitutional documents during the year, which related to the ACCA, ICAEW, ICAI and ICAS.

Table 2.3: Approvals granted

	2012	2011
Sets of amended bye-laws	3	3
Sets of regulations	3	0
Sets of amended regulations	13	16
Amended codes of ethics and conduct	1	3
Total	20	22

Additionally, the review of 20 constitutional documents was ongoing at 31 December 2012.

7. Supervisory visits and meetings

7.1. Supervisory visits

During the year, IAASA issued final supervisory visit reports to three PABs. At 31 December 2012, drafting of the reports in respect of one further supervisory visit and one follow-up review were ongoing.

As in previous years, the main issues identified during supervisory visits included:

- non-compliance with approved constitutional documents;
- delays in processing complaints;
- inadequate investigation of complaints; and
- weaknesses in the documentation of complaints.

IAASA works with the PABs concerned to address the issues identified through improvements to their overall systems and processes. At 31 December 2012, IAASA continued to actively consider a number of these matters and to monitor the implementation of IAASA's recommendations provided to the PABs.

7.2. Review meetings

IAASA staff held seven review meetings with PAB representatives during the year. The purpose of such meetings is, amongst other things, to:

- make recommendations to the PABs where IAASA has identified potential improvements to the manner in which their members are regulated and monitored;
- discuss progress on the implementation of IAASA's recommendations;
- identify, discuss and plan for forthcoming developments; and
- discuss regulatory matters of mutual interest.

7.3. Contact group meeting

The annual contact group meeting with representatives of all nine PABs was held in November 2012, during which IAASA updated the PABs regarding its activities during the year. Additionally, this annual meeting facilitates discussion with the PABs regarding matters of common interest and topical issues.

8. Attachment of conditions to the RABs' recognitions

RABs are, subject to certain criteria being satisfied, permitted to register or license their members/member firms to practice as statutory and/or public auditors. Section 192 of the 1990 Act provides that IAASA may attach such terms or conditions considered necessary to the recognition of a RAB. That section also provides that IAASA may amend the terms of a previously attached condition. During the year, in addition to monitoring the relevant RABs' compliance with previously attached conditions, a further five conditions were attached.

9. Queries received

As detailed in Table 2.4, IAASA received a number of queries from members of the public during the year. While it is not appropriate to provide advice to members of the public, IAASA tries to assist enquirers to the fullest extent possible.

Table 2.4: Nature of queries received

	2012	2011
PABs or individual accountants/auditors	29	18
IAASA's role or IAASA's and the PABs' respective roles	32	14
How to lodge a complaint with IAASA and/or a PAB	13	23
Third country audit registration	39	17
Companies legislation	72	161
Miscellaneous	18	5
Relating to the functions of other regulatory bodies	2	7
Total	205	245

10. Implementation of the Statutory Audit Directive Regulations

10.1. Activities related to the Statutory Audit Directive Regulations

As detailed in IAASA's 2010 Annual Report, the Statutory Audit Directive Regulations provided IAASA with additional functions and responsibilities. IAASA's work during the year relating to the Statutory Audit Directive Regulations included:

- continued liaison with IAAs regarding the additional requirements imposed on them by the Statutory Audit Directive Regulations and facilitating their supervision by the RABs, as detailed in Section 10.2;
- receipt and handling of a significant number of queries relating to the Statutory Audit Directive Regulations (Section 9 details queries received);
- receipt and recording of 4,594 notifications relating to auditor resignations and removals;
- approval in January 2012 of the content and administration of the aptitude test developed by the RABs (as required by Statutory Audit Directive Regulations 30 to 32);
- interaction with the RABs to develop a common approach to the publication of disciplinary sanctions, which IAASA approved in September 2012;
- interaction with the RABs to develop an agreed approach to the RABs' responsibility for statutory auditors who are not members of a RAB (as required by Statutory Audit Directive Regulation 17); and
- registration of third country auditors, as detailed in Section 11.

10.2. Individually Authorised Auditors

The Statutory Audit Directive Regulations provide that the IAAs' approval to act as Statutory Auditors (previously 'company auditors') is deemed to continue. However, this deemed approval ceases unless such individuals become either a member of, or subject to regulation by, a RAB 'as soon as may be', a term which is not defined in the Regulations.

During the year, IAASA continued to liaise with IAAs on an individual basis to ensure they were fully aware of their obligations under the Statutory Audit Directive Regulations. In this regard, the majority of IAAs who are not retired have now subjected themselves to regulation by a RAB.

11. Registration of third country auditors and audit entities

11.1. Transitional Decision for third country registration

The EC put in place a framework whereby auditors and audit entities from certain third countries could benefit from transitional arrangements under which they could continue to issue valid audit opinions in the EU provided that certain requirements were met. In early 2011, the EC extended the transitional period in respect of certain third countries (through Decision 2011/30/EU). During the year IAASA continued to provide advice and comments to the Department on this Decision and on the introduction of annual fees payable by audit firms seeking transitional registration. The Decision was transposed into Irish law by *SI 312 of 2012 – European Union (Third Country Auditors and Audit Entities Equivalence, Transitional Period and Fees) Regulations 2012*.

Following the commencement of SI 312 of 2012, IAASA received four applications for transitional registration. One application was approved during the year and IAASA was reviewing three further applications at 31 December 2012. The register of transitional third country auditors is available on the IAASA website.

As a member of the EGAOB as detailed in Section 12.4, IAASA contributed to discussions on the future treatment of third countries currently included in the transitional regime. In this regard, a new EU Decision is expected to be issued in 2013.

11.2. Registration in accordance with Regulation 113 of the Statutory Audit Directive Regulations

Where a third country auditor or audit entity is not entitled to avail of transitional registration, it must apply for full registration under Regulation 113. While the transitional registration process requires applicants to provide IAASA with relatively basic information, the full registration process under Regulation 113 involves a detailed assessment of each application, which was fully outlined in IAASA's 2011 Annual Report.

During the year, IAASA developed an assessment system for applications under Regulation 113 and reviewed and approved the full registration of 16 third country audit firms. At 31 December 2012, four additional applications were being considered. IAASA is responsible for updating the Register of Third Country Auditors (which is available on the CRO website, www.cro.ie) for approved applications and notifying any changes to the CRO.

In addition, IAASA provided advice and comments to the Department in respect of the introduction of annual fees payable by third country audit firms, which was subsequently implemented through *SI 67 of 2013 – European Communities (Statutory Audits) (Directive 2006/43/EC) (Amendment) Regulations 2013*.

12. Domestic and international cooperation

As part of IAASA's ongoing supervisory activities, it has developed and seeks to maintain strong links with domestic and international counterparts. Of particular significance are IAASA's links with the:

- Office of the Director of Corporate Enforcement;
- Central Bank of Ireland;
- Companies Registration Office;
- European Group of Auditors' Oversight Bodies;
- European Audit Inspection Group;
- International Forum of Independent Audit Regulators;
- Audit and Assurance Council; and
- Public Company Accounting Oversight Board.

12.1. ODCE

In accordance with the MoU signed with the ODCE in May 2006, where IAASA identifies issues that relate to the ODCE functions, it refers such issues to the ODCE and similarly the ODCE refers any issues relating to IAASA's functions to IAASA. During the year, IAASA made 12 such referrals to the ODCE and as noted in Section 3.3, the ODCE made 19 referrals to IAASA. In addition to referrals, IAASA meets with the ODCE on at least an annual basis to discuss matters of mutual interest.

12.2. Central Bank

To facilitate cooperation, IAASA signed a MoU with the Central Bank (then the Financial Regulator) in June 2008. Where, during its ongoing supervisory activities, IAASA identifies issues that relate to the Central Bank's functions, it refers them to the Central Bank. During the year, IAASA made two such referrals. As noted in Section 3.3, the Central Bank made 53 referrals to IAASA in 2012, which primarily related to issues arising from the audit of credit unions by RAB members. In addition to referrals,

- IAASA meets with the Central Bank on at least an annual basis to discuss matters of mutual interest; and
- during the year, IAASA participated in the Central Bank's Auditor Assurance Working Group and Client Asset Task Force.

12.3. CRO

During the year, IAASA continued to work with the CRO regarding the impact of the Statutory Audit Directive Regulations on the Auditor Register, in particular with regard to IAAs and third country auditors.

12.4. EGAOB

In 2012, IAASA continued to cooperate with other EU Member States' oversight authorities as a member of the EGAOB. The EGAOB is an expert group established by the EC to assist it in the implementation of the Statutory Audit Directive. The EGAOB's functions and work are detailed in IAASA's 2006 Annual Report, which is available on the IAASA website. As noted in Section 11.1, as a member of the EGOAB, IAASA contributed to discussions on the future treatment of third countries currently included in the transitional regime.

12.5. EAIG

During the year, IAASA continued to participate as a member of the EAIG, which comprises independent auditor regulators from within the EU. In addition to attending EAIG meetings, IAASA contributed to the EAIG's response to the IAASB's invitation to comment on *'Improving the Auditor's Report'*.

12.6. IFIAR

During the year IAASA continued to be an active member of IFIAR. IFIAR members met on three occasions during 2012, twice in plenary session and once for an audit inspection workshop.

12.7. AAC

During the year IAASA continued to act as an observer at meetings of the AAC, which provides advice to the FRC on matters relating to auditing and assurance. IAASA's attendance at these meetings assists it in its role of cooperating in the development of auditing and ethical standards and enables it to identify developments that may have a particular relevance to, or bearing on, Ireland.

Some of the AAC's more significant activities during the year included:

- publication of the *Bulletin 1(I) Compendium on Illustrative Auditors' Reports on Irish Financial Statements*;
- consultation on the IAASB exposure draft of the revised ISA 720 – *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*;
- publication of an analysis of the main changes between the exposure draft of the revised ISA 720 and the current ISA 720 (UK and Ireland);
- response to the IAASB's invitation to comment on *Improving the Auditor's Report*; and
- publication of revised ISAs 700, 705 and 706.

12.8. PCAOB

During the year IAASA continued discussions with the PCAOB on the implementation of the Statutory Audit Directive Regulations and the PCAOB's proposals to perform inspections of Irish audit firms registered by the PCAOB. However, the EC Recommendation on Quality Assurance will need to be implemented in Ireland before a statement of protocol can be finalised, as this would allow the PCAOB to rely upon IAASA's quality assurance and regulatory system.

13. Proposals to reform the European audit market

In November 2011, the EC published proposals for a new Regulation and changes to the existing Statutory Audit Directive, which would lead to significant changes to the regulation and supervision of audits. During the year, IAASA continued to monitor the proposals and to provide advice to the Department. IAASA's work with the Department included:

- participating in the Department's working group;
- assisting with preparation for Ireland's presidency of the EU in 2013; and
- appearing before a meeting of the Joint Oireachtas Committee on Jobs, Enterprise and Innovation to assist the Committee in its consideration of the proposals.

It is anticipated that there will be considerable further work on this matter during the first part of 2013, as IAASA continues to support the Department on this dossier throughout the EU presidency.

CHAPTER 3

Examination of Issuers' Financial Reports

Examination of Issuers' Financial Reports

1. Introduction

This Chapter sets out the main activities undertaken during 2012 in fulfilling IAASA's role of supporting and enhancing public confidence in financial reporting through:

- (a) the exercise of independent oversight of statutory financial reporting of issuers by examining the compliance of their annual and half-yearly financial reports with the relevant reporting framework;
- (b) cooperation with European national accounting enforcers to promote the consistent enforcement of IFRS across the EU and EEA;

(c) cooperation in the development of financial reporting standards; and

(d) the provision of accounting advice to the Minister.

Detailed background on IAASA's financial reporting supervision remit is set out in Appendix 3.

2. Examination of issuers' periodic financial reporting

2.1. Issuer constituency

At year end, 142 (2011: 146) issuers fell within IAASA's financial reporting examination remit comprising 25 equity issuers, 30 fund issuers and 87 debt issuers. Table 3.1 details the number of financial reports of these issuers which are under IAASA's remit.

Table 3.1: Financial reporting review constituency at 31 December 2012

Issuer category	Number of issuers in category	Half-yearly financial reports issued per annum	Annual financial reports issued per annum	Total number of periodic financial reports issued per annum
Equity	25	25	25	50
Fund	30	30	30	60
Debt	87	67	87	154
Total	142	122	142	264
<i>Total at 31 December 2011</i>	<i>146</i>	<i>130</i>	<i>146</i>	<i>276</i>

2.2. Categories of examination

Depending upon risk factors identified and other relevant considerations, examinations undertaken by IAASA can be broadly categorised as being:

- **Full Scope Examinations** – these examinations comprise an examination of the selected financial report for compliance with the recognition, measurement, classification, presentation and disclosure requirements of the relevant reporting framework;
- **Focused Examinations** – these examinations involve the examination of a particular aspect (or aspects) of the selected financial report;
- **Follow-up Examinations** – these are examinations which examine a previously examined issuer's financial report for the purpose of assessing the adequacy of the issuer's responses to matters previously raised (for example, with a view to determining whether an issuer's directors have honoured undertakings previously provided to IAASA);
- **Thematic Examinations** – where IAASA undertakes examinations of the financial reporting practices adopted by a range of issuers in respect of one or more financial reporting matters. Thematic examinations undertaken to date include:
 - the fair value and risk disclosures provided in selected debt and fund issuers' annual financial reports;
 - the use of APMs in equity issuers' periodic financial statements; and
 - half-yearly financial reports prepared under IAS 34 (revised); and
- **Topical Surveys** – these ESMA-mandated surveys comprise the examination of the financial reporting treatments applied by selected issuers based on parameters set by ESMA. These surveys are desk based and limited to examining publicly published information without issuer engagement. If, as a result of its findings from these surveys, IAASA subsequently engages with an issuer, that subsequent engagement is designated as a separate full scope or focused examination as appropriate.

2.3. Examinations undertaken in 2012

Examinations which were undertaken in the year are set out in Table 3.2.

Table 3.2: Examinations undertaken in 2012

	2012				2011
	Equity	Fund	Debt	Total	Total
Examinations of annual financial reports	16	4	9	29	27
Examinations of half-yearly financial reports	-	1	1	2	12
Thematic examinations:					
- half-yearly reports (IAS 34)	10	-	-	10	-
- APMs	20	-	-	20	-
- debt and fund issuers – fair value and risk disclosures	-	-	-	-	20
ESMA topical surveys:					
- IAS 19	21	-	-	21	-
- IAS 36	10	-	-	10	-

A list of issuers' annual and half-yearly financial statements subjected to full, focused or follow-up examination during 2012 is set out in Table 3.3.

Table 3.3: Issuers examined during 2012

Issuer	Report Type	Examination type	Period end
Equity issuers examined during 2012			
Aer Lingus Group plc	Annual	Full	31 December 2011
C&C Group plc	Annual	Full	29 February 2012
Datalex plc	Annual	Follow-up	31 December 2011
DCC plc	Annual	Full	31 March 2012
Elan Corporation plc	Annual	Full	31 December 2011
Grafton Group plc	Annual	Focused	31 December 2011
Greencore Group plc	Annual	Full	30 September 2011
Greencore Group plc	Annual	Follow-up	30 September 2012
Icon plc	Annual	Follow-up	31 December 2011
IFG Group plc	Annual	Follow-up	31 December 2011
Irish Continental Group plc	Annual	Follow-up	31 December 2011
Kenmare Resources plc	Annual	Follow-up	31 December 2011
Kingspan Group plc	Annual	Focused	31 December 2011
Paddy Power plc	Annual	Focused	31 December 2011
Ryanair Holdings plc	Annual	Focused	31 March 2012
Smurfit Kappa Group plc	Annual	Full	31 December 2011
Fund issuers examined during 2012			
Crown Asia-Pacific Private Equity plc	Annual	Follow-up	31 December 2011
Crown Euro Buyout Opportunities II plc	Annual	Follow-up	31 December 2011
Crown Euro Private Equity plc	Annual	Follow-up	31 December 2011
Crown Private Equity plc	Annual	Follow-up	31 December 2011
QMC Development Capital Fund plc	Half-yearly	Follow-up	30 June 2011
Debt issuers examined during 2012			
Arcade Finance plc	Annual	Focused	30 April 2012
Eirles Two Ltd	Annual	Focused	31 December 2011
Freshwater Finance plc	Annual	Focused	31 December 2011
Global Asset Programme Ltd	Annual	Focused	31 December 2011
Greenstreet Structured Financial Products plc	Annual	Focused	30 April 2012
Lorally CDO Ltd	Annual	Focused	31 December 2011
Lunar Funding V plc	Annual	Focused	31 December 2011
Magnolia Finance I plc	Annual	Focused	31 December 2011
MBA Community Loans plc	Half-yearly	Focused	31 December 2011
Xelo V plc	Annual	Focused	31 December 2011

2.4. Outcomes of 2012 examinations

Following the examinations, IAASA corresponded with 24 of these issuers during the year. It should be noted that, given the nature of a follow up review (largely to determine whether undertakings previously provided to IAASA have been honoured), it would not be expected that such a review would lead to further correspondence.

A total of 133 (2011: 192) matters were raised with issuers' directors. The average number of matters raised with issuers in respect of full scope examinations undertaken was 11 (2011: 10). A total of 91 (2011: 115) voluntary undertakings were provided by issuers' directors, 40 in respect of full scope reviews and 51 in respect of focused and follow-up reviews.

In response to IAASA's examinations:

- 22 issuers provided undertakings in respect of future periodic financial reports (2011: 20); and
- One issuer voluntarily agreed to amend its half-yearly financial report and to issue a revised report (2011: two).

2.5. Matters considered by IAASA in its 2012 financial statement examinations

A discussion of the significant confidentiality provisions applying to IAASA by virtue of Section 31 of the Act is set out in the Chief Executive's Review.

As a consequence of these confidentiality provisions, Table 3.4, which outlines the types of financial reporting issues considered by IAASA during the year, is necessarily general in nature.

Readers should understand that, in preparing Table 3.4, the financial reporting issues outlined:

- do not necessarily reflect the most significant financial reporting issues raised with issuers during the year;
- are highly summarised and simplified versions of what were, in some instances, protracted engagements with issuers on complex financial reporting treatments;
- may reflect the amalgamation of a number of similar cases rather than relating solely to a specific issuer; and
- omit important facts which cannot be disclosed because such facts have been provided by the issuer to IAASA and are not otherwise in the public domain.

Table 3.4: Financial reporting matters considered by IAASA in its 2012 examinations

Financial reporting pronouncement	Financial reporting issues considered by IAASA
IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	<ul style="list-style-type: none"> • Discounting provisions where such discounting could be considered material. • Disaggregation of provisions into separate classes of provisions. • Income Statement presentation of recognition and release of provisions. • Measurement of the expected value of warranty provisions.
IFRS 7 <i>Financial Instruments: Disclosures</i> and FRS 29 <i>Financial instruments: Disclosures – fair value and risk disclosures by debt and fund issuers</i>	<ul style="list-style-type: none"> • In March 2012, IAASA published the findings of its review of the risk and fair value disclosures provided by 14 debt and six fund issuers in their annual financial reports in its publication <i>Examination of the quality of selected debt and fund issuers' fair value and risk disclosures</i>. • IAASA subsequently examined and entered into detailed engagement with nine of the original 14 debt issuers which had been the subject of the thematic study. • Financial reporting matters addressed in these examinations included: <ul style="list-style-type: none"> - fair value disclosures with regard to valuation techniques; - aggregated versus disaggregated risk disclosures by class of financial instrument; - credit risk disclosures; - counterparty risk disclosures; and - other price risk disclosures.
IFRS 7 <i>Financial Instruments: Disclosures – Fair value disclosures: valuation techniques</i>	<ul style="list-style-type: none"> • Disclosure of the valuation techniques applied by issuers for consideration of compliance with the requirements of IFRS 7.27 and 7.27B(e). • Disclosure of valuation techniques and assessment of whether disclosures were limited to a description of a menu of possible valuation techniques rather than the actual valuation techniques applied.
IFRS 7 <i>Financial Instruments: Disclosures</i> and FRS 29 <i>Financial instruments: Disclosures</i>	<ul style="list-style-type: none"> • Disclosure of other price risk. • Evaluation of qualitative other price risk disclosures and whether such disclosure reflected the apparent differences in other price risks likely to arise in a large diversified portfolio of investments.
FRS 26 (IAS 39) <i>Financial Instruments: Recognition and measurement – application to listed entities</i>	<ul style="list-style-type: none"> • Consideration of the interactions between the definition of a '<i>listed entity</i>' (FRS 26) and securities '<i>admitted</i>' to trading (Transparency Regulations) and implications of same as to the scope and applicability of FRS 26 and FRS 29.
IAS 24 <i>Related Party Disclosures</i>	<ul style="list-style-type: none"> • Presentation of related party information in accordance with the categories required by IAS 24 and, in particular, remuneration and share-based payments.
European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006	<ul style="list-style-type: none"> • Consideration as to whether full disclosure had been provided; particularly the disclosure of significant shareholding at the year end date. • IAASA published an Information Note <i>Financial reporting considerations relevant to the disclosure requirements of the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006</i> drawing attention to the requirements applying in this area.

2.6. Thematic examinations

IAASA undertook two thematic examinations during 2012.

2.6.1. Half-yearly reports (IAS 34)

In 2008, IAASA published a document *Commentary on half-yearly financial reports prepared since the coming into effect of the Transparency (Directive 2004/109/EC) Regulations 2007*. This Commentary

aimed to provide a summary of the nature of issues that had arisen together with a summary of the steps being taken by IAASA to address those issues.

In the time since the publication of this Commentary, issuers have gained experience in preparing and publishing interim reports, and the provisions of IAS 34 have been amended. In 2012, IAASA undertook a desk top examination of 10 half-yearly financial reports of equity issuers to

assess the level of compliance with the requirements of IAS 34, the Transparency Rules, and the Transparency Regulations.

This examination demonstrated significant improvement since IAASA's 2008 publication. IAASA concluded that there was a high level of compliance with these requirements by the equity issuers selected for examination.

However, the examination concluded that the level of disclosure of *'events and transactions that are significant to an understanding ... of the entity since the end of the last annual reporting period ...'* could be enhanced in certain instances. This observation particularly applies to movements in balance sheet items as opposed to profit or loss items.

2.6.2. Survey on the use of APMs

Most equity issuers within IAASA's financial reporting examination remit choose to present APMs in their annual reports. APMs are used to analyse the performance, financial position and cash flows of a business and to highlight the key components of an issuer's results for users of financial statements.

During 2012 IAASA undertook a desk top examination of 20 equity issuers which focused on the use of APMs in annual reports.

IAASA's report *Alternative Performance Measures - A survey of their use together with key recommendations* outlined the more common APMs presented by equity issuers. Its key findings were that:

- (a) in respect of the EBITDA earnings measure, there was variation across issuers in respect of the items included or excluded from the earnings component. Despite this, there was, in most cases, no explanation as to why adjustment was considered necessary. A majority of the issuers did not reconcile the IFRS earnings line item to the earnings used in the EBITDA measure. A majority of the items for which earnings were adjusted were expenditure, rather than income items;
- (b) all of the issuers surveyed reported some form of 'operating profit' as an APM. Net debt was a popular APM, with 80% of the issuers surveyed reporting the measure. Free cash flow was a less used, although still popular, APM. With regard to the latter two APMs, it was found that the measure was often not explained and

that the basis of calculation included different combinations of a range of items. Similarly, in the case of adjusted EPS, most issuers did not disclose the reasons for the adjustments;

- (c) in respect of return on capital employed, there were a variety of interpretations regarding both the components of the profit measure and the measure of capital employed used to calculate the percentage; and
- (d) only a minority of issuers surveyed identified the various different components of revenue growth, including volume increases, price growth, acquisition related revenue growth and the effects of currency movements.

IAASA's report on the survey recommended that, in preparing future annual reports, directors give further consideration to their judgments concerning the preparation and presentation of APMs given the attention these command from users. Specifically, where APMs are presented, the directors were strongly encouraged to ensure their appropriate selection, preparation and presentation.

2.7. Debt and fund issuers - fair value and risk disclosures

In 2011 IAASA examined the risk and fair value disclosures provided by 20 selected debt and fund issuers in their annual financial reports. The results of this examination were published in March 2012 in *Examination of the quality of selected debt and fund issuers' fair value and risk disclosures*.

3. Cooperation with EU counterparts

3.1. EECS Activities

IAASA's main interaction with ESMA occurs through the ESMA sponsored EECS, of which IAASA is a member. EECS was established with a view to facilitating the coordination and consistency of financial reporting enforcement practices across the EU.

Details of the regular activities of EECS can be found in Appendix 3.

As part of the regular activities of EECS, in 2012 IAASA:

- supplied information for ESMA publications and conducted surveys on the application of IFRS across the EU from an Irish perspective;

- attended eight of the eight (2011: seven of the eight) EECS plenary meetings held in 2012 and actively participated in the consideration of issues brought to the EECS by other members;
- submitted eight (2011: 10) decisions to the EECS database;
- presented six (2011: eight) decisions to the plenary meetings for discussion;
- submitted and presented three (2011: three) emerging cases to the plenary meetings for discussion; and
- presented the following IAASA publications at the EECS plenary meetings:
 - *Observations on Selected Financial Reporting Issues – Issuers' Financial Years Ending on or after 31 December 2011*;
 - *Financial reporting considerations relevant to the disclosure requirements of the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006*;
 - *Examination of the quality of selected debt and fund issuers' fair value and risk disclosures*;
 - *Observations on Selected Financial Reporting Issues – Issuers' Financial Years Ending on or after 31 December 2012*; and
 - *2011 IAASA Annual Report*.

3.2. EECS Sub-Group on Materiality

As noted in last's year's Annual Report, IAASA's Head of Financial Reporting Supervision is chairman of the EECS Sub-Group on Materiality. The activities of the Sub-Group during the year are set out below.

Following the publication of a consultation paper entitled *Considerations of Materiality in Financial Reporting* in November 2011, with a deadline for responses of 31 March 2012, the Sub-Group analysed the responses received. A *Summary of Responses* document, which provided an overview of the views expressed by respondents, was published in August 2012.

In February 2012 the Sub-Group's chairman, along with an ESMA staff member, made a presentation to the Capital Markets Advisory Committee of the IASB about the materiality project. This presentation was followed by an informal session with a number of IASB Board members.

Given the range of views expressed by the respondents to the consultation paper on certain matters, and in order to further clarify those views, ESMA hosted a public roundtable on materiality in financial reporting in October 2012 where some of the issues raised in the consultation paper were discussed. IAASA's Head of Financial Reporting Supervision chaired proceedings at the roundtable.

In February 2013, ESMA published a feedback statement which provided an overview of the key messages from the responses received to the questions in the consultation paper and from participants at the roundtable.

3.3. ESMA Surveys

In response to requests from ESMA, IAASA cooperated in the compilation of raw data to assist ESMA in preparing two Europe-wide surveys.

The first survey, dealing with IAS 36 *Impairment of Assets* and impairment testing, involved the completion of questionnaires in respect of 10 equity issuers as to the disclosures regarding impairment testing of goodwill and intangible assets.

The main findings of the ESMA IAS 36 survey, published on 21 January 2013, are that:

- goodwill totalling €800 billion was recognised in the 2011 balance sheets of EU issuers included in the survey;
- of this €800 billion, 5% or approximately €40 billion was recognised as impaired in 2011;
- impairment of goodwill was limited to a small number of issuers, mostly in the financial services and telecommunications sectors; and
- many related disclosures were boilerplate in nature and not entity-specific.

The main recommendations of the ESMA IAS 36 survey are for:

- enhanced disclosure of the key assumptions used in impairment testing;
- inclusion of sensitivity analyses with sufficient detail and transparency, especially in situations when indicators are present that impairment may have occurred;
- calculation of growth rates used to extrapolate cash flows projections to be based on budgets and forecasts; and

- disclosure of specific discount rates for each material CGU unit rather than average entity-wide discount rates.

The ESMA report on this survey may be accessed at www.esma.europa.eu.

The second survey covered the discount rates used to discount pension plan liabilities and information as to how those discount rates are determined. The discount rate used to discount pension liabilities has a significant impact on the measurement of the pension asset or liability. Judgment is required by directors in determining the discount rate to use and involves an evaluation as to what constitutes high quality corporate bonds and whether a deep market for such bonds exists. This is a key judgment in many issuers' financial reports.

3.4. EECS Agenda Group

IAASA's Head of Financial Reporting Supervision is a member of the Agenda Group. Accordingly, IAASA has a direct input into the selection of emerging cases and decisions as tabled by EU national accounting enforcers for discussion at EECS plenary meetings.

In addition, the Agenda Group examines enforcement decisions taken by EU national enforcers with a view to determining whether they meet the criteria for publication by ESMA.

3.5. Revision of Enforcement Standards Group

The Head of Financial Reporting Supervision is a member of the Revision of Enforcement Standards Group. This Group was set up by ESMA to develop the standards and the guidance on enforcement with a view to achieving further convergence in the enforcement of financial information in the EU. A consultation paper is expected to be published in the first half of 2013.

4. Cooperating in the development of financial reporting standards

IAASA continues to act as an observer at Accounting Council meetings.

One of the principal reasons for the Authority having observer status at the AC in the first instance is to enable IAASA to discharge its statutory remit to cooperate with interested parties in the development of financial reporting standards. It is IAASA's view

that observer status facilitates the identification at an early stage of issues that might be of particular interest or relevance in an Irish context.

IAASA attended 11 AC meetings in 2012.

Following a long period of development, the FRC has issued a suite of three new financial reporting standards which comprise the revised accounting framework replacing existing GAAP for both UK and Irish entities, applicable from 2015. These Standards are:

- FRS 100 *Application of Financial Reporting Requirement*;
- FRS 101 *Reduced Disclosure Framework*; and
- FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This is a significant change which will have consequences for the majority of unlisted Irish entities, as well as certain listed entities.

Apart from contributing to AC discussions on these new standards, IAASA contributed to the drafting of the *Appendices on the Legal Requirements in the Republic of Ireland* which are included in each new accounting standard. The Appendices outline the provisions in the Companies Acts 1963 to 2012 and related Regulations which correspond to the provisions of the UK legislation referenced in the new financial reporting standards. This was a significant piece of work which IAASA completed in cooperation with the ICAI.

5. Advocacy activities

5.1. Publication of Observations documents

IAASA published *Observations on Selected Financial Reporting Issues – Issuers' Financial Years Ending on or after 31 December 2011* in January 2012 on selected financial reporting issues impacting issuers in preparing their annual financial reports for the 2011 fiscal year.

In response to stakeholder feedback indicating a preference that the observations document be published earlier, IAASA published *Observations on Selected Financial Reporting Issues – Issuers' Financial Years Ending on or after 31 December 2012* in November 2012 on selected financial reporting issues impacting issuers in preparing their annual financial reports for the 2012 fiscal year.

Matters addressed in the latter *Observations* document include:

- continued applicability of matters raised in earlier years' *Observations* documents;
- APMs;
- impairments;
- presentation of 'exceptional items' in the Income Statement;
- risk reporting under IFRS 7 *Financial Instruments: Disclosures*;
- restatement and reclassification of amounts;
- provisions;
- reassessment of the reasonableness of significant estimates;
- IAS 19 *Employee Benefits*;
- accounting pronouncement not yet effective;
- cash flow statements;
- IFRS 8 *Operating Segments* and disclosure of non-current assets by geography;
- off balance sheet items: qualitative disclosures; and
- new and amended accounting pronouncements.

5.2. Publication of Information Note

The Takeover Regulations require disclosure in the Directors' Report, by reference to the end of the financial year concerned, of certain information including a company's capital structure, significant shareholdings, special shareholder rights, voting restrictions and the powers of a company's directors.

IAASA published an Information Note *Financial reporting considerations relevant to the disclosure requirements of the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006* drawing the attention of the directors of those companies coming within IAASA's financial reporting examination remit to the requirements applying in this area, thereby assisting them in providing the relevant disclosures.

5.3. Stakeholder engagement, presentations and publications

In 2012, IAASA had substantial engagement with a number of stakeholders. These included the Central Bank, ISE, ODCE, the Department, the ICAI, CLRG, ESMA, FRC, IFRS-IC, other enforcers, An Garda Síochána, "Big 4" professional firms, and fund and debt administrators.

In addition to these bilateral engagements, IAASA made formal presentations during 2012 to the:

- Board of the IASB on the ESMA materiality paper and financial reporting enforceability issues in the EU;
- ACCA Funds Forum - Future of Irish/UK GAAP and the impact for fund entities;
- C&AG conference on the future of UK/Irish GAAP;
- IDSA - an introduction to IAASA and financial reporting 'hot topics' affecting debt issuers; and
- IFIA's Technical Committee.

IAASA also drafted three articles in professional publications:

- *ESMA overview - Accounting and Business* (ACCA), January 2012;
- *IAASA's Observations on Selected Financial Reporting Issues - Accountancy Ireland* (ICAI), February 2012; and
- *Observations on Selected Financial Reporting Issues - Accountancy Plus* (ICPAI), March 2012.

6. Provision of accounting advice to the Department

During the year, IAASA provided advice and comment to the Department on a range of accounting and other matters. Some of the principal matters of advice were:

- providing observations to the Department regarding a proposal for a updated single Directive on the existing 4th and 7th Company Law Directives dealing with individual financial statements and consolidated financial statements in response to the Department's request on this matter;
- changes to the Transparency Regulations brought about by Directive (2010/78/EU) which deals with the powers of the EBA, EIOPA and ESMA; and
- providing observations to the Department regarding a proposal for a Directive of the European Parliament and of the European Council amending Council Directive 78/660/EEC on the annual accounts of certain types of companies as regards micro and small entities.

FINANCIAL &
RELATED STATEMENTS

Report of the Directors

Introduction

The directors are pleased to submit to the seventh Annual General Meeting of the Irish Auditing and Accounting Supervisory Authority ('IAASA') the financial statements for the year ended 31 December 2012, together with the Report of the Directors, which has been prepared pursuant to the provisions of section 158 of the Companies Act, 1963 (as amended).

The surplus for the year after transfers was nil [2011: nil].

Directors and Secretary

The Directors and Secretary of IAASA as at 31 December 2012 were:

Member	Nominating body	Commencement of term of office	Cessation of term of office
Ms. Karen Erwin (Chairperson)	Ministerial nominee	3 January 2006	2 January 2013
Ms. Helen Hall (Chief Executive)	Appointed by other Directors	18 December 2012	
Ms. Deirdre Behan	Revenue Commissioners	3 January 2012	
Ms. Marie Daly	Irish Business & Employers' Confederation	3 January 2006	
Ms. Máiréad Devine	Central Bank of Ireland	3 January 2012	
Mr. Seán Hawkshaw	Irish Association of Investment Managers	3 January 2006	
Mr. Tony Kelly	Prescribed Accountancy Bodies	3 January 2006	2 January 2013
Ms. Sylvia McNeece	Pensions Board	3 January 2012	
Mr. David Martin	Prescribed Accountancy Bodies	30 May 2011	
Mr. Kevin O'Donovan	Prescribed Accountancy Bodies	30 May 2011	
Mr. Conor O'Mahony	Director of Corporate Enforcement	1 March 2012	
Ms. Muireann O'Neill	Ministerial nominee	1 September 2012	
Mr. Joe O'Toole	Irish Congress of Trade Unions	3 January 2006	2 January 2013
Mr. Michael Quinlan	Law Society of Ireland	3 January 2011	
Mr. Gerard Scully	Irish Stock Exchange	11 July 2007	
Secretary	Mr. John G. O'Malley, Head of Legal Services, IAASA	15 April 2008	

The following were not directors at the balance sheet date, having either ceased to hold office during the year or been appointed since 1 January 2013:

Member	Nominating body	Commencement of term of office	Cessation of term of office
Prof. Brendan Walsh (Chairperson)	Ministerial nominee	3 January 2013	
Mr. Ian Drennan (Chief Executive)	Appointed by other Directors	3 January 2006	28 August 2012
Mr. Paul Appleby	Director of Corporate Enforcement	3 January 2006	29 February 2012
Mr. Paddy Keating	Irish Congress of Trade Unions	3 January 2013	
Mr. Brendan Kennedy	Pensions Board	8 June 2007	2 January 2012
Ms. Bernadette McGrory-Farrell	Prescribed Accountancy Bodies	3 January 2013	
Mr. Tadhg O'Connell	Revenue Commissioners	3 January 2009	2 January 2012
Mr. Brian Shiels	Ministerial nominee	3 January 2009	2 January 2012

Principal activities

IAASA was incorporated as a company limited by guarantee on 20 December 2005 for the purpose of discharging the functions and exercising the powers of IAASA as provided for by the Companies (Auditing and Accounting) Act, 2003 ('the Act'). It was subsequently designated for that purpose by the Minister for Trade & Commerce pursuant to the provisions of section 5 of the Act.

Under the Transparency (Directive 2004/109/EC) Regulations 2007, IAASA has been designated as the competent authority for the purposes of Article 24(4)(h) of the EU Transparency Directive. Accordingly, IAASA is responsible for monitoring the periodic financial reporting of certain entities whose securities have been admitted to trading on a regulated market situated, or operating, within the EU and for taking appropriate enforcement action in cases of infringement.

IAASA has also been designated as competent authority pursuant to the European Union (Third Country Auditors and Audit Entities Equivalence, Transitional Period and Fees) Regulations 2012

('Transitional Regulations'). Under the Transitional Regulations, auditors and audit entities from certain third countries (i.e. certain non-EEA member states) may continue to issue audit opinions that are valid under EU law for a transitional period, provided they first provide IAASA with certain specified information.

With the enactment of the European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010, IAASA has been designated the competent authority with supervisory functions and has been conferred with substantial additional functions and responsibilities.

Consistent with the model of supervised self-regulation provided for by the Act, IAASA is responsible for, *inter alia*, supervising the regulation, monitoring and disciplining by the Recognised Accountancy Bodies ('RABs') of their members and member firms.

IAASA does not trade for the acquisition of gain by its members.

Risk and uncertainties

The directors confirm that, as required by the Code of Practice for the Governance of State Bodies, a Risk Management Policy and procedures have been developed for the purpose of facilitating the identification, quantification and management of the key business risks facing IAASA and that the aforementioned Policy and procedures have been adopted by the Board.

Compliance with Section 90 of the Company Law Enforcement Act, 2001

To ensure that proper books of account are maintained in accordance with the requirements of section 202 of the Companies Act, 1990, IAASA has employed an appropriately qualified Head of Finance and utilises appropriate computer software. The books of account are located at IAASA's registered office at Willow House, Millennium Park, Naas, Co. Kildare.

Post Balance Sheet Events

No events have occurred subsequent to the balance sheet date which would require disclosure in the financial statements.

Auditor

IAASA's auditor, the Comptroller & Auditor General, remains in office in accordance with the provisions of section 21(2) of the Act.

Approved and authorised for issue by the Directors on 28 May 2013 and signed on its behalf:

Brendan Walsh
Chairperson

Helen Hall
Chief Executive

Gerard Scully
Chairperson, Audit Committee

Statement on Internal Financial Control

Responsibility for system of internal financial control

On behalf of the Board of Directors of IAASA, I acknowledge our responsibility for ensuring that an effective system of internal financial control is maintained and operated.

The system can only provide reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner.

Key control procedures

The Board of IAASA has taken steps to ensure an appropriate control environment is in place by:

- clearly defining management responsibilities;
- formalising a clear separation between the Board's and the Executive's functions and powers;
- setting regular reporting requirements concerning financial and related matters;
- establishing an Audit Committee;
- engaging an external firm of accountants to act as providers of an internal audit service to IAASA;
- publishing Codes of Conduct for both directors and employees of IAASA; and
- seeking to maintain a strong culture of accountability across the organisation.

The Board adheres to all the requirements of the Code of Practice for the Governance of State Bodies ('the Code') insofar as is appropriate for a non-commercial semi-State body.

The Board has also established processes to identify and evaluate business risks by:

- identifying the nature, extent and possible implications of the risks facing IAASA, including the extent and categories of risk which it regards as acceptable;

- assessing the likelihood of identified risks coming to fruition;
- assessing the Board's ability to manage and mitigate identified risks; and
- having regard to costs of operating particular controls relative to the benefit obtained.

The system of internal financial control is based on a framework of regular management information, administrative procedures including, to the extent practicable having regard to the scale of IAASA, segregation of duties and a system of delegation and accountability. In particular it includes:

- a comprehensive budgeting system with an annual budget, which is reviewed and agreed by the Board;
- regular reviews by the Board of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance; and
- regular internal audit reviews.

IAASA has appointed Crowleys DFK¹ to act as internal auditors and to report to the Audit Committee. The Audit Committee, which comprises of non-executive Directors, includes persons possessing knowledge of accounting, internal control and risk management matters. The Audit Committee is further charged with ensuring that the Board is kept informed of the matters that it has considered.

The internal audit function operates in accordance with an approved Internal Audit Charter, which is consistent with the provisions set out in the Code. A rolling three-year internal audit work plan has been determined in consultation with the Audit Committee and is reviewed annually and revised as and when required. The current internal audit work plan takes account of areas of potential risk identified in a risk assessment exercise carried out by Crowleys DFK. The internal auditor provides the

¹ Following a tender process, BDO was appointed as internal auditor on 22 January, 2013 for the period to 31 December, 2015, on the expiration of Crowleys DFK's contract.

Audit Committee with regular reports on assignments carried out. These reports, *inter alia*, highlight deficiencies or weaknesses, if any, in the system of internal financial control and the recommended corrective measures to be taken where necessary.

I confirm that, in respect of the year ended 31 December 2012, the Board conducted a review of the system of internal financial control and that the Board's review was informed by the work of the internal auditor, the Audit Committee, which oversees the work of the internal auditor, and IAASA's executive who have responsibility for the development and maintenance of the financial control framework.

Signed on behalf of the Board:

Brendan Walsh

Chairperson

30 APRIL 2013

Statement of Directors' Responsibilities

Pursuant to the provisions of section 5 of the Act, IAASA performs its functions and exercises its powers through a company limited by guarantee, designated for that purpose by the Minister for Trade & Commerce.

Company law requires the directors to prepare financial statements and the report of the directors for each financial year which give a true and fair view of the state of affairs of the company and of its surplus or deficit for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies in accordance with Irish generally accepted accounting practices and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that IAASA will continue in operation; and
- disclose and explain any material departures from applicable Accounting Standards.

The directors are responsible for keeping proper books of account, which disclose with reasonable accuracy at any time the financial position of IAASA and to enable them to ensure that the financial statements comply with the Companies Acts 1963 to 2012. The directors are also responsible for safeguarding the assets of IAASA and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Section 21(1) of the Act further provides that IAASA '*... shall keep records of, and prepare all proper and usual accounts of -*

- (a) *all income received by it, including the sources,*
- (b) *all expenditure incurred by it, and*
- (c) *its assets and liabilities*'.

Approved and authorised for issue by the Board of Directors on 28 May 2013 and signed on its behalf:

Brendan Walsh
Chairperson

Helen Hall
Chief Executive

Gerard Scully
Chairperson, Audit Committee

Comptroller & Auditor General report for presentation to the Houses of the Oireachtas

I have audited the financial statements of the Irish Auditing and Accounting Supervisory Authority for the year ended 31 December 2012 under the Companies (Auditing and Accounting) Act 2003. The financial statements, which have been prepared under the accounting policies set out therein, comprise the statement of accounting policies, the income and expenditure account, the statement of total recognised gain and losses, the balance sheet, the cash flow statement and the related notes. The financial statements have been prepared in the form prescribed under the Companies Acts 1963 to 2012, and in accordance with generally accepted accounting principles.

Responsibilities of the Directors

The Directors are responsible for the preparation of the financial statements, for ensuring that they give a true and fair view of the state of the company's affairs and of its income and expenditure, and for ensuring the regularity of transactions.

Responsibilities of the Comptroller and Auditor General

My responsibility is to audit the financial statements and report on them in accordance with applicable law.

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation.

My audit is carried out in accordance with the International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances, and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made in the preparation of the financial statements, and
- the overall presentation of the financial statements.

I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

In addition, I read the company's annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the Financial Statements

In my opinion, the financial statements:

- give a true and fair view, in accordance with generally accepted accounting practice in Ireland, of the state of the company's affairs at 31 December 2012 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Companies Acts 1963 to 2012.

I have obtained all the information and explanations that I consider necessary for the purpose of my audit. In my opinion, proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In my opinion, the information given in the Directors' Report is consistent with the financial statements.

Matters on which I report by exception

I report by exception if

- my audit noted any material instance where moneys have not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- the information given in the company's annual report is not consistent with the related financial statements, or
- the Statement on Internal Financial Control does not reflect the company's compliance with the Code of Practice for the Governance of State Bodies, or
- I find there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to those matters upon which reporting is by exception.

Patricia Sheehan

For and on behalf of the Comptroller and Auditor General

29 MAY 2013

Statement of Accounting Policies for the year ended 31 December 2012

The significant accounting policies adopted by IAASA are set out below.

1. Basis of Preparation

The financial statements are prepared in accordance with applicable legislation and with generally accepted accounting principles under the historical cost convention. The accounting policies applied in the preparation of these financial statements have been applied consistently during the current and prior years. Accounting Standards issued by the Financial Reporting Council for use in Ireland are adopted as they become effective.

2. Currency

The unit of currency in which the financial statements are denominated is the euro (€).

3. Format of the Financial Statements

As the company does not trade for the acquisition of gain by its members, the provisions of the Companies (Amendment) Act, 1986 ('the 1986 Act') as regards, *inter alia*, required formats for financial statements do not apply to the company. Nevertheless, IAASA's Balance Sheet is presented in accordance with Format 1 as set out in the Schedule to the 1986 Act and the Income & Expenditure Account is presented, to the extent practicable having regard to the non-commercial nature of IAASA's activities, in accordance with Format 1 as set out in the Schedule to the 1986 Act.

4. Recurrent Income

4.1. Approved Programme of Expenditure for the year

Details of IAASA's approved Programme of Expenditure for the year are set out in Note 3.

4.2. Excess Income

In accordance with section 16 of the Act, any excess of income over expenditure in any financial period shall be applied towards meeting IAASA's Programme of Expenditure in the following period and any amounts payable from the Exchequer and

PABs respectively shall be appropriately reduced. Section 16 further provides that income set aside for Reserve Fund purposes is not considered to be income for this purpose. The treatment of income set aside for Reserve Fund purposes is detailed in accounting policy 5.

4.3. Bank interest accrued

Bank interest received on non-Reserve Fund monies is included as income for this purpose, i.e., it is treated as recurrent income.

4.4. Exchequer Grant Income

Section 14(1) of the Act provides that a grant not exceeding 40% of IAASA's approved Programme of Expenditure for the period shall, subject to any conditions thought proper by the Minister for Jobs, Enterprise & Innovation ('the Minister'), be paid to IAASA out of monies provided by the Oireachtas.

The Department of Jobs, Enterprise & Innovation ('the Department') - the Department through which IAASA receives the Exchequer element of its recurrent funding - has stipulated that the Exchequer grant that will be paid to IAASA in any given financial period will be such as to meet 40% of IAASA's expenditure in that period.

Accordingly, Exchequer grant income recognised in the Income & Expenditure Account represents the amount necessary to meet 40% of IAASA's net expenditure in the year. Any timing differences arising at the balance sheet date between 40% of IAASA's net expenditure in the period and amounts received from the Department are, therefore, reflected as a debtor or grant income carried forward to the following year in accordance with the provisions of section 16 of the Act, as appropriate.

4.5. Prescribed Accountancy Bodies' Levies

Sections 14(2) and (4) of the Act provide that, in any given year and with the consent of the Minister, IAASA may impose one or more levies on the PABs for the purpose of meeting up to 60% of IAASA's approved Programme of Expenditure. The aggregate of the PABs' levies are apportioned on the basis of criteria submitted to, and approved by, the Minister under section 14(4) of the Act.

Given that, once approved by the Minister, statutory levies imposed on, and receivable from, the PABs are designed to meet 60% of IAASA's expenditure in the period, PAB levy income recognised in the Income & Expenditure Account represents the amount necessary to meet 60% of IAASA's net expenditure in the period. Accordingly, any differences arising at the balance sheet date between 60% of IAASA's net expenditure in the period and the aggregate of levies received from the PABs are reflected as debtors or levy income carried forward to the following period in accordance with section 16 of the Act, as appropriate.

5. Reserve Fund Income

5.1. Reserve Fund – Purpose and method of funding

Section 15(1) of the Act provides that IAASA shall establish a Reserve Fund, to be used only for the purposes of performing its functions or exercising its powers under sections 24 and 26.

With the consent of the Minister, IAASA built a Reserve Fund of €250,000 collected and set aside for Reserve Fund purposes during periods ended 31 December 2007. No such income was collectable in the periods since that date, up to and including the year ended 31 December 2012. Section 15(1)(b) of the Act provides that the Reserve Fund is funded as follows:

- 60% by way of a Reserve Fund levy on the PABs; and
- 40% by way of an Exchequer Grant.

In addition to this amount, accrued interest and amounts receivable in respect of fines (as detailed in 5.4 below) have been added to the Reserve Fund. The balance of the fund is laid out in Note 19.

5.2. Exchequer Grant Income – Reserve Fund

Exchequer Reserve Fund grant income, if arising, is accounted for in the financial statements on the date of approval by the Minister, or on such later date if appropriate in accordance with any payment stipulations set out by the Minister. No such income has been approved by the Minister since 2007.

5.3. PABs' Levies – Reserve Fund

The aggregate of the PABs' Reserve Fund levies are apportioned on the basis of criteria submitted to, and approved by, the Minister under section 14 of the Act. Once approved by the Minister, the PABs' Reserve Fund levies are accounted for in the financial statements on the date of approval by the Minister, or on such later date if appropriate in accordance with any payment stipulations set out by the Minister.

5.4. Income from Fines – Reserve Fund

Section 23 of the Act provides that fines may be levied on PABs in circumstances where adverse findings are made by IAASA following investigation under the relevant Regulations, and that such income, where arising, is required to be credited to the Reserve Fund. Approval by the High Court is required in such instances by section 29 of the Act. Income from fines is accounted for on the date of said High Court approval.

6. Income relating to IAASA's role as a Competent Authority under the Transparency Directive Regulations

6.1. Purpose and method of funding

The EU Transparency Directive is concerned with the harmonisation of information requirements applying to issuers whose securities have been admitted to trading on a regulated market situated, or operating, within the EU. IAASA has been designated by the Minister as a competent authority for the purposes of Article 24(4)(h) of the EU Transparency Directive.

6.2. Exchequer Grant Income

As is the case with IAASA's other sources of Exchequer income, the amount provided by the Exchequer is such as to meet the amount expended in the year, and, accordingly, the Exchequer grant income in this regard recognised in the Income & Expenditure Account represents an amount equivalent to said expenditure. Any timing differences arising at the balance sheet date between the expenditure in the period and amounts received from the Department are, therefore, reflected as a debtor or grant income carried forward to the following year in accordance with the provisions of section 16 of the Act, as appropriate.

7. Income relating to IAASA's role as a Competent Authority for the purpose of Registration of Third Country Audit Entities

7.1. Purpose and method of funding

IAASA has been designated as a competent authority for the purposes of the European Union (Third Country Auditors and Audit Entities Equivalence, Transitional Period and Fees) Regulations 2012 ('Transitional Regulations'). Under the Transitional Regulations auditors and audit entities from certain third countries (i.e., certain non-EU Member States) may continue to issue audit opinions that are valid under EU law for a transitional period provided that they first provide IAASA with certain specified information and pay a statutorily determined fee of €2,000.

7.2. Income from Third Country Audit Entities

In accordance with Departmental sanction, monies received from Third Country Audit Entity Registration may be retained and used towards the performance of IAASA's responsibilities in that regard to a maximum of €40,000. Such income is accounted for in the financial statements by reference to the date of registration.

8. Lease on IAASA premises

Rents due under the lease are paid to the lessor by the Office of Public Works ('OPW') and are recouped by the OPW from IAASA on a quarterly basis by agreement. Rents are charged to the Income & Expenditure Account in the year to which they relate.

9. Taxation

As detailed further in Note 15, IAASA is a non-commercial state-sponsored body for tax purposes and, accordingly, income and capital gains arising, if any, are not liable to income tax or capital gains tax respectively. IAASA is not, however, exempt from Deposit Interest Retention Tax ('DIRT').

10. Retirement Benefits

The arrangements that IAASA has in place with regard to employees' retirement benefits (incorporating all superannuation benefits due to employees, their spouses, civil partners and children) are described in Note 24. Defined benefit schemes have been approved by the Ministers for Jobs, Enterprise & Innovation and Public Expenditure & Reform respectively for employees of IAASA, and their spouses, civil partners and children. The schemes are based on the civil service 'model' schemes as described on the www.cspensions.gov.ie website.

In summary, the arrangements are:

- i. IAASA employees' scheme contributions are paid to the Department;
- ii. IAASA pays an employer contribution to the Department, the rate of which is set by the Minister for Public Expenditure & Reform. The rate is currently 25% [2011: 25%]; and
- iii. in return for the payment to it of the employees' and employer's contributions, the Department has committed that any benefits due to IAASA employees, and/or their spouses, civil partners and children will be met in full by the Exchequer as they fall due.

In substance, the directors consider that the obligation to pay retirement benefit remains with IAASA, but that the Exchequer has committed to providing IAASA with sufficient funds to settle any such obligations on IAASA's behalf as they fall due, provided IAASA pays over employees' and the employer's contributions at rates specified by the Minister for Public Expenditure & Reform. Accordingly, the financial statements recognise both a Retirement Benefit Obligation and a Deferred Exchequer Retirement Benefit Funding receivable.

Scheme liabilities represented by the present value of future payments earned by IAASA staff to date are measured on an actuarial basis using the projected unit method. Pension costs reflect

benefits earned by IAASA staff in the period and are shown net of employee pension contributions, which are retained by the Department. The amount to be included in the financial statements for the Deferred Exchequer Retirement Benefit Funding amount is estimated at an amount equal to the estimate of the obligation for the pension scheme liabilities.

Actuarial gains or losses arising from changes in actuarial assumptions and from experience surpluses and deficits are recognised in the Statement of Total Recognised Gains and Losses for the year in which they occur and a corresponding adjustment is recognised to the balance for Deferred Exchequer Retirement Benefit Funding.

Employer contributions, which are charged at a rate imposed by the Minister for Public Expenditure & Reform and retained by the Exchequer, are charged or credited to the Income & Expenditure account to the extent that they exceed or fall short of pension costs respectively as described above.

11. Tangible Fixed Assets

Tangible Fixed Assets are stated in the balance sheet at cost less accumulated depreciation. Depreciation is charged to the Income & Expenditure Account on a straight line basis, with the charge being calculated over assets' expected useful lives at the following rates:

IT Equipment	33⅓%
Office Equipment	20%
Furniture & Fittings	12½%

12. Stocks

Stocks on hand at period end represent stocks of information technology consumables and office consumables and are stated at the lower of cost and net realisable value.

13. Capital Account

The Capital Account represents the unamortised value of income used for capital purposes (i.e. asset acquisitions).

Irish Auditing & Accounting Supervisory Authority
Income & Expenditure Account for the year ended 31 December 2012

	Note	2012 €	2011* €
Income	3	2,014,121	2,070,477
Administrative Expenses			
Staff Costs	4	1,395,512	1,355,585
Directors' Fees	5	73,530	81,925
Accommodation	6	165,179	163,479
Travel & Subsistence	7	51,515	50,532
Legal and Professional Services	8	156,932	168,689
Office Expenditure	9	63,237	58,912
Information Technology	10	21,077	14,958
HR & Professional Development	11	35,140	36,790
Insurance		25,837	25,420
Auditor's Remuneration	12	11,280	11,280
Depreciation		9,649	6,248
Total Administrative Expenses		2,008,888	1,973,818
Surplus of Income over Administrative Expenses		5,233	96,659
Interest Receivable	13	35,228	29,655
Surplus for the year before DIRT		40,461	126,314
DIRT	15	(10,631)	(8,192)
Surplus for the year after DIRT		29,830	118,122
<i>Memorandum:</i>			
Surplus for the year after DIRT		29,830	118,122
Transferred (to)/from Capital Account	19	(2,858)	775
Transferred (to) Reserve Fund	19	(26,972)	(118,897)
Surplus for the year after Transfers		-	-

**Restated to conform with current year presentation*

The results for the year relate to continuing operations.

The Statement of Accounting Policies, Cash Flow Statement and Notes 1 to 28 form part of these financial statements.

Approved and authorised for issue by the Board of Directors on 28 May 2013 and signed on its behalf:

Brendan Walsh
Chairperson

Helen Hall
Chief Executive

Gerard Scully
Chairperson, Audit Committee

Irish Auditing & Accounting Supervisory Authority
Statement of Total Recognised Gains and Losses for the year ended 31 December 2012

	Note	2012 €	2011* €
Surplus for the year after DIRT		29,830	118,122
Experience gains on pension scheme liabilities	24	17,765	4,930
Changes in assumptions	24	(317,000)	-
Actuarial gain/(loss) on pension liabilities		-	-
Adjustment to deferred Exchequer pension funding	24	299,235	(4,930)
Total recognised gains for the year		29,830	118,122

**Restated to conform with current year presentation*

The results for the year relate to continuing operations.

The Statement of Accounting Policies, Cash Flow Statement and Notes 1 to 28 form part of these financial statements.
Approved and authorised for issue by the Board of Directors on 28 May 2013 and signed on its behalf:

Brendan Walsh
Chairperson

Helen Hall
Chief Executive

Gerard Scully
Chairperson, Audit Committee

Irish Auditing & Accounting Supervisory Authority
Balance Sheet as at 31 December 2012

	Note	2012 €	2011 €
Fixed Assets			
Tangible Fixed Assets	14	18,474	15,616
Current Assets			
Stock on Hand		2,035	3,039
Grant Income Due from Department	3.5	6,847	-
Debtors & Prepayments		16,162	21,026
Term Deposits	16	802,789	825,250
Bank & Cash	16	171,408	152,449
		<u>999,241</u>	<u>1,001,764</u>
Creditors: Amounts falling due within 1 year			
Creditors & Accruals	17	155,335	117,746
Deferred Rent Incentive	18	1,452	1,452
Excess PAB Levy Income	3.5	384,352	425,861
Excess Departmental Grant Income	3.5	-	24,123
		<u>541,139</u>	<u>569,182</u>
Net Current Assets		458,102	432,582
Amounts falling due after 1 year			
Deferred Rent Incentive	18	17,488	18,940
Net Assets before Retirement Benefits		459,088	429,258
Retirement Benefits			
Retirement Benefit Liability	24	(1,023,000)	(569,000)
Deferred Exchequer Retirement Benefit Funding	24	1,023,000	569,000
Net Assets after Retirement Benefits		459,088	429,258
Reserves			
Income & Expenditure Account	19	-	-
Capital Account	19	18,474	15,616
Reserve Fund	19	440,614	413,642
Members' Funds		459,088	429,258

The Statement of Accounting Policies, Cash Flow Statement and Notes 1 to 28 form part of these financial statements.

Approved and authorised for issue by the Board of Directors on 28 May 2013 and signed on its behalf:

Brendan Walsh
Chairperson

Helen Hall
Chief Executive

Gerard Scully
Chairperson, Audit Committee

Irish Auditing & Accounting Supervisory Authority

Cash Flow Statement for the year ended 31 December 2012

	Note	2012 €	2011 €
Net Cash (Outflow)/Inflow from Operating Activities	20	(18,534)	209,725
Return on Investments & Servicing of Finance			
Interest Received		39,341	27,071
Taxation			
DIRT Paid		(11,802)	(7,309)
Capital Expenditure			
Payments to Acquire Tangible Fixed Assets		(12,778)	(5,473)
Proceeds on Disposal of Fixed Assets		271	-
Management of Liquid Resources			
Amounts Transferred from/(to) Fixed Term Deposits (Non-Reserve)		50,000	(50,000)
Amounts Transferred (to) Fixed Term Deposits (Reserve)		-	(110,000)
Interest Reinvested in Fixed Term Deposits (Net of DIRT)		(27,539)	(19,762)
Increase in Cash in Year		18,959	44,252
Reconciliation of Net Cash Flow to Movements in Net Funds			
Increase in Cash & Bank in Year		18,959	44,252
(Decrease)/Increase in Fixed Term Deposits		(22,461)	179,762
(Decrease)/Increase in Net Funds in Year	21	(3,502)	224,014
Net Funds at 1 January		977,699	753,685
Net Funds at 31 December		974,197	977,699

The Statement of Accounting Policies and Notes 1 to 28 form part of these financial statements.

Approved and authorised for issue by the Board of Directors on 28 May 2013 and signed on its behalf:

Brendan Walsh
Chairperson

Helen Hall
Chief Executive

Gerard Scully
Chairperson, Audit Committee

Irish Auditing & Accounting Supervisory Authority

Notes to Financial Statements

Note 1 - Accounting period

Section 5 of the Act provides that the functions and powers of IAASA are performed and exercised respectively through a company limited by guarantee and designated by the Minister for that purpose. The company (Registered No. 412677) was incorporated on 20 December 2005.

The period covered by the financial statements is the year ended 31 December 2012.

Note 2 - Level of guarantee

The Memorandum of Association of IAASA states that every member undertakes to contribute to the assets of IAASA, in the event of IAASA being wound up, the sum of €1 (one euro).

Note 3 - Income

3.1 Approved Programme of Expenditure

IAASA's Programme of Expenditure for the year, as approved by the Minister under section 13(4) of the Act was €2,367,000 [2011: €2,375,000] as laid out below. In addition, Exchequer funding to a maximum of €403,000 [2011: €407,000] was made available during the year in respect of IAASA's functions under the Transparency Directive.

	Exchequer (40%)	PABs (60%)	Total
	€	€	€
Recurrent Expenditure (as approved under S. 13(4) of the Act)	947,000	1,420,000	2,367,000
Reserve Fund	-	-	-
Sub-total	947,000	1,420,000	2,367,000
Approved allocation in respect of Transparency Directive	403,000	-	403,000
Total	1,350,000	1,420,000	2,770,000

<i>3.2 Income (Accounting Policies 4 to 7 refer)</i>	2012	2011
	€	€
<i>Recurrent Income under the Act (Note 3.4)</i>		
Exchequer Grant Income	690,430	666,093
PABs' Levies	1,035,645	999,139
	<u>1,726,075</u>	<u>1,665,232</u>
<i>Reserve Fund Income</i>		
Amounts receivable in respect of fines (Section 23)	15,000	110,000
<i>Income in respect of Transparency Directive Activity (Note 4.4)</i>		
Exchequer Grant Income	265,102	285,933
PABs' Levies	-	-
	<u>265,102</u>	<u>285,933</u>
<i>Income in respect of Third Country Audit Entity Registration</i>		
Transitional registration fees received from Third Country Audit Entities	7,944	-
<i>Miscellaneous Income</i>		
Department of Social Protection mandated benefits	-	6,812
ICAI contribution to legal costs	-	2,500
	<u>-</u>	<u>9,452</u>
	<u>2,014,121</u>	<u>2,070,477</u>

3.3 Stipulations regarding the use of income

In accordance with section 14(3) of the Act, recurrent income received by IAASA is for the purpose of meeting expenses properly incurred in the performance of its functions and the exercise of its powers under the Act (other than under sections 24 and 26).

In accordance with section 14(3)(a), Reserve Fund monies may only be used for the purposes of meeting expenses properly incurred by IAASA in performing its functions and exercising its powers under sections 24 and 26. IAASA did not have cause to call upon the monies set aside for Reserve Fund purposes during the year.

In accordance with Departmental sanction, monies received in respect of the Transparency Directive may only be used towards the performance of IAASA's responsibilities in that regard.

In accordance with Departmental sanction, monies received in respect of the Third Country Audit Entity Registration may be retained and used towards the performance of IAASA's responsibilities in that regard to a maximum of €40,000. No additional Exchequer or PAB income was approved in this regard in 2012 [2011: nil].

<i>3.4 - Calculation of Net Expenditure</i>	2012	2011*
	€	€
Gross Expenditure <i>per Income & Expenditure Account</i>	2,008,888	1,973,818
Add:		
Unamortised amount of income used for capital acquisitions	2,858	(775)
Incidental expenditure incurred on behalf of the Department	717	-
	<u>2,012,463</u>	<u>1,973,043</u>
Less:		
Miscellaneous Income	-	9,312
Non-reserve fund interest (net of DIRT)	12,625	12,566
Income from third country audit entity registration	7,944	-
Net Expenditure for the year	<u>1,991,894</u>	<u>1,951,165</u>
Net Expenditure related to Transparency Directive obligations	265,102	285,933
Net Expenditure incurred of behalf of the Department	717	-
Net Expenditure related to activities under the 2003 Act (Note 3.2)	1,726,075	1,665,232
	<u>1,991,894</u>	<u>1,951,165</u>
Net expenditure attributable to the Exchequer		
i. Transparency Directive (100%)	265,102	285,933
ii. Other expenditure incurred on behalf of the Department	717	-
iii. Obligations under the Act (40%)	690,430	666,093
Net expenditure attributable to the PABs	1,035,645	999,139
	<u>1,991,894</u>	<u>1,951,165</u>

**Restated to conform with current year presentation*

<i>3.5 - Calculation of Grant Debtor / Levy Carry Forward</i>	Exchequer	PABs	TOTAL
	€	€	€
Balance at 1 January, 2012	(24,123)	(425,861)	(449,984)
Attributable net expenditure (<i>Note 3.4 refers</i>)	956,249	1,035,645	1,991,894
Grants/Levies received in the year	(925,279)	(994,136)	(1,919,415)
Grant Debtor/(Levy Carry Forward) at 31 December 2012	<u>6,847</u>	<u>(384,352)</u>	<u>(377,505)</u>

Note 4 - Staff Costs	2012	2011*
	€	€
Salaries	1,056,497	1,038,722
Employer PRSI Contributions	97,648	90,372
Employer Retirement Benefit Contributions (<i>Note 24</i>)	241,367	226,491
	1,395,512	1,355,585

The total amount deducted from staff members in respect of the Pension Related Deduction pursuant to the Financial Emergency Measures in the Public Interest Act, 2009, was €83,421 [2011: €81,535].

The average number of employees during the year was 14 [2011: 13]. IAASA's complement of full time staff at 31 December 2012 was 13 [2011: 14].

Note 5 - Board Fees

Fees are payable to Board members at a rate specified from time to time by the Minister for Public Expenditure & Reform. In accordance with Department of Public Expenditure & Reform regulations and the Code of Practice for the Governance of State Bodies ('the Code'), fees are not payable to certain Board members who are also public servants.

	2012	2011
	€	€
Karen Erwin	11,970	11,970
Marie Daly	7,695	7,695
Ian Drennan	-	6,409
Seán Hawkshaw	7,695	7,695
Tony Kelly	7,695	7,695
Brendan Kennedy (<i>balance voluntarily foregone</i>)	-	405
David Martin	7,695	4,638
Kevin O'Donovan	7,695	4,638
Joe O'Toole	7,695	7,695
Michael Quinlan	7,695	7,695
Gerard Scully	7,695	7,695
Brian Shiels	-	7,695
	73,530	81,925

In addition, expenses totalling €884 [2011: €565] were incurred by Board members during the year in furtherance of their duties. These include both expenses paid directly to Board members and those incurred by IAASA on their behalf. Expenses paid to or incurred on behalf of the Chief Executive, who is also a Board member, totalled €8,139 [2011: €13,437], as detailed in Note 23(a).

Note 6 - Accommodation	2012	2011
	€	€
Rent (Note 18)	117,711	117,711
Building Service Charges	17,602	16,794
Millennium Park Service Charges	8,170	7,992
Insurance	571	617
Rates	18,538	18,538
Other Room Hire	2,587	1,827
	165,179	163,479

Note 7 - Travel & Subsistence	2012	2011
	€	€
Travel & Subsistence within Ireland	18,014	17,610
Travel & Subsistence outside Ireland	22,560	20,879
Airfares (net of EU refunds)	10,941	12,043
	51,515	50,532

Note 8 - Legal and Professional Services	2012	2011
	€	€
Financial Statement Review (Transparency Directive)	62,195	89,013
Committees of Enquiry - Section 23	40,903	16,134
Legal Advice	37,691	56,924
Internal Audit & Actuarial Services	14,813	6,458
HR/Medical Services	1,330	160
	156,932	168,689

Note 9 – Office Expenses	2012	2011
	€	€
Post & Telecommunications	11,965	11,795
Printing & Stationery	8,606	4,887
Office Supplies	3,695	3,521
Repairs & Maintenance	5,814	3,417
Advertising & Publicity	12,653	13,825
Periodicals & Newspapers	4,061	4,803
Cleaning & Hygiene Services	7,173	7,763
Light & Heat	8,325	8,126
Bank Charges	217	201
Sundries	689	558
Official Entertainment	39	16
	63,237	58,912

Note 10 – Information Technology	2012	2011
	€	€
Software & Licences	3,685	4,254
Peripherals & Consumables	1,268	485
Maintenance Contracts	12,854	7,346
Internet Services	3,270	2,570
Website Development	-	303
	21,077	14,958

Note 11 – HR & Professional Development	2012	2011
	€	€
Continuing Professional Development & Other Professional Training	4,708	6,554
Reference Materials & Subscriptions	6,012	5,499
Professional Membership Subscriptions – Individual	10,229	8,657
Professional Membership Subscriptions – Fora	14,191	16,080
	35,140	36,790

Note 12 – Auditor’s Remuneration	2012	2011
	€	€
Audit of company financial statements	11,280	11,280

No services other than statutory audit services were provided by the Comptroller & Auditor General during the year.

Note 13 – Analysis of Interest Receivable	Notice deposit Reserve	Notice deposit Non-Reserve	TOTAL
	€	€	€
Gross interest receivable	17,177	18,051	35,228
DIRT	(5,205)	(5,426)	(10,631)
Net interest receivable	11,972	12,625	24,597

Note 14 – Tangible Fixed Assets	IT Equipment	Office Equipment	Furniture & Fittings	Total
	€	€	€	€
Cost				
At 1 January, 2012	26,244	7,290	11,817	45,351
Additions	12,778	-	-	12,778
Disposals	(271)	-	-	(271)
At 31 December 2012	38,751	7,290	11,817	57,858
Accumulated Depreciation				
At 1 January, 2012	21,061	5,627	3,047	29,735
Charge for year	7,528	644	1,477	9,649
At 31 December 2012	28,589	6,271	4,524	39,384
NET BOOK VALUE				
At 1 January, 2012	5,183	1,663	8,770	15,616
At 31 December 2012	10,162	1,019	7,293	18,474

Note 15 – Taxation

Income Tax

In accordance with the provisions of section 227 of the Taxes Consolidation Act, 1997 and the Fourth Schedule to that Act (as amended by section 69(1)(b) of the Finance Act, 2006), IAASA is a non-commercial state-sponsored body for tax purposes and, accordingly, income arising is not liable to income tax. IAASA is not, however, exempt from DIRT.

Capital Gains Tax

In accordance with the provisions of section 610 of the Taxes Consolidation Act, 1997 and the Fifteenth Schedule to that Act (as amended by section 74(c) of the Finance Act, 2006), gains accruing to IAASA are not chargeable gains for the purposes of Capital Gains Tax.

Note 16 – Bank & Cash	2012	2011
	€	€
Bank – notice deposit (Reserve)	422,988	410,002
Bank – notice deposit (Non-Reserve)	379,801	415,248
Bank – current	171,208	152,249
Cash on Hand	200	200
	974,197	977,699

€437,988 [2011: €410,002] of the funds held in the Authority's bank accounts at 31 December 2012 relate to the Reserve Fund and can only be used for the purposes as set out in Note 4.3.

Note 17 – Creditors & Accruals	2012	2011
	€	€
Pay and Pay-Related	17,431	22,549
Office of the Revenue Commissioners	11,859	13,274
Legal and Professional Services	71,847	25,617
Other	54,198	56,306
	155,335	117,746

Note 18 – Lease of Accommodation, Deferred Rent Incentive & Establishment Costs

Under the lease agreement, IAASA benefited from a rent free period at the commencement of the lease on its offices at Willow House, Millennium Park, Naas. In accordance with the provisions of UITF Abstract No. 28 'Operating Lease Incentives', the value of the incentive has been spread across the life of the lease. This treatment has resulted in a charge of €27,652 in the financial statements at the date of incorporation and a corresponding deferred rent incentive, which will be released to the Income & Expenditure Account over the period of the lease.

Further to a commitment given to the PABs by the Minister with the consent of the Minister for Public Expenditure & Reform prior to IAASA's incorporation, the Exchequer funded IAASA's establishment costs in full. This expenditure was incurred by the Department.

As a consequence, in addition to tangible fixed assets acquired by IAASA subsequent to its incorporation, and to which IAASA has legal title, IAASA also has the use of certain assets that were acquired by the Department prior to its incorporation and to which the Department has legal title. The nature and acquisition cost of these assets is set out hereunder for information:

	€
Fit out costs – Millennium Park premises	507,127
Furniture and fittings	147,415
IT equipment	60,539
Total	715,081

The notional Net Book Value of these assets at the balance sheet date, had they been capitalised and depreciated in accordance with IAASA policies, would be nil [2011: €78,731].

Note 19 – Reserves and Reconciliation of Movement in Members' Funds

	Income & Expenditure Account	Capital Account	Reserve Fund	Members' Funds
	€	€	€	€
Balance - 1 January 2011	-	16,391	294,745	311,136
Surplus for the year after DIRT	118,122	-	-	118,122
Transfer from Income & Expenditure Account:				
Income applied to capitalised asset acquisitions	(5,473)	5,473	-	-
Less: Amortisation applied in line with asset depreciation	6,248	(6,248)	-	-
Income received on Reserve Fund monies (net of DIRT)	(8,897)	-	8,897	-
Amounts receivable in respect of fines (S. 23)	(110,000)	-	110,000	-
Actuarial gain on pension liabilities	4,930	-	-	4,930
Adjustment to deferred Exchequer pension funding	(4,930)	-	-	(4,930)
Balance - 31 December 2011 / 1 January 2012	-	15,616	413,642	429,258
Surplus for the year after DIRT	29,830	-	-	29,830
Transfer from Income & Expenditure Account:				
Income applied to capitalised asset acquisitions	(12,507)	12,507	-	-
Less: Amortisation applied in line with asset depreciation	9,649	(9,649)	-	-
Income received on Reserve Fund monies (net of DIRT)	(11,972)	-	11,972	-
Amounts receivable in respect of fines (S. 23)	(15,000)	-	15,000	-
Actuarial loss on pension liabilities	(299,235)	-	-	(299,235)
Adjustments to deferred Exchequer pension funding	299,235	-	-	299,235
Balance - 31 December 2012	-	18,474	440,614	459,088

Note 20 – Reconciliation of Surplus for the year to Net Cash from Operating Activities

	2012	2011
	€	€
Surplus for the year after DIRT	29,830	118,122
Non Operating Items:		
Less: Interest Received (Net of DIRT)	(27,539)	(19,762)
	2,291	98,360
Add:		
Increase/(Decrease) in Creditors & Accruals	37,589	(33,677)
(Decrease)/Increase in PABs' Levies carry forward	(41,509)	142,264
(Decrease) in Exchequer Grant Income carry forward	(24,123)	(919)
(Increase) in Debtors & Prepayments	(1,983)	(1,167)
Decrease in Stock	1,004	68
(Decrease) in Deferred Rent Incentive	(1,452)	(1,452)
Depreciation	9,649	6,248
	(20,825)	111,365
Net Cash (Outflow)/Inflow from Operating Activities	(18,534)	209,725

Note 21 – Analysis of changes in net funds

	Cash at Bank & on Hand	Cash on Fixed Term Deposit (Non-Reserve)	Cash on Fixed Term Deposit (Reserve)	TOTAL
	€	€	€	€
Balance at 1 January, 2012	152,449	415,248	410,002	977,699
Cash flow for year	18,959	(35,447)	12,986	(3,502)
Balance at 31 December 2012	171,408	379,801	422,988	974,197

Note 22 – Financial Commitments*22.1 Capital Commitments*

There are no capital commitments as at 31 December 2012.

22.2 Rental commitments

IAASA's premises are leased on behalf of the State by the OPW. IAASA in turn rents the premises from the OPW, but has provided no long-term undertakings in this regard. Given that IAASA is not a party to the lease, it has no rental commitments in the coming twelve months. Rental commitments under the lease in the coming twelve months, which are payable by the OPW, will be €119,163.

Note 23 – Chief Executive's Salary*23.1 Mr. Ian Drennan*

Mr. Ian Drennan was employed as Chief Executive for the period 1 January to 28 August, 2012. The remuneration paid to him in the period amounted to €86,862 [2011 (full year): €125,452], comprising basic pay only. The Chief Executive's Performance Related Bonus Scheme was not in operation in 2012 [or 2011]. As Chief Executive of a State Body, Mr. Drennan was not entitled to receive a Board fee in 2012 [2011 (period to 31 October only): €6,409]. The foregoing represents Mr. Drennan's total remuneration package. Mr. Drennan was a member of the civil service superannuation scheme during his tenure and, consequently, in the context of the superannuation arrangements detailed in Note 24, IAASA bears no liability in this regard.

23.2 Ms. Helen Hall

Ms. Helen Hall was employed as Chief Executive for the period 18 December to 31 December 2012, the post having been vacant since the departure of Mr. Drennan. Ms. Hall's remuneration for the period totalled €4,694 comprising basic pay only. The Chief Executive's Performance Related Bonus Scheme was not in operation in 2012, and Ms. Hall was not entitled to receive a Board fee. Ms. Hall is a member of IAASA's Employee and Spouses, Civil Partners and Children's superannuation schemes (as detailed in Note 24), and the relevant employer contribution in this regard was €1,031. The foregoing represents Ms. Hall's total remuneration package for the period.

Note 23a – Chief Executive's Expenses

The Chief Executive is an *ex-officio* director of the company. Expenses incurred directly by the Chief Executive in the performance of his/her duties and/or by IAASA on behalf of the Chief Executive are disclosed hereunder.

	2012	2012	2011
	Mr. Drennan	Ms. Hall	Mr. Drennan
	€	€	€
Professional memberships (<i>subject to BIK where applicable</i>)	1,680	0	1,672
Travel & Subsistence, incl. air fares	4,995	152	10,002
Mobile phone costs	770	25	814
Internet Services	517	0	949
	7,962	177	13,437

Note 24 - Retirement Benefits*24.1 Overview*

Section 20 of the Act provides that IAASA may only establish a superannuation scheme with the approval of the Minister, given with the consent of the Minister for Public Expenditure & Reform ('the Ministers'). IAASA prepared and submitted proposals to the Ministers in respect of employees and employees' spouses, civil partners & children (based upon the civil service defined benefit 'Model Schemes'). The employees' scheme was approved by the Ministers on 29 November, 2010, and the employees' spouses', civil partners' & children's scheme was similarly approved on 5 December, 2012.

24.2 Position up to 28 November, 2010

As completion of the necessary reviews of proposals for superannuation schemes can be a lengthy process, IAASA agreed certain interim measures with the Department. In that context, the Department was granted approval by the Department of Public Expenditure & Reform to operate superannuation arrangements on IAASA's behalf on an administrative basis. These interim arrangements had the following characteristics:

- i. IAASA paid over employer and employee contributions to the Department;
- ii. the Department, on the direction of the Department of Finance, assumed responsibility for funding the future retirement benefit liabilities of IAASA as they arise on the basis that it (the Department) was receiving sufficient contributions from IAASA to cover these future liabilities; and
- iii. the Department of Public Expenditure & Reform has set a contribution rate of 25% [2011: 25%] of relevant salaries to achieve sufficient contributions to cover these future liabilities;

24.3 Position with effect from 29 November, 2010

Following the approval of the employee superannuation scheme, the Department continues to deduct and retain employee and employer contributions (as detailed above) at source and remit same to the Exchequer. In return for such payments, the Department has confirmed that the position as outlined above remains unchanged. The position remains unchanged following the approval of the employees' spouses', civil partners' & children's scheme

24.4 Actuarial valuation

IAASA has commissioned an actuarial valuation of accrued liabilities at the balance sheet date, and the cost of benefits (service cost) accrued during the year. This valuation, which was based on the Projected Unit method, is premised on the following assumptions:

	At 31-12-2012	At 31-12-2011
Rate of increase in salaries	3.00%	3.50%
Rate of increase in pensions in payment	2.50%	3.00%
Discount rate	3.50%	5.00%
Inflation assumption	2.00%	2.00%
Life expectancy at age 70: male	18.4 years	17.4 years
Life expectancy at age 70: female	20.8 years	20.3 years

Based on the above, the present value of liabilities at the balance sheet date is €1,023,000 [2011: €569,000], and the service cost (calculated on the foregoing assumptions) for the year is €120,300 [2011: €112,600]. Certain of IAASA's staff, who have accumulated service elsewhere in the public service, have not to date exercised the option to transfer said service to IAASA.

<i>24.5 Analysis of total pension costs charged to expenditure</i>	2012	2011
	€	€
Total employer contribution	241,367	246,491
*Current service cost	120,300	112,600
Interest cost	34,465	27,330
Adjustment to deferred Exchequer pension funding	(154,765)	(139,930)
Total charged to Income & Expenditure Account	241,367	246,491

**Employee contributions totalling €52,366 [2011: €49,276] have been included in the calculation of the current service cost.*

<i>24.6 Movement in net pension liability</i>	2012	2011
	€	€
Net Pension Liability at 1 January	569,000	434,000
Current Service Cost	120,300	112,600
Interest Cost	34,465	27,330
Experience (gains)/losses on scheme liabilities	(17,765)	(4,930)
Changes in assumptions	317,000	-
Pensions paid in the year	-	-
Net Pension Liability at 31 December	1,023,000	569,000

24.7 History of scheme liabilities and experience (gains)/losses

	2012	2011	2010	2009	2008
	€	€	€	€	€
Scheme liability	1,023,000	569,000	434,000	354,000	219,000
Experience (gains) on scheme liabilities	(17,765)	(4,930)	(50,200)	(3,700)	-
Changes in assumptions	317,000	-	-	29,300	-

Note 25 - Board Members - Disclosure of Transactions

In accordance with the Code, IAASA has in place a Code of Business Conduct for Board members. The Code of Business Conduct includes guidance in relation to the disclosure of interests by Board members and these procedures have been adhered to by the Board during the year covered by these financial statements. During the year under review, there were no financial transactions with directors other than the payment of Board fees and expenses detailed in Note 5. There were no occasions whereby a Board Member disclosed a financial interest during 2012.

Note 26 - Related Party Transactions

There were no related party transactions during the year [2011: NIL]. No amounts were outstanding at year end.

Note 27 - Transaction with other Government Sponsored Bodies*27.1 Semi state bodies*

In common with many other entities, IAASA deals in the normal course of business with other government sponsored bodies including those listed below. No arrangements other than commercial day-to-day activities existed in the year or to date:

- An Post;
- Comptroller & Auditor General;
- Electric Ireland;
- Institute of Public Administration;
- Naas Town Council; and
- OPW.

27.2 Banks Owned or Controlled by the Irish State

In the normal course of business, IAASA transacts with Allied Irish Banks plc ('AIB'), which has become wholly controlled by the Irish government. AIB is IAASA's sole banker, and all of IAASA's transactions with AIB are on normal commercial terms. IAASA had no borrowings during the year or at the Balance Sheet date.

Note 28 - Approval of the Financial Statements

The Financial Statements were approved and authorised for issue by the Board of Directors on 28 May 2013.

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APPENDICES

APPENDIX 1

Charter of the Audit Committee

Overall Purposes/Objectives

The Audit Committee is appointed by the Board to assist the Board in discharging its governance responsibilities. The Audit Committee shall oversee the financial reporting process to ensure the balance, transparency and integrity of financial information. The Audit Committee will also review:

- (a) the effectiveness of the Authority's internal financial control and risk management systems;
- (b) the effectiveness of the internal audit function; and
- (c) the relationship with external audit.

Reference to the "Authority" shall mean the Irish Auditing and Accounting Supervisory Authority. Reference to the "Committee" shall mean the Audit Committee.

1. Authority

The Committee is authorised to:

- perform activities within the scope of its Charter;
- engage, at the Authority's expense, independent counsel and other advisers as it deems necessary to carry out its duties;
- invite officers or employees of the Authority to meetings of the Committee as appropriate;
- have unrestricted access to members of management, employees and relevant information;
- establish procedures for dealing with concerns of employees regarding accounting, internal control or auditing matters;
- be directly responsible for the oversight of the work of the external auditor.¹

2. Membership

- 2.1. Members of the Committee and the Chairperson of the Committee will be appointed by the Board.
- 2.2. The Committee will comprise at least three members.
- 2.3. The Chief Executive Officer of the Authority shall not be a member of the Committee.
- 2.4. Each member of the Committee shall be financially literate and shall have skills and experience appropriate to the Authority's business.
- 2.5. At least one of the members of the Committee shall have recent and relevant financial experience.
- 2.6. Members of the Committee are appointed for a three year term of office. In the event that a Member of the Committee who is also a Director of the Authority ceases to be a Director of the Authority during his or her term of office as a Member of the Committee, membership of the Committee shall be deemed to have also ceased.
- 2.7. In the absence of the Committee Chairperson the remaining members present shall elect one of themselves to chair the meeting.

3. Secretary

- 3.1. The secretary of the Committee will be the secretary to the Authority or such other person as nominated by the Board.

¹ According to section 21 of the Companies (Auditing and Accounting) Act 2003, the external auditor of the Authority is the Comptroller and Auditor General.

4. Quorum

- 4.1. The quorum necessary for the transaction of business shall be two members.
- 4.2. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

5. Meetings

- 5.1. Only Committee members, persons invited by the Committee to attend and, subject to section 5.10 below, the Secretary are entitled to attend meetings of the Committee. The Committee may invite such other persons (including the Chairperson of the Board, the Chief Executive Officer, the Head of Finance & Administration, the internal auditor, etc.) to attend all or part of its meetings as it deems necessary.
- 5.2. The external auditors (i.e. representatives of the Office of the Comptroller & Auditor General) will be invited to attend meetings of the Committee on a regular basis.
- 5.3. The Committee should meet four times per annum and, in any event, shall meet at least three times. Where the Committee considers that three meetings in any given year is sufficient to enable it to discharge its functions, the Committee shall record the basis for its conclusions in that regard.
- 5.4. Special meetings may be convened as required. The secretary shall convene a meeting on receipt of a request by the external or internal auditors.
- 5.5. The secretary shall circulate the agenda and supporting documentation to the Committee members at a reasonable period in advance of each meeting.
- 5.6. The secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 5.7. The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

- 5.8. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board.
- 5.9. The Chairperson of the Committee (or another member of the Committee) shall attend the Board meeting at which the financial statements are approved.
- 5.10. The Committee shall meet with the appropriate staff of the Office of the Comptroller & Auditor General at least once a year without management or employees of the Authority present.
- 5.11. The Chairperson of the Committee (or another member of the Committee) shall attend the Annual General Meeting prepared to respond to any questions on the Committee's activities.

6. Roles and Responsibilities

The Committee shall have the following roles and responsibilities:

- 6.1 Internal Controls and risk management systems

The Committee shall:

- 6.1.1. Evaluate whether management is setting the appropriate "control culture" by communicating the importance of internal control and management of risk.
- 6.1.2. Understand the internal controls systems implemented by management for the approval of transactions and the recording and processing of financial data.
- 6.1.3. Understand the controls and processes implemented by management to ensure that the financial statements derive from the underlying financial systems, comply with relevant standards and requirements and are subject to appropriate management review.
- 6.1.4. Evaluate the overall effectiveness of the internal control and risk management frameworks and consider whether recommendations made by the internal and external auditors have been implemented by management.

- 6.1.5. Consider how management is held to account for the security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown or to protect against computer fraud or misuse.
 - 6.1.6. Review, consider and recommend to the Board, the Register of Risks of the Authority as presented by management on a bi-annual basis.
 - 6.1.7. Receive, review and discuss reports from the Heads of Functions in the Authority on a quarterly basis on matters arising from the activities of the Functions which, by reference to the Register of Risks of the Authority, may give rise to a material financial or reputational risk for the Authority.
 - 6.1.8. Report to the Board on a periodic basis and/or as considered appropriate on matters arising from the review performed under 6.1.7.
 - 6.1.9. Review and recommend to the Board the statements to be included in the annual report concerning internal controls and risk management.
- 6.2. Financial Reporting
- The Committee shall:
- 6.2.1. Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on financial reports.
 - 6.2.2. Oversee the periodic financial reporting process implemented by management and review the financial statements. The Committee shall also review any financial information contained in certain other documents.
 - 6.2.3. Meet with management and external auditors to review the financial statements, the key accounting policies and judgements, and the results of the audit.
 - 6.2.4. Ensure that significant adjustments, unadjusted differences, disagreements with management and critical accounting policies and practice are discussed with the external auditor.
 - 6.2.5. Review the other sections of the annual report before its release and consider whether the information is understandable and consistent with members' knowledge about the Authority and the operations and lacks bias.
- 6.3. Whistleblowing
- 6.3.1. The Committee shall review the Authority's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters (including arrangements to allow proportionate and independent investigations of such matters).
- 6.4. Compliance with laws, regulations and the Code of Practice for the Governance of State Bodies
- 6.4.1. Review the effectiveness of the system for monitoring compliance with laws, regulations and Codes of Practice for the Governance of State Bodies and the results of management's investigation and follow-up of any fraudulent acts or non-compliance.
 - 6.4.2. Obtain regular updates from management and the Authority's legal counsel regarding compliance matters that may have a material impact on the Authority's financial statements or compliance policies.
 - 6.4.3. Consider and recommend to the Board, whether the Authority should adopt and report, on a voluntary basis, all or part of the Codes of Corporate Governance and related guidance, applicable from time to time, to companies with full listings on the Irish Stock Exchange.
 - 6.4.4. Review and recommend to the Board any disclosures in the Annual Report in relation to Authority's compliance with the Code of Practice for the Governance of State Bodies and to the extent relevant, any voluntary disclosures in the Annual Report under the Codes of Corporate Governance and related guidance, applicable from time to time to companies with full listings on the Irish Stock Exchange.

7. Working With Auditors

7.1. Internal Audit

The Committee shall:

- 7.1.1. Review and consider the proposal to appoint an internal auditor by management and recommend appointment to the Board.
- 7.1.2. Consider and recommend the remit of the internal audit function and ensure that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards.
- 7.1.3. Monitor and review the effectiveness of the internal audit function and ensure that it has appropriate standing within the Authority.
- 7.1.4. Review and assess the annual internal audit plan.
- 7.1.5. Review promptly all reports on the Authority from the internal auditor.
- 7.1.6. Ensure that significant findings and recommendations made by the internal auditor and management's proposed response are received, discussed and appropriately acted upon.
- 7.1.7. Meet the internal auditor at least once a year, without management being present, to discuss his or her remit and any issues arising from the internal audits carried out.

7.2. External Audit

The Committee shall:

- 7.2.1. Oversee the relationship with the external auditor (the Comptroller & Auditor General)
- 7.2.2. To review all significant reports received by the Board from the external auditors and management's responses thereto and to consider the implications of the issues raised.

- 7.2.3. Meet separately with the external auditors to discuss any matters that the Committee or the auditors believe should be discussed privately and to ensure that the auditors have access to the Chairperson of the Committee when required.

7.3. Reporting Responsibilities

The Committee shall:

- 7.3.1. Regularly update the Board about Committee activities and make appropriate recommendations.
- 7.3.2. Make any recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 7.3.3. Within three months following the end of each financial year, the Audit Committee shall formally report to the Board outlining its activities during the year together with such advice and recommendations as it may deem appropriate.

7.4. Other Matters

The Committee shall:

- 7.4.1. Review the Audit Committee Charter annually and discuss any required changes with the Board.
- 7.4.2. Be responsible for the co-ordination of the internal and external auditors.
- 7.4.3. Be independent in the performance of its functions and the Committee and its members shall not be subject to the direction of any person in the performance of their duties.
- 7.4.4. Exercise an advisory role in relation to its duties and functions within the Board.

APPENDIX 2

Commentary on certain aspects of the UK Code and Irish Annex

Provision(s) of the Code	Explanation
Executive directors' remuneration / Remuneration Committee / Performance related remuneration.	By virtue of being a matter for the Ministers for Jobs, Enterprise & Innovation and Public Expenditure & Reform respectively, executive directors' remuneration is outside the control of the Board. The Authority is not permitted to operate performance related remuneration schemes.
Non-executive director remuneration	The Minister for Public Expenditure & Reform sets the level of remuneration for non-executive directors.
Election / Appointment of Directors/ Board size & structure / Nomination Committee / Directors' skills and expertise / Board renewal	The Board size, structure and appointments process is prescribed under the Act and is therefore outside the control of the Board. Directors, with the exception of the Chief Executive and direct Ministerial appointees, are appointed by the Minister upon the nomination of statutorily prescribed nominating bodies. The appointment of the Chief Executive is made by the Board, subject to terms and conditions approved by the Minister with the consent of the Minister for Public Expenditure & Reform.
Directors' terms of office / re-election	The Minister decides the terms of office of the non-executive directors. The term is set out in the Act to be not less than three or more than five years. Pursuant to the Act, there is no restriction on reappointment.
Appointment of a Deputy Chairperson and / or Senior Independent Director	To date, the Authority has determined that it is not appropriate to appoint a Senior Independent Director or a Deputy Chairperson. The matter is reconsidered by the Board periodically.
Chairperson / Board interaction with shareholders	As a company limited by guarantee, the Authority does not have shareholders.
Appointment and reappointment of the statutory auditor	The Act provides that the Authority's auditor shall be the C&AG. Accordingly, this is a matter that is outside the Board's control.
Non-executive directors meeting in absence of Chairperson to appraise Chairperson's performance	During the year, the Chairperson indicated that it was her intention to step down as Chairperson after her term of office expired in January 2013. Accordingly, an appraisal of the Chairperson's performance would not have been appropriate.
Evaluation of Board members' performance/ Objective and scope of same	Subject to the availability of resources, the Board performs periodic internal and external assessments of the performance of the Board as a collective body. The most recent evaluation was performed with the assistance of the Institute of Public Administration in 2009.
Board members' training and development needs	Periodic and ongoing training for directors occurs as part of the director's induction and on an annual basis at the Board's annual strategic planning and training day. It has not been considered necessary to date for the Chairperson to meet with each director to assess, review and agree their individual training and development needs.
Executive director & non-executive directorships of FTSE 100 Company	The Chief Executive is the sole executive director on the Board and has no FTSE 100 directorships.
Evaluation of Boards of FTSE 350 Companies	The Authority is not a FTSE 350 company.
Generation/preservation of value	The Authority does not trade for the acquisition of gain.
Audit Committee and recommendation of the external auditor/Non-audit services	The C&AG is, in accordance with the Act, the Authority's statutory auditor. The C&AG does not provide non-audit services to IAASA.
Disclosure of proxies	Owing to the confidentiality provisions of section 31 of the Act, the Authority is prohibited from disclosing such information.

APPENDIX 3

Detailed Background Information on IAASA's Financial Reporting Supervision Remit

1. The EU Transparency Directive

1.1. Context for and purpose of the Directive

The EU Transparency Directive (Directive 2004/109/EC) ('the Directive') harmonises the information requirements applying to entities whose securities have been admitted to trading on a regulated market situated, or operating, in the EU. Specifically, the Directive seeks to enhance transparency in EU capital markets through a common framework which requires:

- (a) the production of periodic financial reports;
- (b) shareholders to disclose major shareholdings;
- (c) the dissemination of regulated information; and
- (d) the provision of central mechanisms for sharing regulated information.

1.2. Transposition of the Directive into national law

The Directive came into effect in Ireland from 13 June 2007. The Directive has been transposed into national law through a combination of:

- (a) primary legislation – the Investment Funds, Companies and Miscellaneous Provisions Act 2006; and
- (b) secondary legislation – the Transparency (Directive 2004/109/EC) Regulations 2007 ('the Regulations').

1.3. IAASA's role under the Directive

While the central competent administrative authority for Directive purposes in Ireland is the Central Bank, the Directive provides that Member States may designate a competent authority other than their central competent administrative authority for the purposes of Article 24(4)(h), i.e. for examining information prepared pursuant to the Directive's requirements.

IAASA is designated the authority as an independent competent authority for the purposes of Article 24(4)(h) of the Directive.

Regulation 42(2) provides that '*IAASA shall examine information drawn up pursuant to Regulations 4 to 8 by issuers whose home Member State is the State for the purpose of considering whether such information is in accordance with the relevant reporting framework*'.

A summary of the requirements of Regulations 4 to 8 is provided in Section 2.

1.4. Scope of the Directive

The Directive applies to issuers whose securities have been admitted to trading on a regulated market situated, or operating, within the EU. Securities include shares, bonds and other forms of securitised debt, derivative securities and units issued by closed-end investment funds.

However, pursuant to Regulation 2, the scope of the Regulations does not extend to open ended investment funds. Open ended investment funds are funds which provide redemption facilities to unit holders. Closed ended investment funds are fixed life funds and generally do not allow redemptions until fund liquidation.

Similarly, securities listed on the ESM are exempt from the requirements of the Directive as the ESM is not authorised as a regulated market under Part 6 of the MiFID Regulations.

2. Issuers' periodic financial reporting requirements

Issuers' periodic financial reporting requirements, which come within the IAASA financial reporting examination remit and as laid down by Regulations 4 to 8, are as follows:

2.1. Annual financial reports

Issuers are required to make public their annual financial reports not later than four months after the end of their financial year. Issuers are further required to ensure that their financial reports remain publicly available for at least five years following publication. Issuers' annual financial reports are required to comprise, at a minimum:

- (a) audited financial statements.
Where an issuer is required to prepare consolidated financial statements, the audited financial statements must be prepared in accordance with IFRS as adopted for use in the EU. Where an issuer is not required to prepare consolidated financial statements, the audited financial statements included in the annual financial report must be prepared in accordance with the national law of the Member State in which the issuer is incorporated;
- (b) a Management Report; and
- (c) a Responsibility Statement.
This is a statement made by persons responsible within the issuer to the effect that, to the best of their knowledge, the financial statements, prepared in accordance with applicable financial reporting standards, give a true and fair view of the profit/loss and assets, liabilities and financial position of the issuer and the undertakings included in the consolidation taken as a whole, and that it includes a fair examination of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

2.2. Half-yearly financial reports

Issuers of shares and, subject to certain exemptions, debt securities are required to make public their half-yearly financial reports not later than two months after the end of the first six

months of their financial years. Issuers are further required to ensure that their financial reports remain publicly available for at least five years following publication. Issuers' half-yearly financial reports are required to comprise, at a minimum:

- (a) Condensed financial statements.
Where an issuer is required to produce consolidated financial statements, the condensed financial statements must be prepared in accordance with IFRS as adopted for use in the EU. Where an issuer is not required to prepare consolidated financial statements, the issuer shall follow the same principles for recognition and measurement as when preparing annual financial reports and the condensed financial statements must include at least the following:
 - i. a condensed balance sheet;
 - ii. a condensed profit and loss account; and
 - iii. explanatory notes.
- (b) Interim Management Report; and
- (c) Responsibility Statement.
This is a statement made by persons responsible within the issuer to the effect that, to the best of their knowledge, the financial statements, prepared in accordance with applicable financial reporting standards, give a true and fair view of the profit/loss and assets, liabilities and financial position of the issuer and the undertakings included in the consolidation taken as a whole and that it includes that it includes a fair examination of:
 - i. important events that have occurred during the first six months of the year;
 - ii. the impact of those events on the condensed financial statements;
 - iii. a description of the principal risks and uncertainties for the remainder of the financial year; and
 - iv. in the case of issuers of shares, details of material related party transactions.

In addition, issuers are also required to comply with the Transparency Rules published by the Central Bank when preparing annual and half-yearly financial reports.

3. Examination methodology – periodic financial reports

IAASA is committed to applying *ESMA Standards on Enforcement of Financial Reporting* and related guidelines. ESMA standards require that EU national accounting enforcers' selection methodologies must include risk-based methodologies. IAASA's selection of issuers' periodic financial reports for examination is based on a mixed model, i.e. whereby risk assessments are supplemented by cyclical and random selections. An overview of the considerations affecting risk assessment and selection of periodic financial reports for IAASA examination can be found in section 5.

4. Consistent enforcement of IFRS across the European Union

4.1. Background to the establishment of the EECS

SI 116 gives effect to the IAS Regulation.

The IAS Regulation:

- (a) requires that certain EU entities (i.e. those having a listing on a regulated market and having a requirement to prepare consolidated financial statements) prepare their consolidated financial statements in accordance with IFRS as adopted for use in the EU (i.e. IFRS as endorsed by the EU); and
- (b) makes reference to Member States' requirement to take appropriate measures to ensure compliance with IFRS.

To facilitate these requirements, ESMA established the EECS.

4.2. Composition of EECS

EECS comprises:

- (a) Member States' securities regulators; and
- (b) where Member States' securities regulators are not charged with primary responsibility for the enforcement of financial reporting standards, the relevant enforcement body.

In Ireland, the UK, Germany, Iceland and Denmark, it is the relevant enforcement body, i.e. IAASA in the Irish context, is the member of EECS. In all other jurisdictions, it is the securities regulator who is the EECS member.

4.3. Role of EECS

The role of EECS is to facilitate cooperation and coordination between European national accounting enforcers with a view to bringing about the consistent enforcement of IFRS across the EU.

4.4. EECS activities

EECS on-going regular activities include:

- (a) discussing accounting enforcement decisions taken by EU national accounting enforcers;
- (b) discussing emerging issues currently under examination by EU national accounting enforcers;
- (c) contributing to the confidential database of enforcement decisions;
- (d) publishing, for the benefit of issuers and other interested parties, summaries of enforcement decisions posted to the EECS database;
- (e) publishing (*via* ESMA) annual activity reports on the enforcement of IFRS in Europe, the purpose of which is to provide stakeholders with an overview of the monitoring and enforcement of IFRS across the EU;
- (f) sharing and comparing practical experiences in the field of accounting enforcement such as selection, risk assessment, examination methodology, contacts with issuers and auditors, etc; and
- (g) holding meetings with representatives of the IFRS-IC in order to discuss complex issues identified by EECS members either for which there is no specific IFRS guidance or where widely diverging interpretations exist.

4.5. EECS database

EECS meetings aid discussion by European national accounting enforcers to:

- (a) share the reasoning underpinning their enforcement decisions with their counterparts; and
- (b) canvass their counterparts' views on enforcement cases currently being dealt with,

to achieve a consistent approach to enforcement across all Member States.

To achieve this objective, EECS (via ESMA) has established a database of enforcement decisions taken by national accounting enforcers. The content of this database is confidential and available to EU national accounting enforcers and ESMA only.

While the decisions taken by European national accounting enforcers do not constitute precedent and are not, therefore, binding on other enforcement authorities, the purpose of the database is to enable European national accounting enforcers to consider decisions taken by their counterparts on similar issues and to determine the extent, if any, to which they may be relevant to their own decision making (while recognising that the circumstances surrounding individual cases are rarely the same).

EECS, in conjunction with ESMA, publishes enforcement decisions taken by EECS members. Such public information does not disclose the specific issuers or individual jurisdictions by name but, rather, is published on an anonymous basis for the purpose of informing interested parties including issuers, auditors, shareholders, analysts and regulators.

5. Overview of considerations affecting risk assessment and selection

In summary, IAASA's risk-based approach to the selection of financial reports for examination considers the:

- risk of material misstatement in issuers' financial reports; and
- potential impact of such a misstatement on the users of financial reports.

IAASA is committed to the application of ESMA Standards on enforcement of financial reporting and related guidelines. ESMA Standards require that selection methodologies must include risk-based methodologies. It is not, for example, permitted under ESMA Standards to adopt selection methodologies based purely on cycles or random selections.

IAASA has adopted a mixed model, whereby selections of issuers' financial reports for examination is based on risk assessments, supplemented by cyclical and/or random selections (thereby ensuring that entities that

might not be selected as a consequence of a risk-based approach nevertheless stand to be selected for examination).

IAASA has determined that there are many risk factors, or combinations thereof, that should be considered in assessing the relative risk of an incidence of material misstatement in an issuer's financial reports. These include, amongst others:

- financial structure and business/economic trends;
- financial position and ratios;
- industry specific issues;
- audit qualifications and related issues;
- corporate governance and control environment issues;
- incidence of related party transactions;
- incidence of business combinations and/or disposals;
- administrative, court and/or regulatory actions; and
- third party signals (e.g. complaints received by IAASA, media commentary, etc).

In assessing the potential impact of a material misstatement on the users of financial reports, the following are among the factors that are considered:

- share trading activity and volatility in stock price;
- market capitalisation;
- number and nature of investors;
- nature of securities traded; and
- public profile.

Where instances of non-compliance are identified in an issuer's periodic financial report, the potential for that issuer's subsequent periodic financial reports to be the subject of examination increases.

IAASA has entered into MoUs with the Central Bank and the ODCE. From time to time, IAASA receives referrals from these and other parties. The receipt of a referral from another statutory body is treated as a risk factor and is, therefore, incorporated into IAASA's risk assessment and selection processes.

6. Approach towards issues arising from examinations of periodic financial reports

Having examined an issuer's periodic financial report, it may appear that there are issues arising in respect of which further information and/or clarification is required. In such cases, IAASA corresponds with those charged with the issuer's governance, i.e. the directors. In such correspondence, the matters arising are set out in detail and the issuer's directors are requested to respond in writing, providing any information, clarification and/or explanations considered necessary.

Where directors' responses do not fully address the issue(s) raised or, as is frequently the case, directors' responses require further elaboration and/or clarification, IAASA typically enters into further correspondence with the directors. In instances where it is deemed more effective to do so, IAASA holds face-to-face meetings with issuer representatives, until such time as all information, clarifications and/or explanations necessary to enable an assessment to be made as to whether the periodic financial report is in compliance with the relevant reporting framework have been obtained.

When all information deemed necessary has been received, IAASA determines whether the particular financial reporting treatment adopted and/or disclosures provided are in compliance with the relevant reporting framework.

It is important to note that not all matters raised with issuers' directors suggest potential non-compliance with the relevant reporting framework. Rather, as considered necessary, IAASA seeks further information and/or clarification from issuers' directors for the purpose of enabling it to better understand the basis for certain of their financial reporting judgments in preparing periodic financial reports, including their judgments relating to recognition, measurement, classification, presentation and disclosure.

On receipt of such further information and/or clarification from issuers' directors, matters raised by IAASA in initial correspondence may be closed without the need for re-statement, additional disclosure or other actions on the part of the issuer.

Based on experiences to date, IAASA has found that those issuers that are most forthcoming with the requisite information, clarifications and explanations are those that bring their contacts with IAASA to a successful conclusion in the most efficient and expeditious manner.

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GLOSSARY OF TERMS

AAC	Audit and Assurance Council of the FRC (formerly the Auditing Practices Board)
AC	Accounting Council of the FRC (formerly the Accounting Standards Board)
ACCA	Association of Chartered Certified Accountants
Act, the	Companies (Auditing and Accounting) Act 2003
AIA	Association of International Accountants
APM	Alternative Performance Measure (also known as key performance indicator)
Auditor Register	The Register of Auditors maintained by the CRO
C&AG	Comptroller and Auditor General
Central Bank	Central Bank of Ireland
CGU	Cash Generating Unit
CIMA	Chartered Institute of Management Accountants
CIPFA	Chartered Institute of Public Finance & Accountancy
CLRG	Company Law Review Group
Code, the	Code of Practice for the Governance of State Bodies
Complaint	As used in Chapter 2 - includes any expression of dissatisfaction with professional services provided by members/member firms of the PABs and/or with the regulation of accountants by the PABs, whether communicated to IAASA by members of the public or otherwise
Constitutional documents	Refers to the PABs' charters, memoranda & articles of association, bye-laws, rules, regulations, codes and standards
Covered institutions	Financial institutions covered by the Government's 2008 bank support scheme
CPD	Continuing Professional Development
CRO	Companies Registration Office
Department, the	The Department of Jobs, Enterprise and Innovation
DPP	Director of Public Prosecutions
EAIG	European Audit Inspection Group
EBA	European Banking Authority
EBITDA	Earning Before Interest, Tax, Depreciation and Amortisation
EC	European Commission
EEA	European Economic Area
EECS	European Enforcers' Coordination Sessions
EGAOB	European Group of Auditors' Oversight Bodies
EIOPA	European Insurance and Occupational Pensions Authority
EPS	Earnings Per Share
ESM	Enterprise Securities Market
ESMA	European Securities and Markets Authority
EU	European Union
FRC	Financial Reporting Council
Full Enquiry	An investigation under the Section 23 Regulations

GAAP	Generally Accepted Accounting Principles
IAASA / the Authority	Irish Auditing and Accounting Supervisory Authority
IAA	Individually Authorised Auditor
IAASB	International Auditing and Assurance Standard Board
IAIM	Irish Association of Investment Managers
IAS	International Accounting Standard
IAS 19	IAS 19 – Employee Benefits
IAS 34	IAS 34 – Interim Financial Reporting
IAS 36	IAS 36 – Impairment of Assets
IAS Regulation, the	<i>EU Regulation (EC) No. 1606/2002</i>
IASB	International Accounting Standards Board
IBEC	Irish Business and Employers' Confederation
ICAEW	Institute of Chartered Accountants in England & Wales
ICAI	Institute of Chartered Accountants in Ireland
ICAS	Institute of Chartered Accountants of Scotland
ICPAI	Institute of Certified Public Accountants in Ireland
ICTU	Irish Congress of Trade Unions
IDSA	Irish Debt Securities Association
IFIA	Irish Funds Industry Association
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
IFRS-IC	IFRS Interpretations Committee
IIPA	Institute of Incorporated Public Accountants
Irish Annex	Irish Corporate Governance Annex as promulgated by the ISE
ISA	International Standard on Auditing
ISE	Irish Stock Exchange
Issuer	An entity coming within the Authority's remit under the Transparency Regulations
KMP	Key Management Personnel
MiFID Regulations	SI 60 of 2007 – European Communities (Markets in Financial Instruments) Regulations 2007
Minister	Minister for Jobs, Enterprise and Innovation
MoU	Memorandum of Understanding
ODCE	Office of the Director of Corporate Enforcement
OECD	Organisation for Economic Cooperation and Development
PAB	Prescribed Accountancy Body
PCAOB	Public Company Accounting Oversight Board in the United States
PEC	Preliminary Enquiry Committee (Section 23)
Periodic Financial Reports	Refers collectively to annual and half-yearly financial reports published pursuant to the Transparency Regulations

PIE	Public Interest Entity
PII	Professional Indemnity Insurance
Preliminary Enquiry	An enquiry under the Section 23 Regulations to establish whether a prima facie case exists.
Public Auditor	An auditor for the purposes of the Industrial and Provident Societies Acts, 1893 to 1978, and the Friendly Societies Acts, 1896 to 1977
RAB	Recognised Accountancy Body
Relevant reporting framework	The body of financial reporting standards, legislation, codes and rules with which issuers are required to comply in preparing their annual and half-yearly financial reports
RMS	Regulatory & Monitoring Supervision
Section 23 Regulations	SI 96 of 2012 – Companies (Auditing and Accounting) Act 2003 (Procedures Governing The Conduct of Section 23 Enquiries) Regulations, 2012
SI	Statutory Instrument
SI 116	SI 116 of 2005 – International Financial Reporting Standards and Miscellaneous Amendments Regulations, 2005.
Statutory Audit Directive	Directive 2006/43/EC
Statutory Audit Directive Regulations	SI 220 of 2010 – European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010
Statutory Auditor	An auditor approved in accordance with the Statutory Audit Directive Regulations
Statutory Enquiry	An enquiry under the Act
Statutory Investigation	An investigation under the Act
Takeover Regulations	European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006
Third country	Non-EEA
Transitional Regulations	SI 229 of 2009 – European Communities (Transitional Period Measures in Respect of Third Country Auditors) Regulations 2009
Transparency Directive	Directive 2004/109/EC
Transparency Regulations	Transparency (Directive 2004/109/EC) Regulations 2007
Transparency Rules	Transparency Rules issued by the Central Bank (November 2012)
UK Code	UK Corporate Governance Code
1990 Act, the	Companies Act 1990



IAASA

Irish Auditing & Accounting
Supervisory Authority

Willow House, Millennium Park, Naas, Co Kildare, Ireland

Tel: +353 (0) 45 983 600 | **Fax:** +353 (0) 45 983 601 | www.iaasa.ie