



**OBSERVATIONS ON YEAR END FINANCIAL REPORTING ISSUES FOR
ISSUERS ADMITTED TO TRADING ON A REGULATED MARKET AND WHOSE
HOME MEMBER STATE IS IRELAND**

DISCLAIMER

This publication does not constitute legal advice or a legal interpretation of the Transparency Directive, the Transparency Regulations, the Companies Acts, the Interim Transparency Rules or any other aspects of the legislation implementing the Directive in Irish law. Rather, it is primarily concerned with the financial reporting requirements of the Directive, as transposed into Irish law. Therefore, this publication does not detail all the requirements of the Directive as transposed into Irish law nor is it intended to be a substitute for a detailed review of the Directive or related requirements, including those relating to financial reporting. Where users of this publication are uncertain regarding the effect of any legal provision, consideration should be given to obtaining independent legal advice.

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INTRODUCTION

Context

The Irish Auditing & Accounting Supervisory Authority ('IAASA') has responsibility for examining whether the annual and half-yearly financial reports (collectively referred to as 'periodic financial reports') of certain entities whose securities have been admitted to trading on a regulated market, situated, or operating, within the EU (such entities being referred to as 'issuers') have been drawn up in accordance with relevant financial reporting requirements as laid down by the Transparency (Directive 2004/109/EC) Regulations, 2007 ('the Transparency Regulations'). IAASA's review constituency in this regard is made up of approximately 250 issuers, comprising issuers of equity, debt and closed ended funds.

Given the phased manner in which the Transparency Regulations were implemented (i.e. with the Regulations' effective date being dependent upon individual issuers' financial reporting periods), not all issuers have yet been required to publish their first annual financial reports under the new requirements. Rather, for the majority of issuers the first annual financial report to be impacted by the requirements of the Transparency Regulations will be those in respect of the year ended 31 December, 2008.

Current financial reporting environment

In presenting their results in respect of the year ended 31 December, 2008 and their financial positions as at that date, issuers will be reporting against a background of continuing market uncertainty, reduced access to credit and a weak domestic and international economic environment, each of which give rise to significant challenges in the context of financial reporting and to associated risks of material misstatement in financial reports.

Purpose of this publication

In the run up to year end, issuers' Boards and Audit Committees have been devoting considerable resources to meeting these challenges and managing these risks and these activities will continue until financial reports have been finalised. These are challenging times for those charged with responsibility for producing financial reports and, in that context, IAASA considers it opportune at this time to offer some observations on selected financial reporting issues for Boards' and Audit Committees' benefit. To that end, this publication also draws on the results of IAASA's review activity to date and provides an indication of some of the likely areas of review focus over the coming months.

When determining which issuers' periodic financial reports will be selected for review, IAASA employs a risk based approach, supplemented by cyclical and random selections. An overview of the selection process and the factors typically considered in selecting issuers' financial reports for review are set out in the Appendix to this publication. As might be expected, where previous instances of non-compliance have been identified the potential for an issuer's future periodic financial reports to be reviewed increases.

The majority of issuers listed in Ireland and that are required to make their financial reports public in compliance with the Transparency Regulations apply either International Financial Reporting Standards ('IFRS') (such issuers being referred to as 'IFRS issuers') or accounting standards issued by the Accounting Standards Board ('ASB'), (such issuers being referred to as 'Irish GAAP¹ issuers'). Thus, the observations offered in this publication focus on the requirements applying to IFRS and Irish GAAP issuers.

Certain of the issues set out in this publication have previously been referred to in IAASA's *Commentary on Half-Yearly Financial Reports prepared since the coming into effect of the Transparency (Directive 2004/109/EC) Regulations, 2007* ('the Commentary') and, accordingly, readers may find it helpful to read this publication in conjunction with the Commentary². Readers may also find it helpful to study the periodically published summaries of enforcement decisions taken by EU financial reporting supervisory authorities³.

¹ Generally Accepted Accounting Principles

² The Commentary is available at http://www.iaasa.ie/publications/TD_Commentary2008.pdf

³ These summaries can be accessed at <http://www.iaasa.ie/publications/index.htm>.

OBSERVATIONS ON SELECTED FINANCIAL REPORTING ISSUES

1. Valuation and impairment of assets

The assessment of impairments of assets undertaken at the reporting date requires careful consideration in the current environment. Boards and Audit Committees will need to critically examine management's judgements as to whether individual assets or cash generating units ('CGU') were impaired as at the reporting date. Paragraphs 12 to 14 of IAS⁴ 36 *Impairment of Assets*⁵ provide some indicators that an asset or CGU may be impaired and that would trigger the requirement for a formal calculation of the estimated recoverable amount of an asset or CGU. Where a value-in-use calculation is required to estimate the recoverable amount, there are a number of challenges, particularly in determining the amounts for inclusion in the cash flows and choosing an appropriate discount rate. In the current climate, an asset-specific discount rate may not be directly available from the market. In such circumstances the discount rate used could be based on the issuer's weighted average cost of capital, its incremental borrowing rate and other market borrowing rates⁶.

In relation to financial assets, Boards and Audit Committees are reminded that impairment losses are recognised when there is objective evidence that an impairment loss has been incurred⁷ whereas future credit losses that have not yet been incurred are not recognised⁸.

Boards and Audit Committees should also be mindful that the use of models in valuations or impairment assessments which are based on historic experience may need to be critically evaluated in the current environment where the use of historic patterns may no longer be appropriate. Boards and Audit Committees should also consider familiarising themselves with recently published educational guidance on the application of fair value measurement to financial instruments when markets are inactive⁹.

The disclosures required by IAS 36 – and relevant disclosures required by IFRS 7 *Financial Instruments: Disclosures*¹⁰ – are particularly important in the current environment in order to enable users to make judgements about the various assumptions and methodologies used by issuers in calculating any impairment losses.

In view of the foregoing considerations, the valuation of assets and related disclosures is a likely area of focus for IAASA's review of issuers' financial reports in the coming year.

2. Retirement benefits¹¹

In the current economic environment assumptions that have previously been adopted in accounting for retirement benefits and the methodologies employed in arriving at those assumptions may no longer be appropriate and may, therefore, need to be amended. Boards and Audit Committees should, therefore, critically examine and, where necessary, challenge the methodologies and assumptions underlying the measurement, recognition and disclosure of pension scheme assets and obligations.

In that context, Boards and Audit Committees should note that IAS 19 *Employee Benefits*¹² requires issuers to use actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned for their service in current and prior periods and to discount that

⁴ International Accounting Standard

⁵ Paragraphs 8 to 13 of Financial Reporting Standard ('FRS') 11 *Impairment of fixed assets and goodwill* is the equivalent requirement for Irish GAAP issuers

⁶ Paragraph A17 of IAS 36 for IFRS issuers and paragraphs 41 to 46 and Appendix I of FRS 11 for Irish GAAP issuers refer

⁷ Paragraph 59 of IAS 39 *Financial Instruments: Recognition and Measurement* for IFRS issuers and paragraph 59 of FRS 26 *Financial instruments: measurement (IAS 39) for Irish GAAP issuers* refer

⁸ Paragraphs 59 and AG90 of IAS 39 for IFRS issuers and paragraphs 59 and AG90 of FRS 26 for Irish GAAP issuers refer

⁹ International Accounting Standards Board ('IASB') Expert Advisory Panel - *Measuring and disclosing the fair value of financial instruments in markets that are no longer active* available at www.iasb.org/expert-advisory-panel

¹⁰ FRS 11 and FRS 29 (*IFRS 7 Financial instruments: disclosures*) are the equivalent standards for Irish GAAP issuers

¹¹ FRS 17 *Retirement benefits* contains broadly equivalent requirements for Irish GAAP issuers

¹² Paragraphs 50(a), 50(b) and 64 of IAS 19 for IFRS issuers and paragraph 20 of FRS 17 for Irish GAAP issuers refer

benefit using the Projected Unit Credit Method in order to determine the present value of the defined benefit obligation and the current service cost.

Aspects of accounting for retirement benefits that may warrant additional attention in the context of 2008 or 2009 year-ends include:

- (a) in the context of increased credit spreads, the significant judgements required in determining the appropriate discount rates used to discount post-employment benefit obligations¹³;
- (b) in the context of current market conditions, the determination of the fair value of plan assets¹⁴; and
- (c) in the context of the changed economic environment, whether or not it is appropriate for issuers to have the results of previous actuarial valuations updated for any material transactions and circumstances as opposed to obtaining a full current actuarial valuation for financial reporting purposes¹⁵.

In its reviews of financial reports in the coming year, IAASA is likely to examine issuers' treatment of retirement benefits in detail. In that context IAASA will, in particular, be expecting issuers to have provided sufficient explanations of the rationale underlying significant valuation assumptions¹⁶.

3. Going concern/principal risks and uncertainties

The IASB *Framework*¹⁷ states:

*'... financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed'*¹⁸.

Paragraphs 23 and 24 of IAS 1 *Presentation of Financial Statements* for IFRS issuers and paragraphs 21 to 25 of FRS 18 for Irish GAAP issuers are relevant in this regard.

Against the background of potentially falling asset values and decreased earnings, Boards and Audit Committees will be expected to place additional emphasis on satisfying themselves that the preparation of financial reports on a going concern basis is appropriate. In so doing, the directors' assessment would be expected to include consideration, *inter alia*, of:

- cash flow forecasts and budgets and reliability of projections;
- borrowing requirements and compliance with bank covenants;
- availability of loan facilities and other sources of funding;
- liability management;
- contingent liabilities;
- products and markets;
- financial risk management;
- other factors including exchange rate movements; and
- financial adaptability.

¹³ Paragraph 78 of IAS 19 for IFRS issuers and paragraphs 32 to 34 of FRS 17 for Irish GAAP issuers refer

¹⁴ Paragraph 102 of IAS 19 for IFRS issuers and paragraph 14 of FRS 17 for Irish GAAP issuers refer

¹⁵ Paragraphs 56 and 57 of IAS 19 refer

¹⁶ Paragraphs 120, 120A, BC82 and BC85A(f) of IAS 19 refer

¹⁷ *Framework for the Preparation and Presentation of Financial Statements*

¹⁸ Paragraph 23 of the IASB *Framework*. The ASB *Statement of Principles for financial reporting* sets out similar provisions and FRS 18 *Accounting policies* for Irish GAAP issuers also refers

A consequence of the current uncertain environment will, for many issuers, be the need for additional disclosures in their financial reports regarding the risks and uncertainties that they face. In that context directors' attention is drawn to the Transparency Regulations, which require that the Management Report included in the annual financial report include a description of the principal risks and uncertainties that the issuer faces¹⁹. IAS 1 also requires the disclosure of information to assist users in predicting issuers' future cash flows and, in particular, the timing and certainty of those future cash flows²⁰.

Based on its review activities to date, IAASA has found the standard of compliance with the requirements associated with disclosure of principal risks and uncertainties to be varied and, on that basis and having regard to current economic circumstances, one of the aspects that is likely to be focused on during the course of reviews of issuers' financial reports in the coming year will be the quality of risk and uncertainty disclosures. Specifically, IAASA is likely to focus on whether the disclosures provided by preparers are meaningful and issuer-specific as opposed to being boiler plate in nature.

4. Financial instruments: IFRS 7/FRS 29 disclosures

IFRS 7 *Financial Instruments: Disclosures*²¹ became effective for accounting periods beginning on or after 1 January, 2007 and requires disclosures concerning the significance of financial instruments for an entity's financial position and performance. In that context, Boards' and Audit Committees' attention is drawn to the objective of IFRS 7 which is:

'to require entities to provide disclosures in their financial statements that enable users to evaluate:

- (a) the significance of financial instruments for the entity's financial position and performance; and*
- (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.'*²²

The extent of disclosure required depends on the extent of an issuer's use of financial instruments and of its exposure to risk²³. In determining the appropriate level of disclosure, directors are reminded of the provisions of paragraph B3 of IFRS 7, which states that:

'It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. For example, an entity shall not obscure important information by including it among a large amount of insignificant detail. Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between individual transactions or associated risks.'

IAASA's review activity to date has given rise to a range of findings regarding issuers' financial instrument disclosures and, as a consequence, this will continue to be an area of focus during 2009. In conducting its reviews of financial reports in the coming year, IAASA is likely to focus on the standard, quality and appropriateness of issuers' IFRS 7 disclosures and, in particular, on whether disclosures are meaningful, issuer-specific and balanced as opposed to being boiler plate in nature.

¹⁹ Regulation 5(4)(c). Section 13 of the Companies (Amendment) Act, 1986 and Rule 6.1 of the Interim Transparency Rules issued by the Financial Regulator also refer

²⁰ Paragraph 7 of IAS 1 *Presentation of Financial Statements* refers

²¹ FRS 29 (*IFRS 7*) *Financial Instruments: disclosures* is the equivalent Standard for Irish GAAP issuers

²² Paragraph 1 of IFRS 7 for IFRS issuers and FRS 29 for Irish GAAP issuers refer

²³ Paragraph IN4 of IFRS 7 for IFRS issuers and FRS 29 for Irish GAAP issuers refer

5. Hedge effectiveness

IAS 39²⁴ sets out the conditions under which a hedging relationship qualifies for hedge accounting and sets out the accounting requirements for hedge accounting, including the determination of the effectiveness or otherwise of the hedge.

In times of market turbulence, measurement of the effectiveness of hedges takes on additional importance. Any misstatements in this regard have the potential to be very significant to an issuer's financial results. Boards and Audit Committees should, therefore, carefully review, and where necessary challenge, the assumptions employed by management in their assessment of hedge effectiveness.

IFRS 7²⁵ sets out the disclosure requirements in relation to the nature and extent of risks arising from financial instruments. In deciding on the extent of the required disclosures, issuers are expected to consider counterparty risk in hedge transactions.

6. Judgements

In the process of applying selected accounting policies, judgements are made that may significantly affect the amounts recognised in the financial statements. In the context of the foregoing, Boards and Audit Committees are reminded of the requirements of paragraphs 113 to 116 of IAS 1²⁶, which require disclosure in periodic financial reports of:

- (a) the judgements that have been made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements; and
- (b) information about the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that pose a significant risk of giving rise to a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

IAASA's review activity to date has indicated that periodic financial reports vary considerably in the extent to which issuers have clearly and comprehensively disclosed the judgements made in preparing financial statements. Accordingly, this is likely to remain an area of focus during 2009.

For Boards' and Audit Committees' benefit, an example of particular relevance to debt and fund issuers in the above context is that of the classification of financial instruments between equity and financial liabilities under IAS 32 *Financial Instruments: Presentation*²⁷. Review activity to date has identified instances in which seemingly similar financial instruments have been classified in different ways by issuers while associated disclosures have been found to be insufficient to facilitate an understanding of the underlying judgements. While the appropriate classification will depend on the particular circumstances, it is important to ensure that sufficient and appropriate accounting policy disclosures and explanatory notes are provided in order to enable users to fully understand the significant judgements that have had an effect on the amounts presented in the financial statements.

²⁴ Paragraphs 88 to 102 and AG94 to AG132 of IAS 39 *Financial Instruments: Recognition and Measurement* for IFRS issuers and FRS 26 (IAS 39) *Financial instruments: recognition and measurement* for Irish GAAP issuers refer.

²⁵ FRS 29 is the equivalent standard for Irish GAAP issuers

²⁶ IAS 1 (effective for accounting periods beginning on or after 1 January, 2005). The requirements of paragraph 55(b) of FRS 18 are relevant in this regard for Irish GAAP issuers

²⁷ FRS 25 *Financial Instruments: Presentation (IAS 32)* is the equivalent Standard for Irish GAAP issuers

7. Related party disclosures

IAS 24 *Related Party Disclosures* defines key management personnel as ‘...those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity’²⁸ and requires key management personnel’s compensation to be disclosed in total and under various headings (e.g. short-term employee benefits, post-employment benefits, other long-term benefits, termination benefits and share-based payment)²⁹.

IAASA’s review findings to date have identified instances in which issuers have failed to meet the disclosure requirements of this Standard. Boards and Audit Committee members should, therefore, satisfy themselves that all necessary accounting disclosures have been provided before publishing financial reports.

Where, during the financial year, there have been transactions between the entity and its key management personnel, issuers are required to disclose information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. Such information relates to transactions including the purchases or sales of goods and services and the provision of loans, guarantees or collateral. Minimum disclosures in relation to these transactions include the amount of the transactions, the amount of outstanding balances, and amounts of bad debts and provisions for doubtful debts in relation to these transactions³⁰.

In view of recent publicity surrounding the issue of directors’ loans, Boards’ and Audit Committee members’ attention is also drawn to the statutory provisions governing transactions with directors as set out in Part III of the Companies Act, 1990. Boards and Audit Committees should satisfy themselves that all statutory requirements regarding such transactions that are of relevance to the financial statements have been fully complied with.

8. Deferred tax assets

The justification for recognising deferred tax assets in circumstances where an issuer has incurred losses merits close consideration by preparers. In the current economic climate, Boards and Audit Committees will need to rigorously assess whether or not it is probable that future taxable profits will be available against which unused tax losses can be utilised³¹.

IAASA has previously had cause to enter into correspondence on this issue with a number of issuers and, accordingly, issuers’ treatment will continue to be examined during reviews of financial reports in the coming year.

9. Operating profit

Under IFRS the disclosure of results from operating activities is not mandatory. However, issuers may elect to disclose results of operating activities or a similar line item³². While operating profit is not defined in IAS 1, issuers should ensure that any amount presented as operating profit is representative of activities that would normally be considered to be ‘operating’. In the context of the foregoing, paragraph BC13 of IAS 1 states that ‘...it would be misleading and would impair comparability of financial statements if items of an operating nature were excluded from the results of operating activities, even if that had been industry practice. For example, it would be inappropriate to exclude items clearly related to operations (such as inventory write-downs, and restructuring and relocation expenses) because they occur irregularly or infrequently or are

²⁸ Paragraph 9 of IAS 24 refers. Paragraph 2.3 of FRS 8 *Related party disclosures* defines the term ‘key management’ for Irish GAAP issuers

²⁹ Paragraph 16 of IAS 24

³⁰ Paragraphs 17, 18 and 20 of IAS 24 refers. Paragraphs 6 and 19 of FRS 8 contain broadly similar requirements.

³¹ Paragraph 34 of IAS 12 *Income Taxes for IFRS issuers* and paragraph 23 of FRS 19 *Deferred tax for Irish GAAP issuers* refer

³² Paragraphs BC12 and BC13 of IAS 1 for IFRS issuers. FRS 3 *Reporting financial performance* specifies the format to be used for the profit and loss account to highlight a number of important components of financial performance

unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation and amortisation expenses’.

IAASA’s review activity to date indicates that issuers differ in their presentation of items within and outside of operating profit and in the level of accompanying disclosure provided. Given the prominence attributed to the line item ‘Operating Profit’ by users of periodic financial reports and the degree of judgement required in relation to the classification of items within and outside of operating profit, particularly having regard to the provisions of paragraph BC13 of IAS 1, Boards and Audit Committees should give consideration as to whether it is necessary to include an accounting policy disclosure for the purpose of explaining the directors’ judgement and rationale in this regard. Boards and Audit Committees should also note in this context that disclosure of accounting policies adopted that are relevant to an understanding of the financial statements is required by IAS 1³³.

10. Alternative performance measures

Some issuers choose to present alternative performance measures in their periodic financial reports (typically either in the Management Report or in another section of the Annual Report outside of the audited financial statements). In that context, Boards’ and Audit Committees’ attention is drawn to a CESR³⁴ Paper entitled ‘*Recommendation on Alternative Performance Measures*’³⁵. This Paper encourages issuers that decide to provide the financial markets with alternative performance measures to do so in a manner that is:

- appropriate; and
- useful for investors’ decision making.

While the recommendations set out therein are not mandatory, the Paper provides useful guidance on the use of alternative performance measures and is generally accepted to represent good practice. Such additional financial data which, typically, are either derived from the financial statements or stem from other sources or alternative methodology to conventional accounting, include, for example, measures such as ‘*Operating Earnings*’, ‘*Cash Earnings*’, ‘*Earnings Before Non-recurring Charges*’, ‘*Earnings Before Interest, Taxation, Depreciation and Amortisation*’ (‘EBITDA’), alternative Earnings Per Share (‘EPS’) measures and similar terms denoting adjustments to line items of the Income Statement, Balance Sheet or Cash Flow Statement. IAASA has noted that the presentation of line items ‘*on a constant currency basis*’ is a feature in several issuers’ financial statements in recent months.

The CESR Recommendation encourages issuers to:

- (a) ensure that, in presenting alternative performance measures, they adhere to the four qualitative characteristics that make the information provided in IFRS financial statements useful to users, namely:
 - i. understandability;
 - ii. relevance;
 - iii. reliability; and
 - iv. comparability; and
- (b) define the terminology used and the basis of calculation adopted (i.e. defining the components included in alternative performance measures).

³³ Paragraph 108 of IAS 1 for IFRS issuers. Paragraph 55(a) of FRS 18 requires disclosure of each of the accounting policies that is material in the context of an entity’s financial statements for Irish GAAP issuers

³⁴ The Committee of European Securities Regulators

³⁵ CESR Recommendation on Alternative Performance Measures Reference CESR/05-178b and available via the IAASA website at <http://www.iaasa.ie/publications/index.htm>

IAASA's experience to date has been that, while many issuers present alternative performance measures in periodic financial reports, the quality of narrative explanations accompanying same is varied and ranges from reasonably comprehensive to little or none. In particular, failure to define terminology used is a frequently identified deficiency.

11. Business combinations

IFRS 3 *Business Combinations* specifies the required financial reporting when an issuer undertakes a business combination³⁶. Issues relating to the application of this Standard have featured prominently in both IAASA's and its European counterparts' review activity during 2008. Potential issues arising in this regard include:

- (a) non-compliance with certain IFRS 3 requirements concerning the allocation of the cost of acquisition to identifiable assets at fair value;
- (b) allocation of acquisition costs – inappropriate inclusion of identifiable and measurable intangible assets in goodwill; and
- (c) use of provisional values as fair values because not all relevant information was available at the acquisition date and failure to disclose that such values were provisional.

12. Earnings per share

IAS 33 *Earnings per Share* applies to all issuers (i.e. equity, debt and fund) whose ordinary or potential ordinary shares are traded in a public market³⁷. Earnings per share ('EPS') disclosures are required for all issuers coming within scope of the Transparency Regulations. In that context, and having regard to previous IAASA review findings, Boards and Audit Committees of closed ended funds in particular are reminded that the requirement to provide EPS is not negated by providing Net Asset Value ('NAV') disclosures. Based on its review activity to date, IAASA has found that some issuers omit EPS disclosures in their entirety.

13. Prior period errors

Paragraph 42 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires that issuers correct material prior period errors retrospectively in the first set of financial statements authorised for issue after the discovery of such errors, by either restating the comparative amounts for the prior period(s) presented in which the error occurred or, if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented. Paragraph 49 requires the disclosure of the nature and effect of the correction of prior period errors³⁸.

IAASA's review activity to date has identified instances in which issuers have restated prior period comparatives without meeting the requirements of IAS 8 or have provided only limited explanations of the nature and effect of the restatement. In addition, IAASA's reviews have identified instances in which issuers have corrected prior period errors on a prospective basis, thereby failing to comply with the requirements of IAS 8³⁹.

Following reviews of their periodic financial reports, a number of issuers have undertaken to change accounting treatments in their next financial reports. These issuers are reminded that, in reflecting these changes, the aforementioned requirements need to be met, including those requirements relating to the disclosure of the nature and effect of the correction of prior period errors.

³⁶ FRS 6 *Acquisitions and mergers* is the relevant Standard for Irish GAAP issuers

³⁷ Paragraph 2 of IAS 33 for IFRS issuers and paragraph 2 FRS 22 *Earnings per share (IAS 33) for Irish GAAP issuers*

³⁸ Paragraph 29 of FRS 3 contains broadly similar requirements for Irish GAAP issuers

³⁹ Paragraph 42 of IAS 8 for IFRS issuers refers. FRS 18 *Accounting policies* is the equivalent ASB Statement for Irish GAAP issuers

14. Recently promulgated accounting pronouncements

Issuers are reminded of the provisions of paragraph 30 of IAS 8 which require that, where an entity has not applied a new IFRS or IFRIC⁴⁰ Interpretation that has been issued but that is not yet effective, the issuer shall disclose both this fact and known or reasonably estimable information relevant to assessing the possible impact that application of that IFRS or IFRIC Interpretation will have on the entity's financial statements in the period of initial application.

IAASA has found from its review activity to date that certain issuers have not provided these required disclosures in their periodic financial reports⁴¹.

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⁴⁰ International Financial Reporting Interpretation Committee.

⁴¹ The status of the EU endorsement of IFRSs can be found at <http://www.efrag.org/homepage.asp>

Appendix

Overview of considerations affecting risk assessment and selection

In the context of the discharge of its financial reporting review remit, IAASA has undertaken to apply CESR Standards on enforcement of financial reporting and related guidelines. CESR Standards require, *inter alia*, that selection methodologies must include risk-based methodologies. It is not, for example, permitted under CESR Standards to adopt selection methodologies based purely on cycles or random selections.

As a consequence of the foregoing, IAASA has resolved to adopt a mixed model, whereby selections of issuers' financial reports for review will be 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 review). IAASA has further decided that a risk-based approach should have regard, *inter alia*, to:

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

In that context, there are, in IAASA's assessment, numerous risk factors, or combinations thereof, that might usefully be considered in assessing the relative risk of an incidence of material misstatement in an issuers' financial report. These include, amongst others:

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

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

- (a) share trading activity and volatility in stock price;
- (b) market capitalisation;
- (c) number and nature of investors;
- (d) nature of securities traded; and
- (e) public profile.

In addition, and as stated in the introduction to this publication, where previous instances of non-compliance have been identified the potential for an issuer's future periodic financial reports to be reviewed increases.