

January 2023

Financial Reporting Supervision

**Financial  
Reporting  
Decisions**

# Vision



Public trust and confidence in quality auditing and accounting

# Mission

Upholding quality corporate reporting and an accountable profession



# Our Values



## Excellence

Striving to be the best we can be



## Independence

Regulating impartially and objectively



## Integrity

Being trustworthy and respectful

### Disclaimer

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# 1. Background and introduction

In accordance with its Policy Paper [Publication of information regarding IAASA's financial reporting supervision activities](#) (revised December 2022), IAASA publishes this compendium of financial reporting decisions with the aim of promoting high quality financial reports.

IAASA applies criteria to determine whether a financial reporting decision is significant and warrants publication in this compendium. Some factors so considered include, but are not limited to, whether the decision:

- refers to financial reporting matters with technical merit
- has been discussed at European Enforcer Coordination Sessions (EECS) as an emerging issue
- has been submitted to the EECS Decision Database
- may be of interest to other European accounting enforcers
- indicates a risk of significantly different financial reporting treatments being applied by issuers
- is likely to have a significant impact on other Irish or European issuers
- is taken on the basis of a provision not covered by a specific financial reporting standard.

The financial reporting decisions included in this compendium were deemed by IAASA to be significant.

## 2. CRH plc – annual financial statements – 31 December 2021

- **European Securities and Markets Authority *Guidelines on Alternative Performance Measures***
- **Management Report – Transparency (Directive 2004/109/EC) Regulations 2007**

<b>Issuer</b>	CRH plc
<b>Report type</b>	Annual financial statements
<b>Reporting period</b>	Year ended 31 December 2021
<b>Financial reporting framework</b>	IFRS-EU
<b>Applicable financial reporting standards</b>	European Securities and Markets Authority <i>Guidelines on Alternative Performance Measures</i>  Transparency (Directive 2004/109/EC) Regulations 2007 (S.I. 277 of 2007)
<b>Summary</b>	This Decision concerns the disclosure of climate-related matters in the management report.
<b>Background</b>	The issuer is a global group of diversified buildings materials businesses. It manufactures and supplies a wide range of products for the construction industry.  IAASA performed a focussed examination of the issuer’s annual financial statements for the year ended 31 December 2021.
<b>Outline of financial reporting treatments applied by the issuer</b>	The issuer disclosed four climate targets/objectives in its management report: <ul style="list-style-type: none"> <li>(a) a carbon emissions target of 520kg CO<sub>2</sub> per tonne of cementitious product by 2025,</li> <li>(b) a target of 50% of the issuer’s product revenue to be derived from products with enhanced sustainability attributes by 2025,</li> <li>(c) an absolute carbon emissions reduction target of 25% (Scope 1 and Scope 2) by 2030 against a 2020 baseline, and</li> <li>(d) an ambition to become a net-zero business by 2050.</li> </ul> <p>The issuer confirmed to IAASA that:</p> <ul style="list-style-type: none"> <li>(a) to achieve a 25% reduction in absolute issuer-wide Scope 1 and Scope 2 emissions by 2030, it has developed a carbon reduction roadmap. The 2025 carbon emissions reduction target is a component of the 2030 roadmap and the actions and costs to achieve the 2025 targets have been fully reflected in the roadmap</li> </ul>

- (b) as outlined in an Investor Update (published in April 2022) the delivery of this roadmap will require an estimated US\$150m per annum increase in capital expenditure to achieve a 25% reduction in absolute issuer-wide Scope 1 and Scope 2 emissions by 2030. This information was not included in the management report
- (c) the 2030 25% carbon emissions reduction target is an absolute reduction target which factors in the growth of the issuer's business
- (d) its 2025 target represents an internal goal set by the issuer itself
- (e) the issuer has estimated the capital expenditure associated with achieving the target, and
- (f) the products from the increase in proportion of sales with "enhanced sustainability attributes" will not require significant changes as to how the issuer currently operates.

A footnote to the financial statements defined "*products with enhanced sustainability attributes*" as '*products that incorporate recycled materials, products for which alternative energy/fuel sources are used in production, products which have a lower carbon footprint and products that address sustainability challenges in the built environment ...*'

#### **Outline of findings made by IAASA**

Regulation 5(4)(c) of the Transparency (Directive 2004/109/EC) Regulations 2007 (S.I. 277 of 2007) states that:

*'... the management report includes a fair review of the **development** [bold emphasis added] 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.'*

IAASA concluded that:

- (a) while the annual report disclosed that the Science Based Target Initiative (SBTi)'s Target Validation Team has classified the issuer's Scope 1 and Scope 2 target ambition and has determined that it is in line with a well-below 2° C trajectory, the disclosures in the annual report did not provide adequate clarification that the 25% carbon reduction target by 2030 factors in the future growth of the issuer's business
- (b) given the issuer considers the information regarding the estimated capital expenditure of c. US\$150m p.a. which is required to achieve the 25% reduction in absolute issuer wide Scope 1 and Scope 2 emissions by 2030 is sufficiently material for inclusion in an Investor Update, such information warrants disclosure in the issuer's management report as part of the fair review of the development and performance of the business, and
- (c) further information could have been provided for additional clarity in the management report for "products with enhanced sustainability attributes" such as disclosing that such products can have any or all of the following attributes:
  - (i) products incorporating recycled materials
  - (ii) products for which alternative energy/fuel sources are used in production
  - (iii) products having a lower carbon footprint, and
  - (iv) products addressing sustainability challenges in the built environment

- (d) the revenue from “products with enhanced sustainability attributes” is an alternative performance measure as defined in the ESMA APM Guidelines. The issuer agreed that the following information required by the ESMA APM Guidelines will be provided in future reporting periods for revenue from “products with enhanced sustainability attributes” which amounted to US\$11.5bn in 2021 and which equated to 37% of the issuer’s 2021 revenues:
  - (i) labels (paragraphs 22 to 25 of the ESMA APM Guidelines)
  - (ii) reconciliations (paragraph 26 to 32), and
  - (iii) explanations (paragraphs 33 and 34).

**Outline of corrective actions undertaken or to be undertaken**

Following the engagement with IAASA, the issuer voluntarily undertook to:

- (a) provide the appropriate definitions, reconciliations and other related principles as required by the ESMA APM Guidelines for revenue from “products with enhanced sustainability attributes” in future periodic financial reports
- (b) clarify in future periodic financial reports the 2030 target by explaining that it takes into account future organic growth of the business
- (c) include information in future management reports regarding the fair review of the issuer’s development or performance of the business (e.g., to implement its 2030 climate reduction target will require an additional c. US\$150m capital investment per annum), and
- (d) to explain in future periodic financial reports that “products with enhanced sustainability attributes” can have any or all of the following attributes:
  - (i) products incorporating recycled materials
  - (ii) products for which alternative energy/fuel sources are used in production
  - (iii) products having a lower carbon footprint, and
  - (iv) products addressing sustainability challenges in the built environment.

### 3. Flutter Entertainment plc – annual financial statements – 31 December 2021

- **IFRS 8 Operating Segments**

<b>Issuer</b>	Flutter Entertainment plc
<b>Report type</b>	Annual financial statements
<b>Reporting period</b>	Year ended 31 December 2021
<b>Financial reporting framework</b>	IFRS-EU
<b>Applicable financial reporting standards</b>	IFRS 8 <i>Operating Segments</i>
<b>Summary</b> This Decision deals with the identification of operating segments for the purposes of disclosing reportable segments under IFRS 8.	
<b>Background</b> The issuer is a global sports betting and gaming operator with a portfolio of international brands and operations.  IAASA performed a focused examination of the issuer's annual financial statements for the year ended 31 December 2021.	
<b>Outline of financial reporting treatments applied by the issuer</b> The issuer disclosed in its segment disclosures note that the CEO and the CFO together perform the function of chief operating decision maker (CODM) and disclosed that the issuer has the following four reportable segments:  (a) UK and Ireland  (b) Australia  (c) International, and  (d) USA.  Given the substantial operations of some of the issuer's brands, IAASA requested the issuer to explain whether or not the CODM regularly reviewed the financial performance of each of the 12 business units (brands) on an individual basis.  IAASA reviewed the monthly reporting package provided to the CODM.  IAASA noted that, until May 2022:  (a) for each of the 12 business units/brands the CODM reporting package, presented revenue, net win %, cost of sales, cost of sales %, gross profit, marketing costs, other operating expenses, adjusted EBITDA, EBITDA margin %, depreciation and amortisation and adjusted EBIT	



- (b) a narrative summary of the key matters for each of the 12 business units/brands was presented e.g., high level explanations were given for movements in revenues, movements in cost of sales, and movements in Opex, and
- (c) forecast numbers covering revenue, net win %, cost of sales, cost of sales %, gross profit, marketing costs, contribution, other operating expenses, adjusted EBITDA, EBITDA margin% and adjusted EBIT were prepared and presented in the CODM reporting package for each of the 12 business units/brands.

The issuer also provided the following confirmations to IAASA:

- (a) the issuer has decided to modify the CODM reporting package to align with how the CODM actually assesses performance and allocates resources. By way of example, the issuer provided the revised CODM reporting package to IAASA for the month of June 2022 – this CODM reporting package did not include any financial information/financial drivers for any of the 12 business units (brands)
- (b) within each of the current reportable segments, there is a significant amount of resource, management and technology that is common and shared between each of the individual brands which means the profitability of the individual brands is not regularly reviewed or meaningful on a standalone basis from the perspective of the CODM
- (c) while EBITDA by brand is provided in the CODM reporting package, it is not reviewed by the CODM. The performance of the brands within each segment are reviewed only to the extent to which it helps explain the performance of the overall segment. This review normally only relates to revenue performance and not to other profitability metrics such as EBITDA
- (d) the segment management team are rewarded based on the performance of the complete segment rather than individual brands within that segment
- (e) the operating results of the 12 business units (brands) are not regularly reviewed by the CODM. The CODM reporting package contains pages which provides the profitability by brand and the pack also contains other financial 'drivers' information on each brand. The inclusion of these pages/information does not necessarily mean that the CODM reviews this information and this information is not used by the CODM to make decisions about resources to be allocated
- (f) the CODM makes allocation of resource decisions only for the four reportable segments. It is the segmental CEOs and CFOs that make decisions around the allocation of resources to individual brands within the segments', and
- (g) the CODM reporting package is also used by others within the issuer's finance team – its sole purpose is not to inform the CODM.

Following interaction with IAASA, the issuer acknowledged that the level of information in the CODM reporting package up to May 2022 could indicate that the 12 business units (brands) could meet some of the criteria as an operating segment under IFRS 8.5. The issuer also indicated to IAASA that the CODM reporting package is not the key information on which the CEO and CFO reviews as members of the CODM.

#### **Outline of findings made by IAASA**

IAASA did not accept the issuer's explanation that the CODM does not use a large part of the CODM reporting package as a valid argument.

IAASA reviewed the other information that the CODM reviews to assess performance and allocate resources across the issuer.

IAASA examined and discussed the following information with the issuer:

- (a) the issuer's workings for the calculation of some of the segment CEO's performance related pay – and it was determined that the segment CEOs are remunerated based on the segment performance as a whole and not based on the specific performance of any of the multiple brands within each segment
- (b) the CODM reporting packages post May 2022 indicate that the CODM reviews only the financial information for the four reported segments
- (c) internal regulatory reports which include information such as the impact of gambling legislation within a geographical region as opposed to an impact on any specific brand,
- (d) acquisition approval files – it was noted from discussion with the issuer that it is the individual Segment CEOs that make a business case for a particular acquisition within their geographical operating segment and the acquisitions would benefit the segment as a whole as opposed to an individual brand
- (e) CFO papers that outlined the CFO's view of the business which is based on the four operating segments, and
- (f) the level of expenditure which the Segment CEOs can spend without having to get approval from the CODM.

Given that:

- (a) the issuer has changed the information included in the CODM reporting package in 2022 (i.e., CODM reporting package from June 2022 onwards) where the financial information for each of the 12 business units (brands) is no longer provided to the CODM, and
- (b) IAASA's review of the other information requested from and provided by the issuer indicates that the CODM assesses performance on a four operating segment basis

IAASA concluded that it does not disagree with the issuer's rationale as to why it has four operating segments.

**Outline of corrective actions undertaken or to be undertaken**

None. IAASA did not disagree with the issuer's disclosures.

## 4. Flutter Entertainment plc – annual financial statements – 31 December 2021

- **IAS 36 *Impairment of Assets***

<b>Issuer</b>	Flutter Entertainment plc
<b>Report type</b>	Annual financial statements
<b>Reporting period</b>	Year ended 31 December 2021
<b>Financial reporting framework</b>	IFRS-EU
<b>Applicable financial reporting standards</b>	IAS 36 <i>Impairment of Assets</i>
<b>Summary</b>	
This Decision deals with an issuer which disclosed in its 2021 annual financial statements that it had six cash-generating units (CGUs).	
Following examination of various internal reports prepared by the issuer, IAASA concluded that the issuer has thirteen CGUs and, given the synergies between the CGUs, it was appropriate for the issuer to group those CGUs into the six CGUs for goodwill impairment purposes.	
<b>Background</b>	
The issuer is a global sports betting and gaming operator with a portfolio of international brands and operations.	
IAASA performed a focused scope examination of the issuer's annual financial statements for the year ended 31 December 2021.	
<b>Outline of financial reporting treatments applied by the issuer</b>	
The issuer disclosed in the notes to the financial statements that it had identified six cash-generating units (CGUs) as being the lowest level within the Group at which the goodwill is monitored for internal management purposes.	
<b>Outline of findings made by IAASA</b>	
IAASA performed an on-site examination and inspected the issuers' cash flow projections which were used to estimate the recoverable amounts for each of the six CGUs. IAASA sought to understand how the cash inflows and cash outflows were calculated.	
Paragraph 6 of IAS 36 <i>Impairment of Assets</i> defines 'cash generating unit' as:	
<i>'the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets ...'</i>	
IAS 36.80 states that:	
<i>'For the purposes of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units or group of cash generating units that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or group of units....'</i>	

IAS 36.81 and 82 are also considered relevant for this Decision.

Following IAASA's examination of the cash flow projections and related discussions on how certain amounts were calculated and how costs were allocated to the CGUs, IAASA determined that:

- (a) the issuer tracks and separately identifies the revenue that is generated by each of the thirteen business units/brands and it appeared to IAASA that each of these business units generate cash inflows that are largely independent from other assets or group of assets
- (b) certain costs such as technology, product, risk and trading, customer operations, finance and Human Resources are shared across the thirteen CGUs, and
- (c) the synergies from these legacy business combinations appear to relate to assembled workforce. For example, IT staff members work on the IT platforms that relate to more than one brand. Accordingly, for goodwill impairment purposes these CGUs are grouped together for goodwill impairment purposes. There are also synergies for cross-selling of the issuer's products/games to its existing customers.

IAASA concluded that:

- (a) the issuer has thirteen CGUs as the issuer can identify the cash inflows that each of the thirteen business units/brands can generate and these thirteen business units/brands do meet the definition of a CGU in IAS 36.6
- (b) the issuer must disclose that it has thirteen CGUs for the purpose of testing assets other than goodwill for impairment, and
- (c) as the issuer cannot allocate the goodwill to each of the thirteen CGUs except on an arbitrary basis, the thirteen CGUs could be grouped into six CGUs that are expected to benefit from the synergies.

**Outline of corrective actions undertaken or to be undertaken**

The issuer undertook to disclose in future periodic financial reports that it has thirteen CGUs but grouped into CGUs/groups of CGUs for goodwill impairment testing purposes.

## 5. Tullow Oil plc – annual financial statements – 31 December 2021

- **Management Report – Transparency (Directive 2004/109/EC) Regulations 2007**

<b>Issuer</b>	Tullow Oil plc
<b>Report type</b>	Annual financial statements
<b>Reporting period</b>	Year ended 31 December 2021
<b>Financial reporting framework</b>	IFRS-EU
<b>Applicable financial reporting standards</b>	Transparency (Directive 2004/109/EC) Regulations 2007 (S.I. 277 of 2007)
<b>Summary</b> This financial reporting decision involves an issuer who publicly announced in March 2021 its commitment to being Net Zero on its Scope 1 and Scope 2 emissions on a net equity basis by 2030. This financial reporting decision relates to whether or not the management report provided a balanced and comprehensive analysis of the issuer's plans in achieving this 2030 target.	
<b>Background</b> The issuer is an independent oil and gas exploration and production company.  IAASA performed an unlimited scope examination of the issuer's annual financial statements for the year ended 31 December 2021.	
<b>Outline of financial reporting treatments applied by the issuer</b> The issuer disclosed in the notes to the financial statements that:  <i>'In March 2021, Tullow announced its commitment to being Net Zero on our Scope 1 and Scope 2 emissions on a net equity basis by 2030 supporting the goal of limiting global temperature rise to well below 2° C as per Article 2 of the Paris Agreement ...'</i>  Within the management report, the issuer disclosed its total air emissions (Scope 1 and Scope 2) in thousand tCO <sub>2e</sub> which increased by 9.5% from 2020 levels.  The issuer also disclosed in the management report that it has <i>'committed to becoming a Net Zero Company by 2030 on its Scope 1 and 2 GHG emissions on a net equity basis through a combination of decarbonisation of our operated and non-operated assets and identifying nature-based solutions to offset our hard to abate emissions ...'</i>  The decarbonisation initiatives relate to the elimination of routine flaring of gas at its oil fields. The nature-based initiatives involve the investment in carbon offset projects initially in Ghana, its main country of oil production which accounts for 70% of its production.  IAASA noted from both the issuer's Sustainability Report and from media reports that the issuer signed a Memorandum of Understanding (MoU) with the Ghana Forestry Commission in February 2022 to establish and develop carbon offset initiatives that will help the issuer to realise its 2030 net zero target.  The issuer disclosed in its 2021 annual report that it targets to deliver, by 2030, a portfolio of projects that will generate credits to offset emissions of 600,000 tCO <sub>2e</sub> annually.	

Following the signing of the MOU with the Ghana Forestry Commission, it is envisaged that local communities will be involved in the nature-based projects (planting trees).

In response to a number of questions raised by IAASA, the issuer indicated that:

- (a) no nature-based initiative expenditures post 2021 have been reflected in the financial statements as the issuer does not have reliable figures until a feasibility report has been provided, and
- (b) the elimination of routine flaring of gas will reduce GHG emissions by at least 40% from a 2020 baseline. 60% of the reduction in GHG emissions will be achieved by investing in nature-based initiatives (planting forests).

#### **Outline of findings made by IAASA**

Regulation 5(4)(c)(ii) of the Regulations requires that:

*'the management report includes a fair review of the **development** [bold emphasis added] 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.'*

The issuer included a significant amount of positive narrative information in its report about being a net zero entity by 2030 and supporting local communities without discussing the challenges in achieving such a target and the fact that no feasibility study was completed. Without the feasibility study being completed, it is possible that the nature-based projects may not be feasible in assisting the issuer to becoming net zero by 2030.

The inclusion of the narrative information on the issuer's 2030 target has created a reasonable expectation on the part of users of the annual report that the issuer will be net zero by 2030.

It is IAASA's view that the practical difficulties in achieving this 2030 target, together with the fact that the feasibility report was not completed, were not adequately discussed in the management report. For these reasons, IAASA considers that the information provided in that management report regarding the 2030 target did not provide a fair review of the development and performance of the issuer.

IAASA concluded that additional disclosures should have been included in the management report to ensure that it presented a fair review of the development and performance of the issuer. IAASA concluded that the following matters should have been disclosed in more detail in the issuer's 2021 annual report:

- (a) details as to why the feasibility study was not completed. This would improve the balance within the management report because the issuer's commitment to being a net zero entity by 2030 is mentioned 62 times in the annual report while the nature-based initiatives in Ghana being at feasibility stage was mentioned just once in the report
- (b) the issuer did not have reliable amounts for the cost of these nature-based initiatives until completion of the feasibility study
- (c) the costs of the nature-based initiatives were not included in the issuer's impairment model
- (d) details as to how the issuer's target of being a net zero entity by 2030 was still considered feasible and achievable even though the feasibility study on the nature-based initiatives was not completed at the date of approval of the financial statements, and

- (e) the forestry project in Ghana is projected to offset 600,000 tonnes of CO<sub>2</sub>. However, the management report did not sufficiently discuss the scale and size of the nature-based projects that will be needed to achieve the issuer's net zero target.

**Outline of corrective actions undertaken or to be undertaken**

The issuer undertook to expand the disclosures in future periodic management reports to reference the following matters:

- (a) the issuer's commitment to being a net zero entity by 2030 is mentioned 62 times in the Report while the nature-based initiatives in Ghana being at feasibility stage was mentioned just once in the Report

The issuer will include additional information to present a balanced and comprehensive review of the development of its business with regard to its commitment to being a net zero entity by 2030 [e.g., the progress and challenges (both positive and negative) in achieving this 2030 target will be discussed in future management reports]

- (b) the issuer not having reliable amounts for the cost of the nature-based initiatives until completion of the feasibility study
- (c) the costs of the nature-based initiatives not being included in the issuer's impairment model
- (d) an explanation as to how the issuer's target of being a net zero entity by 2030 is considered feasible and achievable even though the feasibility study on the nature-based initiatives was incomplete, and
- (e) while the forestry project in Ghana is projected to offset 600,000 tonnes of CO<sub>2</sub>, the management report should sufficiently discuss the scale of the nature-based initiatives needed to achieve the Group's net zero target.

## 6. Tullow Oil plc – annual financial statements – 31 December 2021

- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets**

<b>Issuer</b>	Tullow Oil plc
<b>Report type</b>	Annual financial statements
<b>Reporting period</b>	Year ended 31 December 2021
<b>Financial reporting framework</b>	IFRS-EU
<b>Applicable financial reporting standards</b>	IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>
<b>Summary</b> <p>This financial reporting decision involves an issuer who publicly announced in March 2021 its commitment to being Net Zero on its Scope 1 and Scope 2 emissions on a net equity basis by 2030. This financial reporting decision relates to whether or not a constructive obligation arose for the issuer and whether a contingent liability should have been disclosed in its financial statements for the year ended 31 December 2021.</p>	
<b>Background</b> <p>The issuer is an independent oil and gas exploration and production company.</p> <p>IAASA performed an unlimited scope examination of the issuer's annual financial statements for the year ended 31 December 2021.</p>	
<b>Outline of financial reporting treatments applied by the issuer</b> <p>The issuer disclosed in the notes to the financial statements that:</p> <p><i>'In March 2021, Tullow announced its commitment to being Net Zero on our Scope 1 and Scope 2 emissions on a net equity basis by 2030 supporting the goal of limiting global temperature rise to well below 2° C as per Article 2 of the Paris Agreement ...'</i></p> <p>The issuer also disclosed in the management report that it has <i>'committed to becoming a Net Zero Company by 2030 on its Scope 1 and 2 GHG emissions on a net equity basis through a combination of decarbonisation of our operated and non-operated assets and identifying nature-based solutions to offset our hard to abate emissions ...'</i></p> <p>The decarbonisation initiatives relate to the elimination of routine flaring of gas at its oil fields. The nature-based initiatives involve the investment in carbon offset projects initially in Ghana, its main country of oil production which accounts for 70% of its production.</p> <p>IAASA noted from both the issuer's Sustainability Report and from media reports that the issuer signed a Memorandum of Understanding (MoU) with the Ghana Forestry Commission in February 2022 to establish and develop carbon offset initiatives that will help the issuer to realise its 2030 net zero target.</p> <p>The issuer disclosed in its 2021 annual report that it targets to deliver, by 2030, a portfolio of projects that will generate credits to offset emissions of 600,000 tCO<sub>2</sub>e annually.</p> <p>Both the issuer and the Ghana Forestry Commission signed the MOU during February 2022 and the issuer did not recognise a provision or disclose a contingent liability in its financial statements for the year ended 31 December 2021</p>	



The issuer confirmed to IAASA that no nature-based initiative expenditures post 2021 have been reflected in the financial statements as the issuer does not have reliable figures until a feasibility report has been provided.

#### **Outline of findings made by IAASA**

Paragraph 10 of IAS 37 defines a *'constructive obligation'* as:

*'an obligation that derives from an entity's actions where:*

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and*
- (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.'*

Paragraph 3 of IAS 10 *Events after the Reporting Period* states that:

*'Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:*

- (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period);*
- (b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period) ...'*

IAS 10.21 states that:

*'If non-adjusting events after the reporting period are material, non-disclosure could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:*

- (a) the nature of the event; and*
- (b) an estimate of its financial effect, or a statement that such an estimate cannot be made.'*

Following the signing of the MOU with the Ghana Forestry Commission, IAASA examined whether a constructive obligation arose for the issuer as it could be argued that the issuer created valid expectations in the Government of Ghana, the Ghana forestry Commission and local communities in Ghana that it will deliver nature-based initiatives to achieve its net zero commitment by 2030. IAASA also noted from its engagement with the issuer that the issuer had not completed a feasibility study and was unable to provide an estimate of the financial impact of these nature-based initiatives. IAASA examined the possibility of whether the issuer had to disclose a contingent liability in its financial statements for the year ended 31 December 2021.

IAASA also examined whether the fact that the issuer entered into a MOU with the Ghana Forestry Commission could be considered a sufficiently specific current statement for the purposes of IAS 37.10. It could be argued that the MOU leaves the issuer with no realistic alternative but to continue with the nature-based projects. In addition, Ghana is extremely

important to the issuer as it accounts for 70% of its oil production. The issuer received significant media attention following the signing of the MOU and the exchange of signed agreements between the issuer and the Ghana Forestry Commission.

Based on the above fact pattern, IAASA examined the possibility whether the MOU arrangement is a contingent liability (IAS 37.10) post year end and should have been considered as a non-adjusting event after the reporting period (IAS 10.3, IAS 10.10, IAS 10.21 and IAS 10.22.).

IAASA reviewed the MOU and IAASA confirmed that the MOU does not place unilateral obligations on the issuer. The objective of the MOU provides a basis for the issuer, together with the other parties to work on a collaboration basis as opposed to placing any obligations on the issuer. The issuer is not bound to commence these nature-based initiatives following the completion of the feasibility study. Following completion of the feasibility study, the issuer will have to make a decision as to whether or not to commence the nature-based initiatives project.

Given that the:

- (a) issuer has the option not to proceed with the nature-based initiatives project following the completion of feasibility study
- (b) the issuer is not required to pay any compensation, fines or penalties to any party to the MOU
- (c) issuer is not subject to any local environmental legislative requirements
- (d) issuer has no specific legal obligation to commence the nature-based initiatives project
- (e) issuer's 2030 net zero commitment is a commitment to offset future emissions and not past emissions, and
- (f) issuer's oil contracts will not be impacted by any decision by the issuer not to proceed with the nature-based projects

IAASA concluded that it does not disagree with the issuer's accounting treatment where no constructive obligation arose for the issuer following the signing of the MOU and the matter is not a non-adjusting event.

**Outline of corrective actions undertaken or to be undertaken**

None as IAASA did not disagree with the issuer's accounting treatment.



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