



Irish Auditing & Accounting Supervisory Authority

“Creating a Winning Annual Report”

LEINSTER SOCIETY’S EVENING CPD
SEMINAR

27 SEPTEMBER 2016

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Disclaimer and confidentiality

Section 940, Companies Act 2014

No person shall disclose, except in accordance with law, information that :

- comes into IAASA's possession by virtue of performing any of its functions, and
- has not otherwise come to the notice of members of the public

Confidentiality regime for financial reporting decisions

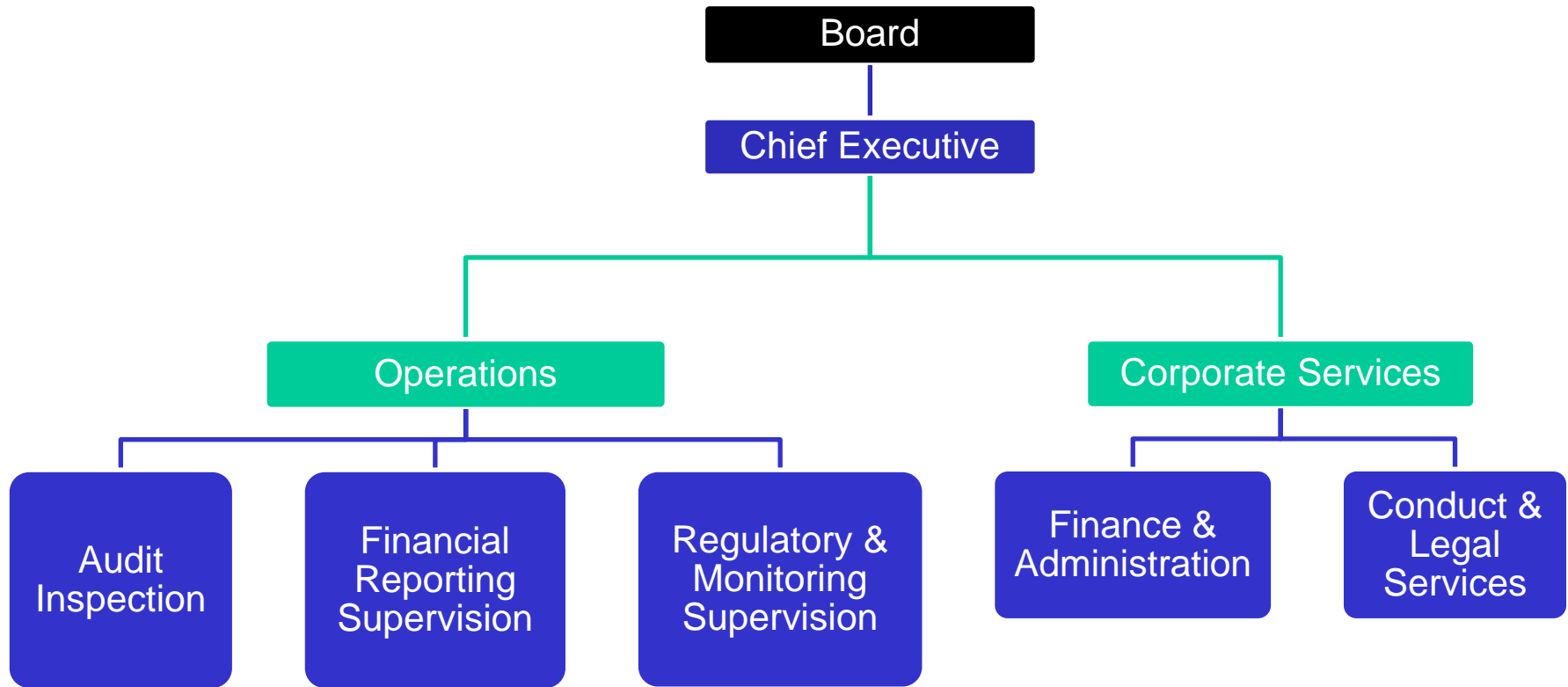
Disclaimer

The views expressed are my own and do not necessarily reflect the views of the Authority, Board or the staff of IAASA

Presentation overview

- IAASA at a glance
- Financial reporting supervision activities
- Observations for 2016 annual reports

Structure of IAASA



IAASA at a glance

Financial Reporting Supervision

- examination of certain listed entities' periodic financial reports
- interaction with fellow EU accounting enforcers
- co-operation in the development of financial reporting standards

Regulatory Supervision & Monitoring

- supervision of the Prescribed Accountancy Bodies (PABs) regulatory obligations
- oversight of performance of functions relating to statutory auditors carried out by the Recognised Accountancy Bodies (RABs)
- EU co-operation

Audit Inspections Unit (AIU)

- direct inspections of PIE auditors and PIE audits
- register and supervise third-country auditors
- EU co-operation

Conduct & Legal Services

- Section 933 and 934 investigations
- Liquidator registration
- Auditing Standards

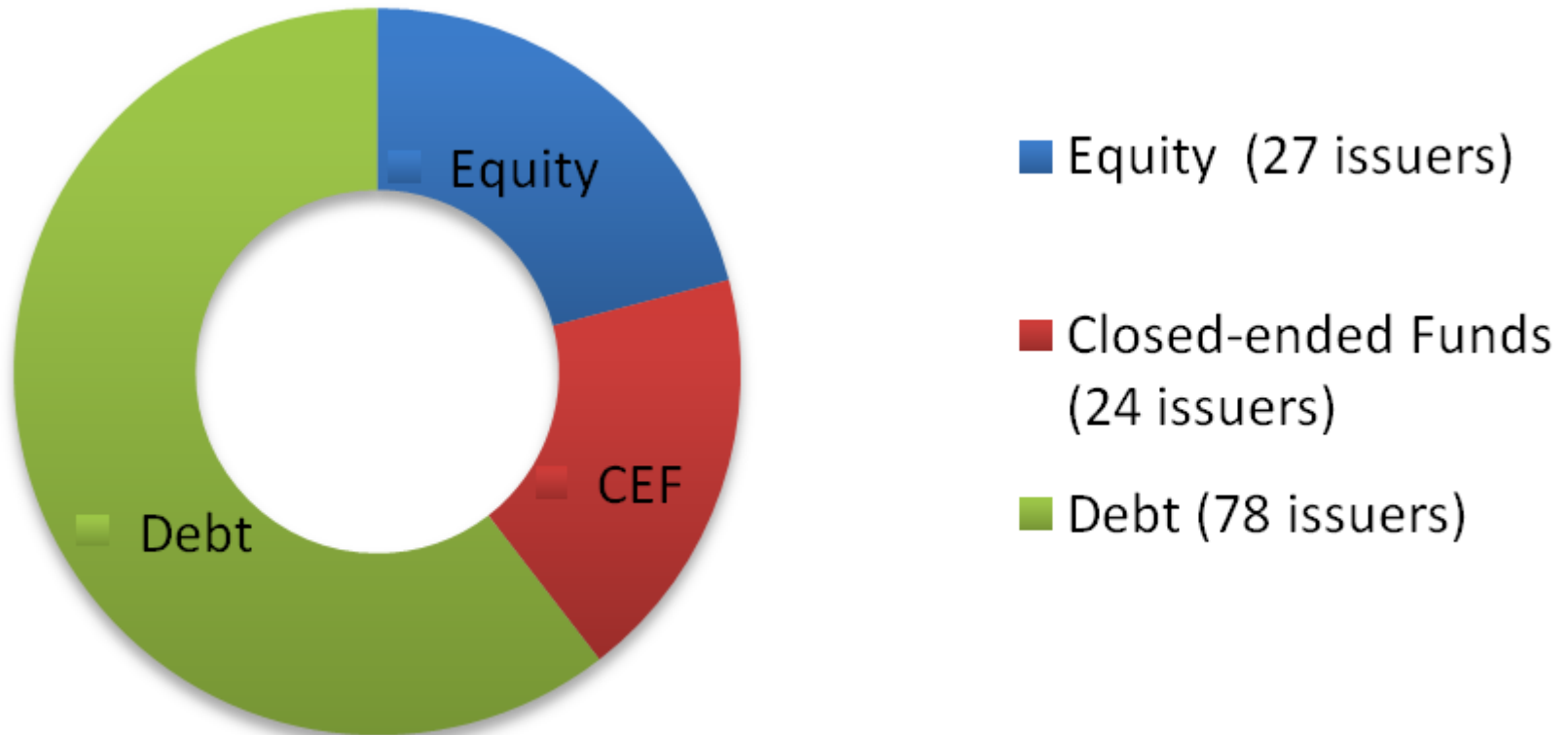
Financial Reporting Supervision Activities

- Accounting enforcer for Ireland
- Liaising with other EU states' accounting enforcers through ESMA / EECS
- Co-operating in the development of accounting standards and practice notes
- Advisor to the Minister on accounting related matters

IAASA's accounting enforcement function

- IAASA's role under Article 24(4)(h) of the Transparency Directive
 - *“..to examine that information referred to in this Directive is drawn up in accordance with the relevant reporting framework and take appropriate measures in case of discovered infringements.”*
- Who are the users of the financial statements?

Financial Reporting Review Constituency at 31 December 2015



Financial Reporting Review Constituency at 31 December 2015 – Equity Issuers

Aminex

Aryzta

Bank of Ireland

CRH

C&C

Cairn Homes

Datalex

DCC

FBD

Glanbia

Grafton

Green REIT

Greencore

Hibernia REIT

IFG

INM

ICG

i-RES

Kenmare Resources

Kerry

Kingspan

Mainstay Medical

Paddy Power Betfair

Permanent TSB

Ryanair

Smurfit Kappa

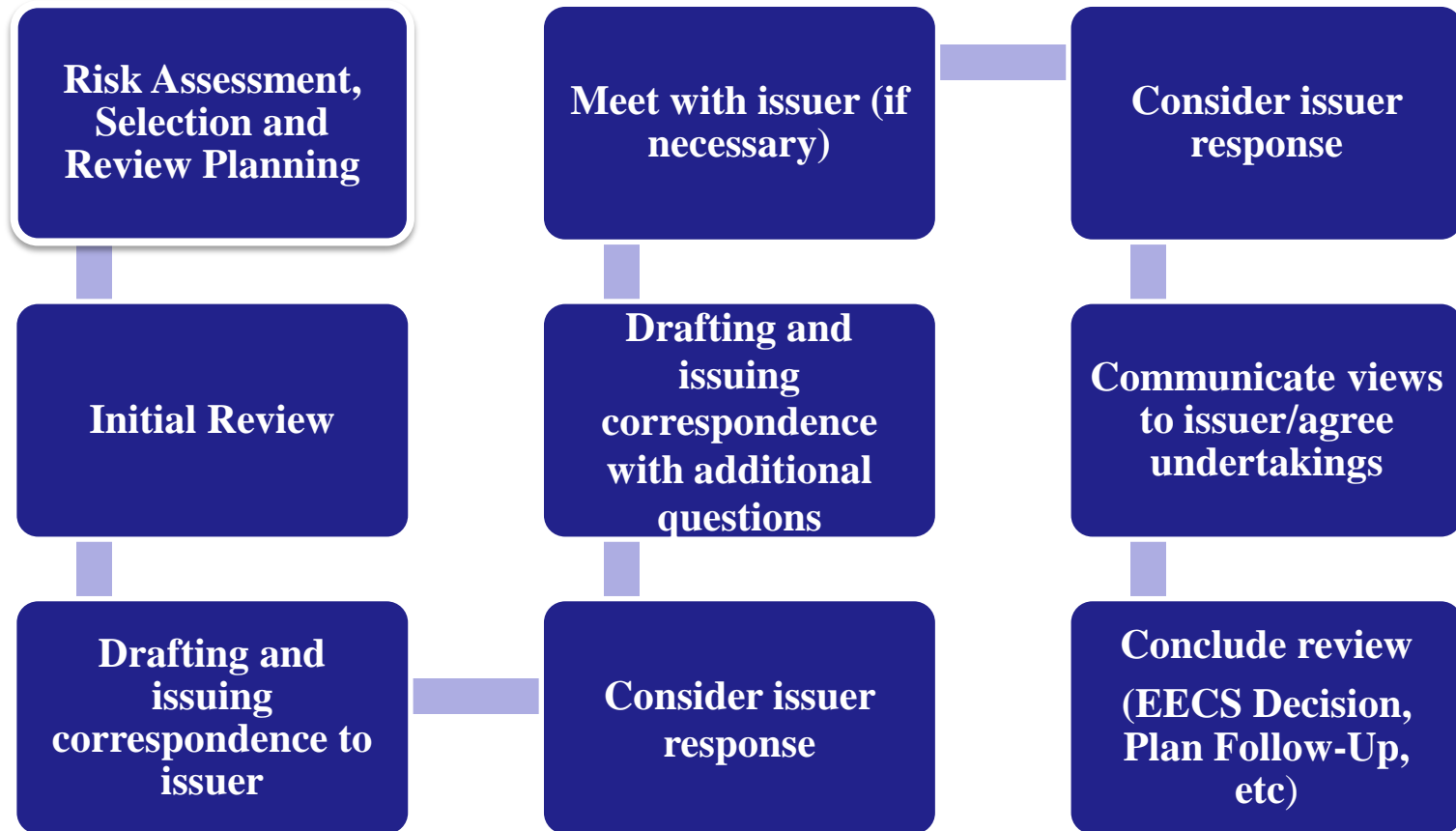
UDG Healthcare

Categories of Financial Statement Examination

Risk-based approach

- Unlimited scope examination of financial information – cover-to-cover
- Focused examination of financial information
- Follow-up examination of actions
- Thematic examination of financial information
- Topical surveys – ESMA-mandated

What a typical full scope review entails



Selected Statistics

- 1,034 matters raised with issuers (2008 - 2015)
- 176 issuers (incl. multiple issuers) have amended their financial statements (2008 - 2015)
- 379 undertakings provided (2011 - 2015)
- 43 financial reports (HY or FY) withdrawn and new financial report issued

Key Messages for Equity Issuers

1. Alternative Performance Measures – APMs / KPIs
2. Presentation of financial performance – use and abuse of exceptional items
3. Judgements and estimates
4. Use of entity specific disclosures
5. Risks and uncertainties
6. Overall integration of annual report with financial statements - consistency

Alternative Performance Measures – APMs / KPIs

1. Examples: EBITDA and other variations of earnings, Operating Profit, Free cash flow, Net debt/gross debt, Adjusted EPS, ROCE
2. IAASA – surveys and challenged issuers' use of APMs
3. ESMA Paper
4. HY 2016 – strong uptake overall
5. FY 2016 – continue and improve

Alternative Performance Measures – APMs / KPIs

ESMA Guidelines

APM = a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework

- 1. Definition**
- 2. Meaningful labels**
- 3. Reconcile to IFRS measure**
- 4. Explain why used**
- 5. Comparatives**
- 6. Consistency**

http://www.iaasa.ie/getmedia/10dc7484-ac2d-4eff-ae0-0dcb86a0ed88/ESMA_APMs_2015.pdf

Presentation of financial performance – use and abuse of exceptional items

- 1. IAASA review - 4:1 ratio of bad v good news**
- 2. Explain why its exceptional – accounting policy**
- 3. Consider materiality in current year**
- 4. Greater use of note disclosure and less on face of Income Statement**

Judgements and estimates

1. Disclose
2. IAS 1.112(c) - “... *not presented elsewhere ... relevant to an understanding ...*”
3. IAS 1.117 – “... *accounting policies ... relevant to an understanding ...*”
4. IAS 1.122 – “... *judgements ... have the most significant effect ...*”
5. IAS 1.125 – “... *assumptions ... and other major sources of estimation uncertainty ... significant risk ... material adjustment ...*”

Use of entity specific disclosures

1. **Avoid boiler plate disclosure (e.g. repetition of accounting standard)**
2. **Tailor to specific circumstances of entity in current year**
3. **Peers may be useful but do not blindly follow – avoid “group think”**
4. **Don’t just add to last year on an incremental basis**

Risks and uncertainties

1. TD Regs require issuers to disclose ***“a description of the principal risks and uncertainties that they face”***
2. Tailored to entity
3. Not a list of all risks and uncertainties
4. Balance is needed

Overall integration of annual report with financial statements – consistency

- 1. Overall annual report should present a coherent integrated view of the issuer and its performance**
- 2. Consistent between front end and financials**
- 3. Balanced**
- 4. Reporting the good news and the bad news**
- 5. Need to exercise judgement**

... and finally...

- 1. Three primary statements – IS, SoFP & CFS – cash flow statement is important**
- 2. Uncertain tax positions**
- 3. Deferred tax assets**
- 4. Fair value disclosures**

Other matters

<http://www.iaasa.ie/Publications/FRSU>

<https://www.esma.europa.eu/>

Annual Observations documents

Publication of financial reporting decisions

Contacts & Further Information

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