

Irish Auditing & Accounting
Supervisory Authority

Annual Report
2010

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

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ANNUAL REPORT **2010**

Introduction

It is with pleasure that I submit the Authority's fifth Annual Report to the Minister for Jobs, Enterprise and Innovation, Mr. Richard Bruton, TD, in accordance with section 22(1) of the Companies (Auditing and Accounting) Act 2003.

Context for the Authority's work during 2010

In the Authority's last Annual Report I commented on events in the banking sector and, specifically, the concerns that those events had given rise to in relation to the reliability of statutory financial reporting and the performance of the audit profession. Against that backdrop the Board continued to devote time during 2010 to overseeing the Authority's response to these concerns.

Authority activities during 2010

In the context of its financial reporting supervisory mandate the Authority continued its focus on reviewing constituent financial institutions¹ periodic financial reporting and, as considered necessary or otherwise appropriate, seeking additional information and explanations from those entities' Boards regarding the basis for their financial reporting judgements.

As can be seen from Chapter 4 of this Report, financial reporting issues on which the Authority engaged with these entities' Boards included impairment provisioning and accounting for the transfer of loans to the National Asset Management Agency as well as concluding our examination of the reporting of certain inter-institutional transactions between Anglo Irish Bank and Irish Life & Permanent. Given that we understand criminal proceedings are being contemplated, the Authority considers that it would be inappropriate to make public its conclusions at this time regarding the accounting treatment adopted by Anglo Irish Bank regarding the aforementioned inter-institutional transactions. During the year the Authority continued to co-operate and liaise with those parties taking the lead in investigating those matters, i.e. An Garda Síochána and the Director of Corporate Enforcement.

More broadly, and in the context of the standard and reliability of statutory financial reporting



Karen Erwin, Chairperson

generally, it is worth noting that the Authority did, as also set out in Chapter 4 of this Report, consider it necessary to obtain undertakings from a number of issuers' directors and a number of reviews resulted in issuers' Boards deciding to publish revised financial information. However, in a greater number of the significant issues examined, the Authority concluded that the accounting treatment adopted by issuers' Boards was consistent with the requirements of the relevant reporting framework. In the Authority's view, these differing outcomes should serve to support public confidence in the standard and reliability of statutory financial reporting in Ireland.

During the year, and in the context of its responsibility to supervise how the Prescribed Accountancy Bodies regulate and monitor their members, the Authority continued to monitor the Institute of Chartered Accountants in Ireland's ('the Institute') investigation of the roles played by certain of its members in events at Anglo Irish Bank. Whilst the Special Investigator appointed by the Institute certified during the year that, in his opinion, there existed *prima facie* cases that the aforementioned members were liable to disciplinary action under the Institute's Bye-Laws, as has subsequently come into the public domain, the Institute has decided to defer progression of these matters through the disciplinary process pending any criminal proceedings that might result from the investigations currently being undertaken by An Garda Síochána and the Director of Corporate Enforcement.

¹ AIB Bank, Anglo Irish Bank, Bank of Ireland and Irish Life & Permanent

At year end the Special Investigator was continuing his examination of Ernst & Young's performance as auditors to Anglo Irish Bank. As has also come into the public domain in recent days, Ernst & Young has sought leave to take Judicial Review proceedings against the Institute in relation to the appointment, and certain actions, of the Special Investigator.

Whereas the Special Investigator was charged with examining certain matters specific to Anglo Irish Bank, the Authority considered that a broader response to concerns regarding the auditing of financial institutions generally was necessary. The audit firms concerned are all Institute member firms and, under the extant legislative arrangements, responsibility for regulating members of the profession resides with the Prescribed Accountancy Bodies. That being the case, the Authority sought the Institute's analysis as to the most appropriate regulatory response to those concerns.

Following detailed engagement, the Institute, with the Authority's agreement, decided to commission a review of the 2008² audits of the covered institutions. This review is being overseen by an external independent expert. Its purpose is to determine whether the relevant audit firms³ applied appropriate procedures in their audit work in relation to the valuation of loans, and provisions for impairment on those loans, and complied with relevant legislative and professional requirements relevant to that work in order to satisfy themselves that the relevant institutions' financial statements were free from material misstatement, as asserted in their audit opinions. It is anticipated that the resultant report will be published in the summer of 2011.

Restoring confidence

Considerable effort has already been devoted domestically to restoring confidence in financial reporting and in the accountancy profession. As illustrated above, particular efforts have been made in this regard by the Authority and relevant professional bodies. In addition, and as a follow on from the Honohan and Regling/Watson Reports, the Report of the Commission of Investigation into

the Banking Sector in Ireland⁴ has been published in recent days.

The Commission's terms of reference with regard to external auditors were to determine whether the covered institutions' auditors commented in their audit reports, or other communications, on those institutions' failures or on the business models, strategies and lending practices in the case of Anglo Irish Bank and Irish Nationwide Building Society. The Commission's key conclusions regarding external auditors were summarised in the accompanying Department of Finance press statement⁵ as follows:

"Auditors' commentary regularly focuses only on issues which they consider relate to the accuracy of the historic accounts. In practice, this means that auditors look primarily backwards and at technical issues that may influence the accuracy of the accounts. The auditors clearly fulfilled this narrow function according to existing rules and regulations. [Executive Summary]

In the absence of an express requirement for the auditors to do so, there appears to have been no challenging dialogue with the covered banks on their business models and their growing property and funding exposures. Such dialogue could have highlighted the business model risks and might have influenced the banks in relation to their growing vulnerabilities as the Period progressed. [Section 3.9.5]

The Commission finds it unfortunate that sufficient, timely and challenging auditor dialogue was not used to influence the banks' business models and lending practices. [Section 3.9.6]"

The foregoing highlights the gap that exists between external auditors' statutory role and public expectations in that regard, a topic that the Authority commented upon at some length in its response to the European Commission's Green Paper on future audit policy in the European Union. In its submission, the Authority made, amongst others, the following points:

- it is appropriate that both the role and scope of audit be examined in the context of wider financial market regulatory reform currently underway;

² Year ended 31 March, 2009 in the case of the Bank of Ireland.

³ Ernst & Young, KPMG and PricewaterhouseCoopers.

⁴ Report of the Commission of Investigation into the Banking Sector in Ireland entitled 'Misjudging risk: Causes of the systemic banking crisis in Ireland', which is available at www.bankinginquiry.gov.ie/Documents/Misjudging%20Risk%20-%20Causes%20of%20the%20Systemic%20Banking%20Crisis%20in%20Ireland.pdf

⁵ www.finance.gov.ie/viewdoc.asp?DocID=6798

- any reform should be proportionate to the scale and attributes of both the audit firms and audited entities concerned. Therefore, rather than merely using a traditional 'listed versus non-listed' basis for distinguishing between audited entities, there may be merit in seeking to distinguish audited entities by reference to those that are systemically important to a Member State's economy (or to that of the European Union overall);
- any analysis of auditors' performance in the context of the financial crisis must have regard to the role played by accounting standards, specifically the IFRS mandated incurred loss approach;
- in the wake of the financial crisis, there is merit in examining whether auditors' societal role needs to be redefined. Specifically, consideration might usefully be given to whether auditors should be empowered, with appropriate legislative protections, to make public interest reports to appropriate authorities;
- there may be merit in requiring systemically important entities to provide greater levels of information in certain areas (e.g. governance, business models, risk management) and, to the extent practicable, requiring that such information be subject to scrutiny by auditors;
- audit methodology should be better explained in auditors' reports in order to aid users' understanding of audit and of the audit process; and
- in the case of systemically important financial institutions, there may be an argument for the statutory auditor having to be approved as suitable for appointment by the prudential regulator.

The European Commission received a very significant level of interest in the consultation exercise and expects to be in a position to publish proposals later in the year. The Authority looks forward to working with the Department of Enterprise, Jobs and Innovation and other interested parties in considering those proposals at that time and how they might best be implemented in Ireland with a view to further restoring confidence in statutory financial reporting and the audit profession.

Independent audit inspection

In the latter half of 2010 the Authority was advised that the, then, Minister for Trade & Commerce, Mr. Billy Kelleher, TD, had decided that the European Commission Recommendation to Member States on external quality assurance of auditors of Public Interest Entities ('PIEs') was to be implemented in Ireland. At that time the Authority was further advised of the Minister's decision that the Recommendation was to be implemented in the form of direct inspections to be performed by the Authority.

This decision, which when given effect to will bring Ireland into line with internationally recognised best practice, was very much welcomed by the Authority, which sees the move to independent inspections as being critical to the longer term restoration and support of confidence in the audit profession in Ireland.

At the Minister's request, the Authority devoted considerable efforts during the latter half of the year towards the development of an implementation plan and I am pleased to report that a comprehensive plan has recently been presented to the Minister for Jobs, Enterprise & Innovation for his consideration.

Implementation is likely to require legislative amendment, and will, therefore, give rise to the need for certain policy decisions to be taken at Ministerial level. It is thought likely, therefore, that further consultation with key stakeholders will be considered appropriate. That being the case, practical implementation is likely to take some time, during which the professional bodies will continue to be fully responsible for ensuring that their member firms are subject to quality assurance arrangements that satisfy the requirements of the Statutory Audit Directive.

Whilst recognising that implementation may be affected by the foregoing considerations, I would like to avail of this opportunity to set out the Board's vision as to how independent inspections will operate in Ireland post implementation. In summary, the key elements of the Authority's implementation plan are as follows:

- audit firms that perform relatively large numbers of PIE audits would be subject to inspection every 18 to 24 months⁶;

⁶ Following the initial cycle of inspections, the appropriateness of this frequency would be revisited.

- other audit firms coming within scope would be subject to inspections every two to three years⁶;
- the costs associated with inspections would, in line with the Minister's decision, be borne in full by the firms concerned;
- in contrast with the current arrangements under which inspection reports relating to PIE audits are considered by the relevant professional body, inspection reports prepared by the Authority's Executive would be considered by an appropriately constituted Committee of the Authority;
- the Authority Committee charged with examining inspection reports would have all necessary powers at its disposal to address deficient audit work in the public interest (including, for example, the power to attach conditions to a firm's audit registration, to suspend or revoke a firm's authorisation and to impose monetary sanctions on a firm); and
- in keeping with international trends, the Authority would publish public versions of inspection reports in the interests of transparency and promoting public confidence in the audit profession.

Implementation of the Recommendation will mark a very significant change in how the quality of the work of those firms that audit PIEs is monitored. Particularly significant changes will include the consideration of the resultant reports by the Authority and the publication of inspection reports. Implementation will also open the possibility of the Authority being able to participate in joint inspections with international counterparts, thereby opening up the possibility of international audit regulators being able to place some degree of reliance on Irish quality assurance arrangements.

Concluding remarks

As I have remarked upon in previous reports, the Authority's successes and achievements are attributable to a strong and cohesive Board, to the Chief Executive's leadership and to a team of highly committed and dedicated staff. On behalf of the Board I would like to thank Helene Coffey for her dedicated service as a Board member over several years and to convey our best wishes to her for the future. I would similarly like to welcome Michael Quinlan to the Board as the Law Society's new nominee.

On the Board's behalf I would like to thank the outgoing Ministers for Enterprise, Trade & Employment and Trade & Commerce respectively for their ongoing support, particularly in securing additional resources necessary in order to enable the Authority to discharge its new responsibilities under the Statutory Audit Directive Regulations. I would similarly like to publicly express the Board's thanks to the management and staff of the Department for their ongoing support for the Authority and its objectives.

Karen Erwin
Chairperson

29 APRIL, 2011

Introduction

The purpose of this review is to provide a brief overview of some of the Authority's principal activities during the year under review across the Authority's main areas of operation.

Supervision of the accountancy profession

In addition to those discussed in the Chairperson's Statement, the Authority's activities in the area of supervision of the profession included, amongst others:

- complaints handling;
- statutory Enquiries;
- monitoring the Prescribed Accountancy Bodies' responses to matters of public concern; and
- implementation of the Statutory Audit Directive.

Complaints handling

During the year the Authority received a total of 23 complaints, an increase of 10% on the previous year. In addition to examining each complaint received on its merits, the Authority uses complaints received to risk assess the Prescribed Accountancy Bodies for supervisory purposes.

Statutory Enquiries

Under section 23 of the Companies (Auditing and Accounting) Act 2003, the Authority is empowered to conduct statutory Enquiries for the purpose of determining whether a Prescribed Accountancy Body has failed to comply with its approved investigation and disciplinary procedures. During the year under review, the Authority initiated 1 new Preliminary Enquiry based on certain concerns brought to the Board's attention by the Executive. A further Preliminary Enquiry that had been ongoing at the beginning of the year resulted in the establishment of a Full Enquiry, which was ongoing at year end. A further 2 Full Enquiries were concluded during the year.

The first of those Full Enquiries concluded by way of a settlement between the Authority and the Prescribed Accountancy Body concerned, with the terms of settlement including a monetary sanction of €10,000 and the re-investigation of the matter. The second Full Enquiry to conclude resulted in an adverse finding against the Prescribed Accountancy Body concerned, with the sanctions imposed



Ian Drennan, Chief Executive

including a direction that the matter be re-investigated and a monetary sanction of €110,000.

Monitoring the Prescribed Accountancy Bodies' responses to matters of public concern

In addition to the Authority's activities in respect of Anglo related matters the Authority was, at year end, continuing to monitor the Institute of Chartered Accountants in Ireland's regulatory response to concerns expressed regarding the audit of the financial statements of Quinn Insurance. Both of these topics are dealt with in Chapter 3 of this Report.

Implementation of the Statutory Audit Directive

The enactment of the Statutory Audit Directive Regulations in May 2010 saw the Authority conferred with substantial additional statutory functions and responsibilities, which are detailed in Chapter 3 of this Report. Having provided assistance and advice to the Department of Enterprise, Jobs and Innovation prior to transposition of the Directive, following enactment of the Regulations the Authority devoted considerable resources to working with stakeholders to implement the Regulations' provisions.

Supervision of listed entities' statutory financial reporting

The Authority's principal activities in the area of financial reporting supervision included:

- review activity; and
- follow up to issues identified.

Review activity

During the year the Authority conducted 42 reviews, a decrease of 13% on the previous year. The reduction in the number of reviews performed was attributable to the following factors:

- an increased focus, based on risk considerations, on reviewing equity issuers' financial reports than in the previous year. Equity issuers' businesses and activities tend to give rise to more complex accounting issues, thereby resulting in the review of their reports being more time consuming; and
- the fact that review activity during 2010 included the examination of a number of specific issues the nature of which were complex and, as a result, time consuming. Certain of these issues are elaborated upon in further detail in Chapter 4 of this Report.

As in previous years, the Authority's review activity spanned all three categories of issuer, i.e. equity, funds and issuers of debt. Moreover, and as alluded to in the Chairperson's Statement, the Authority's review activity included a continued emphasis on constituent financial institutions' accounting treatment of issues including impairment provisioning and transfers to the National Asset Management Agency. These matters are also elaborated upon in Chapter 4 of this Report.

More broadly, and as can also be seen from Chapter 4 of this Report, the Authority continued to engage with the wider issuer population on a range of, often complex, financial reporting issues including, for example, accounting for pension benefits, associates and taxation as well as perennial issues such as related parties, key management personnel compensation and the valuation of financial instruments in inactive markets.

Follow up to issues identified

In response to issues identified during the Authority's reviews of issuers' periodic financial reporting, the Authority:

- secured undertakings from 18 issuers' directors regarding improvements to future periodic financial reports – in total, undertakings were received in respect of 79 separate matters; and
- agreed to the voluntary publication of revised financial information (i.e. re-filing) by 3 issuers.

These levels are lower than in the previous year, with the lower level of undertakings and re-filings being largely a consequence of the fact that a number of the reviews undertaken during 2010 were follow up reviews for the purpose of assessing the adequacy of directors' responses to previously raised issues. By their nature, follow up reviews are expected to give rise to a lesser necessity for undertakings and/or re-filings. A further factor contributing to this lower level of undertakings and re-filings is the improvement evident in the quality of certain issuers' financial reporting.

Advocacy

Consistent with its statutory mandate, the Authority devotes considerable efforts towards promoting adherence to high standards in financial reporting and by the accountancy profession.

In that context, and based on the positive feedback received in response to similar such initiatives, the Authority published another set of observations on selected financial reporting matters for Boards' and Audit Committees' benefit in January 2010.

In addition, and in view of the complexity of the Statutory Audit Directive Regulations, the Authority devoted resources during the year towards the development of a comprehensive Guide to those Regulations for stakeholders' benefit.

Concluding remarks

Against a backdrop of increased statutory functions, and in the current climate where statutory bodies are understandably being requested to do more with less, the Authority's ability to continue to discharge its responsibilities to the highest standards is possible only due to the quality of its staff. For that reason I would like to publicly acknowledge my colleagues' commitment, dedication and professionalism. I would similarly like to thank the Authority's Chairperson and my fellow Board members for their continued support and guidance during the year.

Ian Drennan
Chief Executive

29 APRIL, 2011

Supervisory constituencies

Prescribed accountancy bodies

The Authority's supervisory constituency comprises of 9 Prescribed Accountancy Bodies ('PABs'). As at 31 December, 2010:

- the PABs' aggregate membership resident in Ireland stood at 30,002, an increase of 5% on the previous year;
- the PABs' aggregate student membership resident in Ireland stood at 17,227, a decrease of 8% on the previous year.

Listed entities

The Authority's financial reporting supervisory remit extends to equity issuers, closed ended funds and issuers of debt instruments. As at 31 December, 2010, the Authority's financial reporting review constituency stood at 159 issuers, a decrease of 5% on the previous year. During the year those issuers published a total of 293 periodic financial reports, a decrease of 4% on the previous year.

Supervision of the PABs

Statutory Enquiries

During the year the Authority:

- established 1 new preliminary Enquiry;
- established 1 new full Enquiry;
- completed 1 full Enquiry, which resulted in a direction to the PAB concerned to re-investigate the matter and a monetary sanction of €110,000;
- entered into a settlement agreement under which the PAB concerned was required to re-investigate the matter and to pay a monetary sanction of €10,000.

Complaints

During the year a total of 23 complaints were received, an increase of 10% on the previous year. In total, 22 complaints were closed during the year, an increase of 22% on the previous year.

Approvals

During the year the Authority granted 25 approvals in respect of PABs' constitutional documents.

Implementation of the Statutory Audit Directive

Following the transposition of the Statutory Audit Directive, the Authority devoted considerable resources towards implementing the provisions of the transposing Regulations.

Registration of third country auditors and audit entities

During the year the Authority granted transitional registration to 24 statutory auditors and audit firms from a total of 12 jurisdictions. Following the transposition of the Statutory Audit Directive the Authority also commenced development of a registration system – including guidance material – for the purpose of facilitating 'full' registrations under Article 45 of the Directive.

Supervision of listed entities' statutory financial reporting

During the year the Authority:

- conducted 42 reviews of issuers' periodic financial reports, reflecting an increased focus, based on risk considerations, on reviewing equity issuers' financial reports;
- devoted considerable resources towards examining a number of complex financial reporting matters, further details of which are set out in Chapter 4 of this Report;
- obtained a total of 79 undertakings in respect of future financial reports from a total of 18 issuers' Boards of directors;
- agreed to the voluntary publication of revised financial information by 3 issuers following reviews.

Advocacy & Advisory

Advocacy

During the year, and pursuant to its statutory mandate to promote adherence to high professional standards, the Authority:

- published its observations on selected financial reporting issues for Boards' and Audit Committees' benefit; and
- developed a comprehensive Guide to the Statutory Audit Directive Regulations for stakeholders' benefit.

Advisory

Following a Ministerial decision that the European Commission's Recommendation to Member States on external quality assurance of certain auditors be implemented in Ireland, the Authority devoted considerable resources during the latter half of the year to developing an implementation plan for Ministerial consideration.

During the year the Authority also provided specialist advice to the Minister and his officials on a range of other matters including the role of accounting standards in the financial crisis, inspections of Irish audit firms by third countries' audit oversight bodies and EU legislation amending the disclosure requirements for medium sized companies.

CHAPTER 1

Governance

Governance

1. Legal structure

Pursuant to the provisions of section 5 of the Companies (Auditing and Accounting) Act 2003 ('the Act')⁷, the Irish Auditing & Accounting Supervisory Authority ('the Authority' / 'IAASA') discharges its functions and exercises its powers through a company limited by guarantee designated for that purpose by the Minister for Trade & Commerce ('the Minister')⁸.

2. Company membership

In accordance with the Act, the following are members of the company:

Table 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*
Central Bank	Irish Association of Investment Managers
Chartered Institute of Management Accountants*	Irish Business & Employers' Confederation
Chartered Institute of Public Finance & Accountancy*	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

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

⁷ A copy of the Act can be accessed on the Authority's website at www.iaasa.ie/legislation/index.htm

⁸ While the Act refers to the Minister i.e. the Minister for Jobs, Enterprise & Innovation (previously the Minister for Enterprise, Trade & Innovation), during the year under review the Government had delegated all Ministerial functions provided for by the Act to the Minister for Trade & Commerce. This delegation was effected by the (i) Enterprise, Trade & Employment (Delegation of Ministerial Functions)(No. 3) Order 2009 (S.I. No. 248 of 2009) (in respect of Mr. Billy Kelleher, TD) and (ii) Enterprise, Trade & Innovation (Delegation of Ministerial Functions)(No. 3) Order 2010 (S.I. No. 334 of 2010) (in respect of Mr. Billy Kelleher, TD following the appointment of Batt O'Keeffe, TD as Minister for Enterprise, Trade & Innovation). The text of both Statutory Instruments can be accessed at www.iaasa.ie

3. Governance

3.1 Board of Directors – method of appointment

In accordance with the provisions of section 11 of the Act, the Authority is governed by a Board of 15 directors, 14 of whom are appointed by the Minister having been nominated by those entities set out in Table 2. The remaining director is the Chief Executive, who is appointed by the aforementioned 14 directors.

Table 2: Board of Directors – nominating bodies⁹

Nominating body	Nominees
Minister	2 ⁹
Prescribed Accountancy Bodies (jointly by agreement)	3
Central Bank	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 further stipulated by the Act, a maximum of 5 directors, including the Chief Executive, may be members of the Prescribed Accountancy Bodies.

3.2 Appointment/reappointment of Board members during the year

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

Table 3: Details of appointments and reappointments to the Board during the year

Director	Date appointed	Nominating body	Reason for vacancy	Term
Mr. Michael Deasy	3 January, 2010	Central Bank	Expiration of Mr. Deasy's previous term of office	3 years
Ms. Karen Erwin	3 January, 2010	Minister for Trade & Commerce	Expiration of Ms. Erwin's previous term of office	3 years
Mr. Tony Kelly	3 January, 2010	Prescribed Accountancy Bodies	Expiration of Mr. Kelly's previous term of office	3 years
Senator Joe O'Toole	3 January, 2010	Irish Congress of Trade Unions	Expiration of Senator O'Toole's previous term of office	3 years

⁹ The Minister's nominees include the Chairperson of the Authority.

3.3 Board of Directors as at 31 December, 2010

As at 31 December, 2010 the composition of the Authority's Board of Directors was as follows:

Table 4: Composition of Board at year end

Board member	Occupation	Nominating body
Ms. Karen Erwin (Chairperson)	Founder & Principal, Erwin Mediation Services	Minister for Trade & Commerce
Mr. Ian Drennan*	Chief Executive, IAASA	Other directors
Mr. Paul Appleby	Director of Corporate Enforcement	Director of Corporate Enforcement
Ms. Helene Coffey	Principal, Coffey & Associates, Solicitors	Law Society of Ireland
Ms. Marie Daly	Head of Legal & Regulatory Affairs, Irish Business & Employers' Confederation ('IBEC')	IBEC
Mr. Michael Deasy*	Head of Governance & Accounting Policy, Central Bank	Central Bank
Mr. Sean Hawkshaw	Chief Executive, Klientwort Benson Investors	Irish Association of Investment Managers
Mr. Tony Kelly*	Partner, Byrne Curtin Kelly, Certified Public Accountants & Registered Auditors	Prescribed Accountancy Bodies
Mr. Brendan Kennedy	Chief Executive, Pensions Board	Pensions Board
Mr. Tadhg O'Connell	Principal Officer, Revenue Commissioners	Revenue Commissioners
Senator Joe O'Toole	Member of Seanad Éireann (Upper House of Parliament)	Irish Congress of Trade Unions
Mr. Gerard Scully	Director of International Primary Markets, Irish Stock Exchange	Irish Stock Exchange
Mr. Brian Shiels	Company director	Minister for Trade & Commerce
Vacant ¹⁰	n/a	Prescribed Accountancy Bodies
Vacant ¹⁰	n/a	Prescribed Accountancy Bodies

* Denotes membership of a Prescribed Accountancy Body

¹⁰ The vacant PAB nominee positions on the Board arose as a consequence of (i) the expiration of Mr. David Martin's term of office on 2 January, 2009; and (ii) Mr. Donal O'Connor's resignation from the Board on 21 January, 2009. The nomination of replacement PAB directors is a matter for the PABs.

3.4 Board procedures

The Board holds regular meetings and its procedures further provide for the convening of unscheduled meetings should the need arise in order to conduct the Authority's business. 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 the Authority's statutory functions and powers. Certain matters are delegated to Board Committees, as outlined in section 4 below, 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 the Authority's 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 the Authority. In this regard, all Board members bring independent judgement 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.

3.5 Board meetings

During the year, the Board held 10 meetings. Details of Board members' attendance are set out in Table 5.

Table 5: Directors' attendance at Board meetings

Director	Meetings attended/Meetings eligible to attend
Ms. Karen Erwin (Chairperson)	10/10
Mr. Ian Drennan (Chief Executive)	10/10
Mr. Paul Appleby	9/10
Ms. Helene Coffey	7/10
Ms. Marie Daly	9/10
Mr. Michael Deasy	8/10
Mr. Sean Hawkshaw	4/10
Mr. Brendan Kennedy	7/10
Mr. Tony Kelly	10/10
Mr. Tadhg O'Connell	7/10
Senator Joe O'Toole	8/10
Mr. Gerard Scully	9/10
Mr. Brian Shiels	8/10

Board members



Karen Erwin
(Chairperson)



Ian Drennan
(Chief Executive)



Paul Appleby



Helene Coffey



Marie Daly



Michael Deasy



Sean Hawkshaw



Tony Kelly



Brendan Kennedy



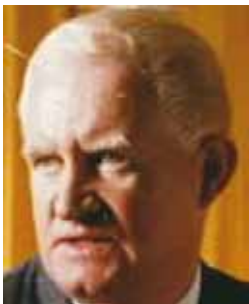
Tadhg O'Connell



Senator Joe O'Toole



Gerard Scully



Brian Shiels



John O'Malley
(Secretary)

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 at 31 December, 2010, are set out in Table 6.

Table 6: Board Committees – mandates and membership

Committee	Mandate	Membership
Audit	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.	Michael Deasy (Chair) Helene Coffey Tadhg O'Connell
Remuneration	Assessing the performance of the Chief Executive and making recommendations to the Board regarding the Chief Executive's and directors' remuneration.	Brendan Kennedy (Chair) Paul Appleby Karen Erwin Brian Shiels
Section 23 Committees	In accordance with the provisions of section 23 of the Act and the Companies (Auditing and Accounting) Act 2003 (Procedures Governing the Conduct of Section 23 Enquiries) Regulations, 2007 ('the Section 23 Regulations') ¹¹ , the Authority from time to time establishes Preliminary Enquiry Committees and Enquiry Committees for the purpose of determining whether a Prescribed Accountancy Body has complied with its approved investigation and disciplinary procedures. Whilst section 23 Committees report to the Board on a regular basis, such reporting is concerned mainly with the progress of Enquiries and other important issues relevant to the overall governance of the Authority (e.g. matters pertaining to litigation risk etc.). The Board does not receive reports regarding the subject matter of Enquiries as Committees operate independently of the Board and Executive in discharging their investigative mandates.	See Chapter 3 for further detail on the Authority's section 23 Enquiry activities during the year.

¹¹ The Section 23 Regulations can be accessed on the Authority's website at www.iaasa.ie/legislation/si667_2007.pdf

5. Public sector governance obligations

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 revised¹² 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. The Authority's directors and senior management are also subject to the provisions of the Ethics in Public Office Acts, which require, amongst other things, the annual disclosure of any interests that could materially influence them in relation to the performance of their official functions. Further information regarding the steps taken by the Authority to comply with its governance obligations is provided in Chapter 6 of this Report.

¹² The Department of Finance published the revised Code in 2009.

CHAPTER 2

Principal Goals & Organisational Structure

Principal Goals & Organisational Structure

1. Principal goals

1.1 Work Programme 2009-11

In accordance with section 13 of the Act, the Authority has developed a Work Programme for the period 2009-11. The Work Programme was drawn up having regard to, amongst other considerations:

- the Authority's objects, as set out in section 8 of the Act (as amended);
- the Authority's functions, as set out in section 9 of the Act (as amended);
- the Authority's powers, as set out in section 10 of the Act (as amended);
- ancillary considerations, including the Authority's obligations and responsibilities as a statutory body and as a company incorporated under the Companies Acts;
- an analysis of the environment within which the Authority operates; and
- the resources available to the Authority.

1.2 Principal Goals

Based on the foregoing, the Work Programme set out the following as being the Authority's key strategic goals for the period 2009 to 2011:

- I. to support and enhance public confidence in the accountancy profession through effective, independent supervision and, where appropriate, statutory Enquiry and Investigation;
- II. to support and enhance public confidence in financial reporting through the exercise of effective, independent supervision and, where appropriate, enforcement action;
- III. 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; and
- IV. to provide a consistent high standard of service to all stakeholders.

1.3 Developments during the year under review of relevance to the Work Programme

During the year under review the Authority was conferred with substantial additional functions and responsibilities under the European Communities (Statutory Audits)(Directive/2006/43/EC) Regulations 2010. This was in addition to the impact of the Authority's designation as the competent authority for the purposes of Statutory Instrument No. 229 of 2009, the European Communities (Transitional Period Measures in Respect of Third Country Auditors) Regulations 2009.

1.4 Structure of this Report

The Authority's activities during the year in seeking to achieve Goals I to IV above are elaborated upon in Chapters 3 to 6 of this Report.

2. Organisational structure

2.1 Overview

In reflecting the work streams that flow from the foregoing goals, the Authority is structured into four Units, i.e.:

- Regulatory & Monitoring Supervision, which is concerned principally with supervision of the Prescribed Accountancy Bodies, 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.

While many of the activities flowing from the Authority's goals fall logically into the preceding structure, it is also the case that the nature of certain activities, taken together with the Authority's scale, is such that more than one Unit may be involved in certain activities.

2.2 Approved staff complement

In accordance with the provisions of section 17(2) of the Act, the numbers, grades, and terms and conditions of the Authority's staff shall be determined by the Authority with the approval of the Minister for Jobs, Enterprise & Innovation, given with the consent of the Minister for Finance. Accordingly, any amendments to the Authority's approved staff complement require both Ministers' prior approval.

As at 31 December, 2009, the Authority's approved and actual staff complements stood at 15 and 12 respectively. The difference between approved and actual staff complements at that time was attributable to the following factors:

- the considerable difficulties that the Authority has encountered since its establishment in recruiting suitably experienced professional staff at approved salary levels;
- the Authority's policy of recruiting support staff only as required, i.e., in parallel to the recruitment of professional staff; and
- latterly, the moratorium on recruitment introduced by Government Decision¹⁴.

During the year under review, and having regard to the substantial nature of the additional functions and responsibilities conferred upon it through the

transposition of the Statutory Audit Directive, the Authority sought approval to recruit an additional six staff (i.e. four additional professional staff and two support staff). Approval was, however, subsequently granted to recruit only three of the six staff sought, i.e. three professional staff. Moreover, in granting its approval, the Department of Finance stipulated that the additional posts would be in the nature of two year fixed term positions. Despite a major recruitment exercise in the latter half of 2010, at year end the Authority had only been able to fill one of these posts. In the Authority's assessment, the short term nature of the positions on offer was a significant factor in this regard. Consequently, at year end the Authority was, with the assistance of the Department, seeking Department of Finance reconsideration of the short term nature of these approvals.

Towards the end of 2010 the Authority was advised that its approved staff complement is 15, i.e. its actual staff complement as at 31 December, 2009 plus the 3 short term posts referred to above. The effect of the foregoing has been to reduce the Authority's previously approved complement by 3 posts.

Details of the Authority's approved and actual staff complements as at 31 December, 2010 are set out in Table 7.

Table 7: Approved and actual staff complements – 31 December, 2010

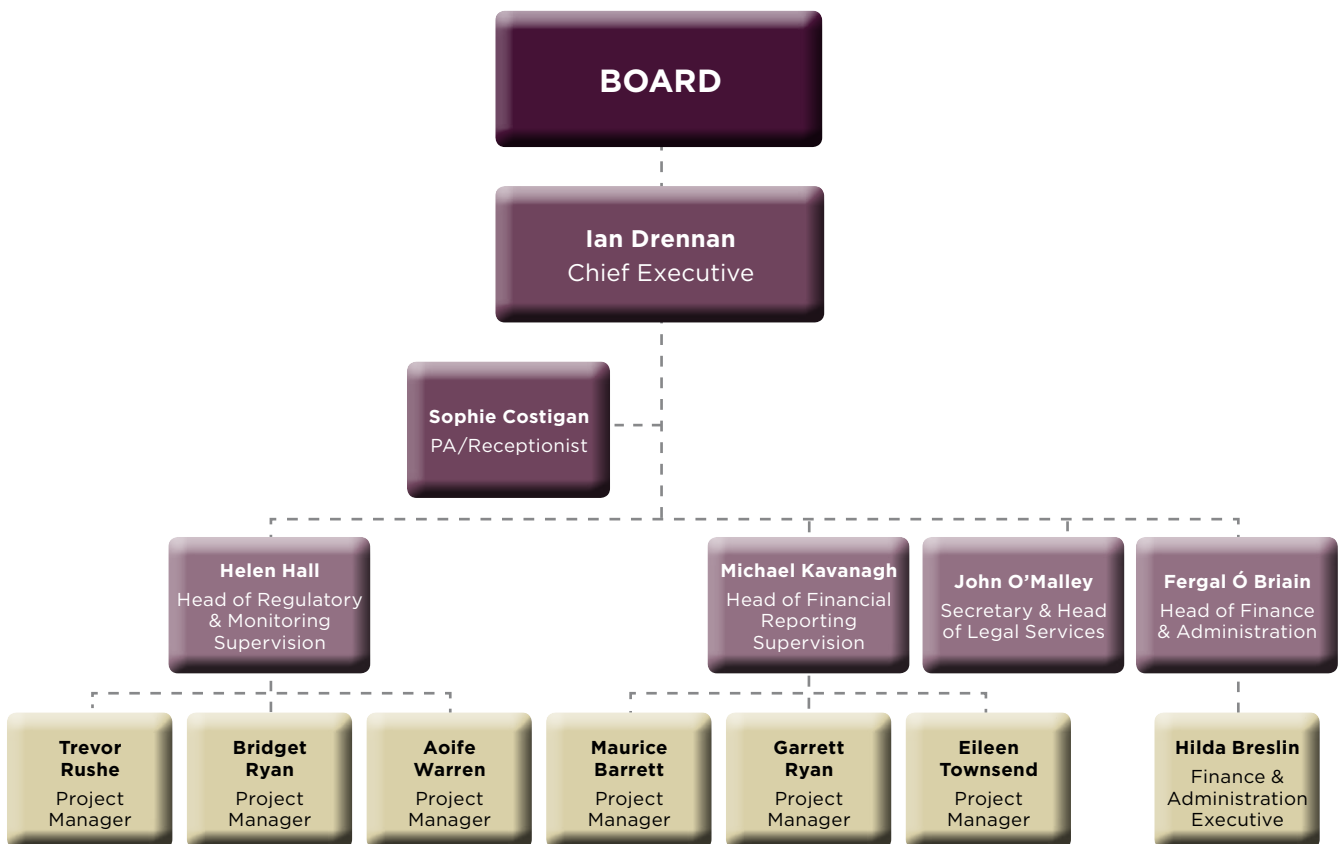
	Approved	Actual ¹⁵
Chief Executive	1	1
Heads of Function	3	3
Project Managers – Professional Staff (Accountants)	8	6
Head of Finance & Administration	1	1
Administrative Executive	1	1
Clerical Support Staff	1	1
Total	15	13

¹⁴ Government Decision S180/20/10/0964B of 8 July, 2008 on public service expenditure.

¹⁵ At 31 December, 2010.

2.3 Organisational structure

The Authority's structure as at 31 December, 2010 was as set out in the organisation chart below.



CHAPTER 3

Supervision of the Accountancy and Auditing Profession

Supervision of the Accountancy and Auditing Profession

1. Introduction

This Chapter provides a summary of the activities undertaken by the Authority during the year in seeking to achieve its mission of supporting and enhancing public confidence in the accountancy profession through the exercise of effective, independent oversight of the nine Prescribed Accountancy Bodies' ('PABs')¹⁶ regulation and monitoring of their members.

Also outlined in this Chapter is the work performed by the Authority in registering third country auditors and audit entities under certain transitional arrangements introduced by the EU Commission, and in implementing the Statutory Audit Directive, following the enactment of S.I. No. 220 of 2010 (European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010) ('Statutory Audit Directive Regulations') on 20 May, 2010.

Activities in addition to those referred to above in which the Authority engaged during the year in the furtherance of its statutory mandate and mission included co-operation with its European Union ('EU') and international counterparts as well as with other national and EU authorities and co-operation in the development of auditing and ethical standards.

The remainder of this Chapter is divided into four sections, i.e.:

- supervision of the PABs (sections 2 to 9 refer);
- implementation of the Statutory Audit Directive Regulations (section 10 refers);
- registration of third country auditors and audit entities (section 11 refers); and
- other activities (section 12 refers).

2. Overview of supervisory activities

2.1 Legislative Context

The context for the Authority's legislative functions in respect of the PABs was set out in detail in the Authority's first Annual Report¹⁷ and is not, therefore, reproduced in this Report. In summary, the Act provides that the Authority's principal functions insofar as they relate to the PABs include:

- granting approval to the PABs' constitutions and other related instruments, including, for example, the Rules, Regulations and Standards applying to those bodies' members, and to all proposed amendments thereto;
- supervising the operation of the PABs' investigation and disciplinary processes; and
- supervising the manner in which the Recognised Accountancy Bodies ('RABs')¹⁸ monitor their members and member firms.

The Statutory Audit Directive Regulations also expand the Authority's functions by adding a new function to Section 9 of the 2003 Act as follows:

'...to perform the functions (and in particular the functions of public oversight) conferred on it by the European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010':

The additional responsibilities conferred by these Regulations are described in further detail in Section 11 of this Chapter.

¹⁶ The nine PABs are the:
 - Association of Chartered Certified Accountants (ACCA);
 - Association of International Accountants (AIA);
 - Chartered Institute of Management Accountants (CIMA);
 - Chartered Institute of Public Finance & Accountancy (CIPFA);
 - Institute of Chartered Accountants in England & Wales (ICAEW);
 - Institute of Chartered Accountants in Ireland (ICAI);
 - Institute of Chartered Accountants of Scotland (ICAS);
 - Institute of Certified Public Accountants in Ireland (ICPAI); and
 - Institute of Incorporated Public Accountants.

¹⁷ The Authority's first Annual Report can be accessed at www.iaasa.ie/publications/Annual_Report_2006.pdf

¹⁸ Six of the nine PABs are also RABs. A RAB is a body that has been recognised for the purposes of section 187 of the Companies Act 1990. RABs are permitted to register or license their members/member firms for the purpose of entitling such persons/firms to practice as auditors. The six RABs are the ACCA, ICAEW, ICAI, ICAS, ICPAI and the IIPA.

2.2 Principal supervisory activities

During the year under review, the Authority's supervisory activities in respect of the PABs fell, broadly, into the following principal categories:

- statutory Enquiries (Section 3);
- attachment of conditions to the recognitions of RABs (Section 4);
- supervision of the PABs' responses to matters of public interest (Section 5);
- approval related activities (Section 6);
- complaints handling (Section 7);
- supervisory reviews (Section 8); and
- PABs' annual return process (Section 9).

3. Statutory Enquiries

3.1 Section 23 of the Act

Under section 23 of the Act, the Authority is empowered to initiate statutory Enquiries for the purpose of determining whether PABs have complied with their approved investigation and disciplinary procedures. In that context, the Authority has published detailed procedures to be followed in the conduct of such Enquiries (such procedures being set out in the Companies (Auditing and Accounting) Act 2003 (Procedures Governing the Conduct of Section 23 Enquiries) Regulations 2007)¹⁹ ('Section 23 Regulations'). A more detailed overview of the section 23 process was set out in the Authority's 2007 Annual Report, which can be accessed on the Authority's website²⁰.

3.2 Section 23 Enquiries

The Authority's section 23 Enquiry activity during the year is summarised in the Table below.

Table 8: Summary of section 23 Enquiry activity – 2010

	PAB	At Preliminary Enquiry Committee Stage	At Enquiry Committee Stage	Total
Section 23 Enquiries ongoing at 1 January, 2010	ICAI	1	2	3
Preliminary Enquiries completed during the year	ICAI	(1)	-	(1)
Full Enquiries initiated during the year on foot of <i>prima facie</i> cases having been found by a Preliminary Enquiry Committee	ICAI	-	1	1
New Preliminary Enquiries initiated during the year	ICAI	1	-	1
Full Enquiries completed during the year	ICAI	-	(2)	(2)
Section 23 Enquiries ongoing at 31 December, 2010	ICAI	1	1	2

As can be seen from the above Table:

- at the beginning of the year there were three Enquiries in progress;
- during the course of the year:
 - one Preliminary Enquiry concluded resulting in the establishment of a Full Enquiry;
 - one new Preliminary Enquiry was established; and
 - two Full Enquiries were concluded; and
- at year end there were two Enquiries in progress, one at Preliminary Enquiry stage and the other at Full Enquiry stage.

¹⁹ The text of the Regulations is available at www.iaasa.ie/legislation/si667_2007.pdf

²⁰ www.iaasa.ie/publications/Annual_Report2007.pdf

3.3 Subject matter of section 23 Enquiries

Set out in Table 9 is a more detailed narrative on the matters with which Preliminary Enquiry Committees ('PECs') and Enquiry Committees ('ECs') were concerned during the year.

Table 9: Summary of matters with which PECs and ECs were concerned during the year

EC BS/2009	<p>This EC, which was formally constituted on 12 October, 2009, conducted a Full Enquiry that resulted from the finding of a <i>prima facie</i> case by the associated PEC.</p> <p>The Committee enquired into whether the Institute of Chartered Accountants in Ireland ('the Institute') complied with its approved Bye-laws in the manner in which it brought a complaint to its Complaints Committee for direction, the effect of which action, if proven, could have resulted in the complainant being denied recourse to the Independent Reviewer.</p> <p>The Authority and the Institute agreed Terms of Settlement ('Settlement')²¹ on the basis that it had been determined that the Institute failed to comply with its approved investigation and disciplinary procedures.</p> <p>Under the terms of the Settlement, the Authority decided to:</p> <ul style="list-style-type: none"> (a) annul the purported decision of the Institute's Complaints Committee as notified to the Complainant in its letter dated 13 December, 2007 together with any associated or related decision of the Institute; (b) direct that the Institute conduct an investigation into the complaint made by the Complainant in his letter dated 26 February, 2007, the said investigation to be commenced as soon as possible but in any event within 3 months of the approval of the Settlement by the Authority; and (c) require the Institute to pay the sum of €10,000 to the Authority within 28 days of notification of the approval of the Settlement by the Authority.
PEC MD/2009	<p>This PEC was established in December 2009 following the referral of certain concerns to the Authority's Board by the Executive.</p> <p>The Committee enquired into, amongst other matters, whether the Institute:</p> <ul style="list-style-type: none"> • may have failed to properly investigate whether, in acting as auditor (to a listed company), an Institute member firm may have failed to comply with the Institute's standards; and • may have failed to treat a complainant as a 'Complainant', as defined in the Bye-laws, which, if proven, could have resulted in the complainant being denied certain rights provided for by the Bye-laws. <p>In July, 2010, the Committee determined that there was a <i>prima facie</i> case and, on that basis, the matter was referred to an EC for Full Enquiry (see also EC TK/2010).</p>

²¹ The full text of the Settlement can be accessed at www.iaasa.ie/publications/ICAI_Settlement_July2010.pdf

Table 9: Summary of matters with which PECs and ECs were concerned during the year (continued)

EC HC/2009	<p>This EC, which was formally constituted in December 2008, conducted the Full Enquiry that resulted from the finding of a <i>prima facie</i> case by the associated PEC.</p> <p>The Committee enquired into whether, in processing a complaint received, the Institute complied with its approved investigation and disciplinary procedures and, in particular, with reference to:</p> <ul style="list-style-type: none"> • its consideration as to whether the complaint was one that gave rise to, or included questions of, public concern or was of complexity or importance; and • the composition of the Complaints Committee when it considered the complaint and whether Complaints Committee meetings at which the matter was considered were quorate. <p>Upon completing its work, the EC issued its Decision in July 2010. The EC found that the Institute failed to comply with the aforementioned aspects of its approved investigation and disciplinary procedures. Further to that finding, the EC decided to:</p> <ol style="list-style-type: none"> i. censure the Institute; ii. annul certain decisions of the Complaints Committee; iii. direct a fresh investigation of the Complaint to commence within 14 days of the Decision taking effect; and iv. require the Institute to pay the sum of €110,000 to the Authority within 14 days of the Decision taking effect. <p>In accordance with the requirements of the Act, at 31 December, 2010 the Authority was in the process of seeking the High Court's confirmation of the Decision²².</p>
EC TK/2010	<p>This EC, which was formally constituted in mid 2010, is conducting the Full Enquiry that resulted from the finding of a <i>prima facie</i> case by the associated PEC (see PEC MD/2009). The Committee met on 2 occasions during the year and its work was ongoing at year end.</p>
PEC BS/2010	<p>This PEC was established in July 2010, following the referral of certain concerns to the Authority's Board by the Executive.</p> <p>The Committee is enquiring into, amongst other matters, whether</p> <ul style="list-style-type: none"> • the Institute complied with its obligation to investigate the matter; • the Institute complied with its obligation to accurately inform the Complainant about certain matters; • the Institute complied with its confidentiality obligations towards its member; • the Institute complied with the requirement of the Independent Reviewer to report to the Complaints Committee in the event that the Independent Review takes longer than three months; and • whether the use of a Consent Order was appropriate in this case. <p>The Committee met once in 2010 and its work was ongoing at year end.</p>

²² The Decision was subsequently confirmed by the President of the High Court on 17 January, 2011.

4. Attachment of Conditions to the recognition of RABs

4.1 Legislative context

A RAB is a body of accountants that has been recognised for the purposes of the Statutory Audit Directive Regulations and section 187 of the Companies Act 1990 ('the 1990 Act'). RABs are, subject to certain criteria being satisfied, permitted to register or license their members/member firms for the purpose of entitling such persons/firms to practice as statutory and/or public auditors.

Section 192 of the 1990 Act (as amended) provides that the Authority may, at any time, attach to the recognition of a RAB any such terms or conditions as it thinks necessary or expedient, provided that such terms or conditions are specified in writing. That section also provides that the Authority may, at any time during the currency of a RAB's recognition, amend the terms of a condition attached to that recognition.

4.2 Attachment of Conditions during the year

During the year under review the Authority approved an amendment to the constitutional documents of the Institute of Incorporated Public Accountants (IIPA) further to which the IIPA may confer audit registration on member firms as well as on individual members. Given that the condition attached to the IIPA's recognition in 2008, under which the IIPA is required to submit all proposals to issue new audit authorisations to the Authority in advance of granting such authorisations, predated the above mentioned amendment to the constitutional documents, in December 2010 the Authority effected conforming amendments to the condition (i.e. expanding the scope of same to include proposed registrations in respect of member firms as well as individual members). The amended condition also reflects the provisions of the Statutory Audit Directive Regulations.

4.3 Monitoring of conditions previously attached

In addition to the foregoing, the Authority's supervisory activities during the year also included the ongoing monitoring of adherence to conditions previously attached to RABs' recognitions.

In that context, and pursuant to the above mentioned condition attached to the recognition of the IIPA, the Authority supervised the granting by the IIPA of 11 new audit registrations during the year.

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

5.1 Context

The model of supervised self regulation provided for by the Act is one whereby:

- the PABs are responsible for carrying out investigations into their members' activities where necessary (e.g. in response to allegations or other indications of possible breaches by members/member firms of the PABs' standards);
- the Authority is responsible for supervising the PABs' investigative and disciplinary activities and, specifically, for ensuring that the PABs' approved procedures are complied with; and
- in circumstances where it finds that a PAB has failed to comply with its approved investigation and disciplinary procedures, the Authority may impose certain sanctions, including monetary sanctions, on the PAB concerned (i.e. under section 23 of the Act).

Accordingly, and consistent with the foregoing, in the normal course of its supervisory activities, the Authority focuses on the proper operation of the PABs' investigative and disciplinary systems and processes rather than on the PABs' handling of individual cases²³. In certain instances, however, the PABs' handling of individual cases may be judged by the Authority to warrant particular attention, for example, where the underlying matters are connected with a listed entity.

5.2 Institute of Chartered Accountants in Ireland's ('ICAI') response to events at Anglo Irish Bank Limited ('Anglo') and Irish Life & Permanent ('IL&P')

As reported in the Authority's 2009 Annual report, a Special Investigator²⁴ was appointed by the ICAI to investigate possible breaches of the ICAI's Bye-Laws and/or Rules of Professional Conduct by certain of its members and/or member firms in relation to events at Anglo and IL&P. A more detailed overview of the Special Investigator's role and of the Authority's supervision of the ICAI's response to these events was set out in the 2009 Report²⁵.

During the year, senior Authority representatives held a number of meetings with the Special Investigator in order to monitor the progress of the investigations being undertaken. On 20 December,

²³ The Authority's more general supervisory activities are discussed in sections 3, 4, 6, 7, 8 and 9 of this Chapter.

²⁴ The Institute's Complaints Committee appointed former Comptroller & Auditor General, Mr. John Purcell, as the Special Investigator.

²⁵ www.iaasa.ie/publications/ar2009.htm

2010, the ICAI published details of the results of the Special Investigator's findings *vis-à-vis* Messrs. Seán FitzPatrick, David Drumm, William McAteer and Peter Fitzpatrick respectively²⁶. In his reports to the ICAI's Complaints Committee, the Special Investigator certified that, in his opinion, there

existed certain *prima facie* cases that the aforementioned members were liable to disciplinary action under the ICAI's Bye-Laws. Table 10 summarises the Special Investigator's findings in respect of each of the members concerned.

Table 10: Summary of the Special Investigator's findings

Matter investigated	Mr. David Drumm	Mr. Seán FitzPatrick	Mr. William McAteer	Mr. Peter Fitzpatrick
Member's role in relation to the temporary transfer of loans to Mr. Seán FitzPatrick to another financial institution and the non disclosure of those loans in Anglo Irish Bank's financial statements.	<i>Prima facie</i> case found	<i>Prima facie</i> case found	<i>Prima facie</i> case found	Not applicable
Member's role in relation to certain inter-institutional transactions between Anglo Irish Bank and Irish Life & Permanent at key reporting dates during 2008.	<i>Prima facie</i> case found	<i>Prima facie</i> case found	<i>Prima facie</i> case found	<i>Prima facie</i> case found
Member's role in relation to loans made to ten customers of Anglo Irish Bank for the purpose of financing the purchase of shares in Anglo Irish Bank Corporation plc.	No <i>prima facie</i> case found	No <i>prima facie</i> case found	No <i>prima facie</i> case found	Not applicable
Member's role in relation to the amendment of terms attaching to loans made to ten customers of Anglo Irish Bank for the purpose of financing the purchase of shares in Anglo Irish Bank Corporation plc.	<i>Prima facie</i> case found	Not applicable	Not applicable	Not applicable
Member's role in relation to certain loans made to four key members of Anglo Irish Bank management.	<i>Prima facie</i> case found	Not applicable	Not applicable	Not applicable
Member's role in relation to a loan made to Mr. William McAteer in 2008.	<i>Prima facie</i> case found	<i>Prima facie</i> case found	No <i>prima facie</i> case found	Not applicable
Member's role in relation to the disclosure of a loan made by Anglo Irish Bank to Mr. William McAteer in September, 2008.	Not applicable	Not applicable	<i>Prima facie</i> case found	Not applicable

In accordance with the provisions of the Bye-laws, the Complaints Committee subsequently referred the *prima facie* findings set out above to the Disciplinary Committee by way of Formal Complaints for consideration by Disciplinary Tribunals.

At year end, the Special Investigator had yet to present his findings regarding Anglo's auditors, Ernst & Young²⁷.

5.3 ICAI's review of its relevant member firms' audits of certain financial institutions

In early 2010, in the wake of the banking crisis and in the context of the PABs' responsibility to

regulate and monitor their members and member firms, the Authority made enquiries of the ICAI as to what regulatory response, if any, it considered to be appropriate in light of the concerns that were at that time being expressed regarding the audits of the covered institutions²⁸.

Following detailed engagement with the ICAI, during which the Authority made clear its view that the relevant audit files needed to be examined with a view to establishing whether there had been any deficiencies in the manner in which those audits had been performed, the Authority indicated its satisfaction with the Institute's proposed response.

²⁶ The full text of the Institute statement can be accessed at <https://www.carb.ie/News/CARB-Statement/>

²⁷ On 15 April, 2011 Ernst & Young sought leave to bring Judicial Review proceedings against the Institute. At the date of this report the Court had yet to rule on that application.

In summary, the Institute, following engagement with the Authority, decided upon a course of action under which it would undertake reviews of the audits of the covered institutions²⁹ for the financial years ending in 2008 (or where relevant 2009³⁰), with a view to determining whether the audit firms concerned applied appropriate procedures and complied with relevant standards, practice notes and other legislative provisions in order to assert in their audit opinions that the valuation of book debts and provisions for impairments were appropriate. The Authority further agreed with the ICAI that the review would be overseen by an independent expert³¹, possessing relevant experience and sourced from outside the jurisdiction.

The ICAI's review commenced in September, 2010 and at year end was ongoing.

5.4 Quinn Insurance

On 30 March, 2010, following an application by the Central Bank (the then Financial Regulator), the High Court appointed joint provisional administrators to Quinn Insurance Limited. In view of those developments, and, in particular, references to the provision of certain guarantees between Quinn Group companies, the Authority immediately initiated contact with the Central Bank with a view to ascertaining whether the Central Bank had any concerns regarding the audit(s) of the Quinn Group.

Subsequently, the Authority:

- continued to liaise with the Central Bank; and
- initiated, and has maintained, engagement with the ICAI in order to ascertain and monitor the Institute's regulatory response to these matters having regard to the information in its possession.

6. Approval related activities

6.1 Legislative context

The Authority's role in approving the PABs' constitutional documents³² derives from section 9(2) (c) of the Act, which provides that the Authority's functions include approving and requiring changes to:

- the constitutions and Bye-laws of the PABs, including each PAB's investigation and disciplinary procedures and its standards; and
- any amendments to the approved constitution or Bye-laws of each PAB, including each PAB's investigation and disciplinary procedures and its standards.

The term '*standards*' as used above is defined in section 4 of the Act as "*standards*", in relation to a prescribed accountancy body, means the rules, regulations and standards that body applies to its members and to which, by virtue of their membership, they are obliged to adhere'.

The Authority's approval related activities seek, amongst other things, to identify any areas and/or aspects of the PABs' constitutional and related documents in respect of which amendment might serve to further strengthen the transparency and efficacy of the PABs' governance and regulatory structures, thereby contributing to the enhancement of public confidence in the manner in which the PABs regulate and monitor their members. The Authority's approval process, whilst rigorous and demanding, is collaborative and seeks to take account of:

- international best practice in regulatory and corporate governance matters;
- the provisions of the Statutory Audit Directive Regulations;
- relevant recommendations of the Review Group on Auditing³³; and
- relevant legal requirements.

²⁸ The covered institutions are as follows:

- i. Allied Irish Banks, plc. and its subsidiaries AIB Mortgage Bank, AIB Bank (CI) Limited, AIB Group (UK) plc and Allied Irish Banks North America Inc.;
- ii. Anglo Irish Bank plc and its subsidiary Anglo Irish Bank (International) plc;
- iii. The Governor and Company of the Bank of Ireland and its subsidiaries Bank of Ireland Mortgage Bank, ICS Building Society and Bank of Ireland (I.O.M.) Limited;
- iv. EBS Building Society and its subsidiary EBS Mortgage Finance;
- v. Irish Life & Permanent and its subsidiary Irish Permanent (IOM) Limited;
- vi. Irish Nationwide Building Society and its subsidiary Irish Nationwide (I.O.M.) Limited; and
- vii. Postbank Ireland Limited.

²⁹ The auditors to the covered institutions during the periods in question were KPMG, PricewaterhouseCoopers and Ernst & Young.

³⁰ In the case of the Governor and Company of the Bank of Ireland the relevant year end is 31 March, 2009.

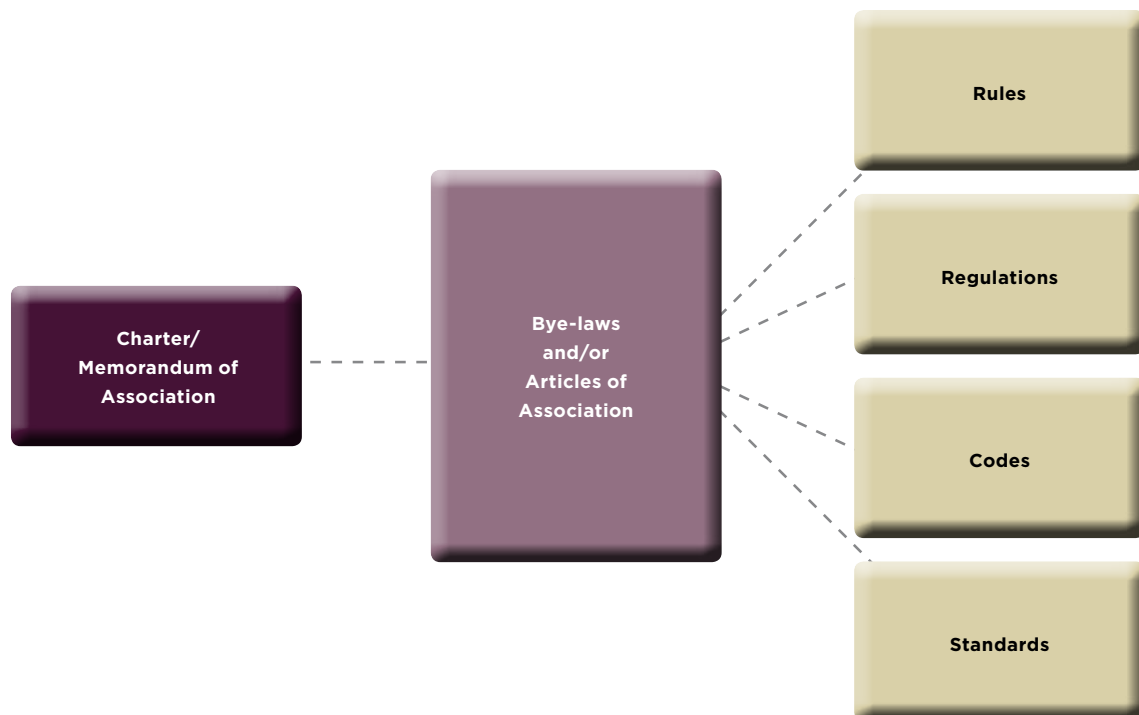
³¹ Mr David Spence, FCA.

³² The term 'Constitutional documents' refers to the PABs' Charters, Memoranda & Articles of Association, Bye-laws, Rules, Regulations, Codes and Standards.

³³ The Review Group on Auditing was established in December 1999 by the then Minister for Enterprise, Trade and Employment. Its report, which was published in July 2000, set out a substantial number of recommendations with regard to the regulation and supervision of the auditing profession.

6.2 Structure of PABs' constitutional documents

The PABs' constitutional documents typically follow a hierarchical structure such as that shown in the diagram below.



6.3 Approvals

During the year the Authority granted its approval in respect of the following:

Table 11: Approvals granted during the year³⁴

	2010	2009
Memoranda of Association	1	-
Amended Memoranda of Association	1	-
Articles of Association	1	-
Amended Articles of Association	1	-
Sets of existing full suite Bye-laws	2	-
Sets of amended Bye-laws	4	1
Sets of Regulations	3	1
Sets of amended Regulations	9	9
Codes of Ethics and Conduct	2	-
Amended Codes of Ethics and Conduct	1	1
Total	25	12

In addition to the foregoing, at year end, reviews of the following were ongoing:

Table 12: Approval related matters initiated and ongoing at year end

	2010	2009
Charters	3	3
Memoranda of Association	-	1
Proposed amendments to Memoranda of Association	-	1
Articles of Association	-	1
Sets of existing full suite Bye-laws	4	6
Sets of proposed amendments to Bye-laws	2	2
Sets of Regulations	19	19
Sets of proposed amendments to Regulations	1	2
Codes of Ethics and Conduct	-	2
Proposed amendments to Codes of Ethics and Conduct	1	-
Total	30	37

³⁴ The approvals referred to in this Table relate to the ACCA, ICAI, ICPAI and the IIPA.

7. Complaints handling

7.1 Overview

For the purposes of the analyses set out in this Chapter, a 'Complaint' includes any expression of dissatisfaction with accounting related services and/or with the regulation of members/member firms by the PABs, whether communicated to the Authority by members of the public or from other sources.

The Authority received a total of 23 complaints during the year under review. The nature of those complaints, together with details of the manner in which complaints were dealt with, is set out in

Tables 13 to 15. The examination of complaints received forms an important part of the Authority's supervision of the PABs, in that analysing the nature of complaints received, together with the Authority's examination thereof, enables the Authority to determine whether the issues complained of are of an isolated nature or whether they are indicative of wider or systemic issues.

7.2 Complaints received

Details of complaints received during the year, together with comparative data in respect of the year ended 31 December, 2009, are set out in Table 13.

Table 13: Complaints received

	2010	2009
Complaints on hand as at 1 January	8	5
Complaints received during the year (see Table 15)	23 ³⁵	21
Complaints closed during the year (see Table 14)	(22)	(18)
Complaints on hand as at 31 December	9	8
Analysed by:		
Complaints under consideration at year end	7	5
Matters ongoing under the section 23 process (see Table 8)	2	3
Complaints on hand at 31 December	9	8

At year end, two matters arising from complaints remained under consideration by Authority Committees in accordance with the provisions of the Section 23 Regulations. An overview of the Authority's section 23 Enquiry activity during the year is set out in section 3 above.

³⁵ Complaints received related to (i) the following PABs: ICAI and IIPA; and (ii) members of the following PABs: ACCA, CIMA, ICAI, ICPAI and IIPA.

7.3 Complaints closed

As can be seen from Table 13, a total of 22 complaints were closed during the year. The manner in which those complaints were closed is analysed in Table 14.

Table 14: Complaints closed – manner of closure

	2010	2009
Referral to relevant PAB ³⁶	14	9
Referral to another regulatory/enforcement body	-	3
Pursued with the relevant PAB as a regulatory matter	1	4
Complaint withdrawn by complainant	-	1
Completion of a Full S23 Enquiry (see Table 8)	2	1
No breach of process identified	4	-
Outside the remit of the Authority	1	-
Complaints closed during the year	22	18

7.4 Nature of complaints received

Set out in Table 15 is an analysis of the nature of issues giving rise to complaints made to the Authority during the year.

Table 15: Nature of issues giving rise to complaints received in 2010

	Total
Alleged failure to release client documentation	1
Allegation of unsatisfactory work	10
Alleged delays in PABs' disciplinary processes	1
Dissatisfaction with some other aspect of the PABs' disciplinary procedures	7
Alleged breach of standards by a PAB member/member firm	1
Dissatisfaction with fees charged	1
Other	2
Total	23

³⁶ Under the regulatory model provided for by the Act, primary responsibility for investigating complaints relating to members of the PABs resides with the PABs. Accordingly, where the Authority receives a complaint in circumstances where the matter has not, in the first instance, been referred to the relevant PAB, the Authority refers the matter to the PAB for processing under its approved investigation and disciplinary procedures.

7.5 Referrals from the Office of the Director of Corporate Enforcement and the Financial Regulator/Central Bank

Over the course of the year, the Authority received a total of 24 referrals from the Office of the Director of Corporate Enforcement ('ODCE') and 194 referrals from the Financial Regulator/Central Bank. These referrals related to apparent non-compliance with professional standards, the Central Bank Act 1997 and/or company law on the part of certain members/member firms of RABs. In response to these referrals, and in addition to ongoing liaison with the ODCE and the Financial

Regulator/Central Bank, the Authority liaised with the relevant RABs with a view to:

- ascertaining their respective responses to these matters; and
- ensuring that the RABs' responses were consistent with their approved investigation, disciplinary and other relevant procedures.

Set out in Table 16 is a summary of referrals received from the ODCE and the Financial Regulator/Central Bank during the year, analysed by RAB.

Table 16: Summary of referrals from the ODCE and the Financial Regulator/Central Bank in 2010

RAB	ODCE	Financial Regulator/Central Bank	Total
ACCA	5	53	58
ICAEW	-	1	1
ICAI	13	111	124
ICPAI	5	24	29
IIPA	-	5	5
IIPA/ACCA ³⁷	1	-	1
Total	24	194	218

Issues giving rise to referrals during the year included:

- the duty of auditors of Credit Unions to provide the Financial Regulator/Central Bank with a copy of any report issued to a Credit Union on a matter which has come to the auditor's attention³⁸;
- the duty of auditors of Credit Unions to report to the Financial Regulator/Central Bank within one month of the date of the auditor's report³⁹;
- the provision of audit reports not appropriate to an audited entity's legal structure (e.g. guarantee companies);
- qualification to audit⁴⁰; and
- the duty of auditors to report to the ODCE⁴¹.

8. Supervisory reviews

During the year, the Authority completed a supervisory visit in respect of 1 PAB and continued a supervisory review in respect of a second PAB. As in previous years, the principal issues arising from the Authority's supervisory review activities related to:

- the practical operation of PABs' investigation and disciplinary procedures;
- constitutional documents;
- PABs' licensing and registration of members/member firms; and
- the accuracy of information provided in PABs' annual returns to the Authority.

³⁷ This referral relates to a member of ACCA working for a firm registered with the IIPA.

³⁸ Section 27C(1) of the Central Bank Act 1997.

³⁹ Section 27B(2)(a) of the Central Bank Act 1997.

⁴⁰ Section 187 of the 1990 Act.

⁴¹ Section 194 (5) of the 1990 Act.

In addition, Authority staff held 4 review meetings with PABs' representatives during the year, the purpose of such meetings being, amongst other things, to:

- discuss progress on the implementation of Authority recommendations;
- identify, discuss and plan for forthcoming developments of relevance in a supervisory context; and
- discuss matters of mutual interest from a regulatory perspective.

9. PABs' annual return process

9.1 PABs' annual returns

On an annual basis, the Authority requires the PABs to complete an annual return, the purpose of which is twofold, namely to:

- i. provide the Authority with information necessary to enable it to:
 - monitor the PABs' ongoing regulatory, monitoring and related activities; and
 - plan for supervisory reviews by, for example, identifying key areas, issues or trends deserving of particular attention or resource allocation; and
- ii. enable the Authority to provide the public with an insight into the scale and composition of the profession as well as the PABs' principal regulatory and, where applicable, monitoring activities on an annual basis.

By definition, certain of the information sought from the PABs is confidential – or otherwise sensitive in nature – and is, principally, for the Authority's internal use as opposed to being collected and collated for the purpose of publication. That being the case, not all data collected from the PABs is made public by the Authority. Those elements of the data considered appropriate for publication, together with the Authority's analysis thereof, are set out in detail in Chapter 7 of this Report.

9.2 Annual returns – Individually Authorised Auditors

The term 'Individually Authorised Auditor' ('IAA'), as used in the Act, means those persons that were granted individual 'public' and/or 'company'

auditor status by the Minister before 3 February, 1983. The Authority also requests annual returns from IAAs who, whilst not necessarily being members of the RABs, are entitled to perform statutory audit work on foot of the Ministerial authorisation.

10. Implementation of the Statutory Audit Directive Regulations

10.1 Background to the Statutory Audit Directive Regulations

EU wide requirements regarding statutory audit and the qualifications necessary for eligibility to perform such audits were set out in the EU 8th Company Law Directive⁴². These requirements were subsequently incorporated into Irish law, principally *via* the 1990 Act.

In 2006, the EU 8th Company Law Directive was revised by the European Parliament and Council⁴³. These revised requirements were transposed into Irish Law by the Statutory Audit Directive Regulations, which conferred significant additional functions and responsibilities on both the Authority and the RABs.

Given the complexity of the Regulations, during the year the Authority devoted considerable resources towards the development of a Guide which can be accessed on the Authority's website⁴⁴. Further details on the Guide's content are provided in Chapter 5 of this Report.

A summary of some of the salient additional functions and responsibilities of the Authority and an outline of certain of the work that has commenced to implement the Statutory Audit Directive Regulations is set out in the remainder of this section.

10.2 Additional functions and responsibilities conferred on the Authority

The Authority has been designated as the competent authority in the State with respect to the system of public oversight of Statutory Auditors and Statutory Audit Firms (i.e., by way of supervision of the PABs' regulation and monitoring of their members as provided for by the Act). In particular, the Regulations provide that, without prejudice to its functions as provided for by the Act, the Authority shall generally superintend:

⁴² Directive 84/253/EEC.

⁴³ Directive 2006/43/EC.

⁴⁴ The guide, which was issued in January 2011, can be accessed on the Authority's website at www.iaasa.ie/publications/Guide_8thDirective2011.pdf

- the approval and registration of Statutory Auditors and Statutory Audit Firms;
- the adoption of standards on professional ethics, internal quality control of Statutory Audit Firms and auditing; and
- continuing education, quality assurance and investigative and disciplinary systems.

Other additional functions and responsibilities conferred on the Authority by the Statutory Audit Directive Regulations relate to, amongst other matters:

- receipt and consideration of notifications from statutory auditors and audit firms regarding cessation of office;
- approval of the standards, administration and content of the aptitude test for third country auditors and Member State statutory auditors;
- responsibility to perform public oversight on the quality assurance functions of the RABs, including, if considered necessary, the attachment of conditions to the recognition of the RABs;
- approval of the RABs' standards in relation to continuing education, professional ethics and independence & objectivity;
- requirement to approve the RABs' criteria for publication of disciplinary decisions, including any proposed changes to same;
- responsibility to co-operate with other Member States' competent authorities;
- supervision of RABs' co-operation with other Member States' competent authorities; and
- control over investigations requested by a Member State competent authority or supervision thereof if one of the RABs is the competent authority for the investigation.

10.3 Overview of activities relating to the Statutory Audit Directive Regulations

Work performed by the Authority during the year relating to the Statutory Audit Directive Regulations included:

- providing the Department of Jobs, Enterprise & Innovation with advice and assistance in the context of its responsibility to transpose the Directive into national law;
- interaction with the RABs to discuss and supervise their implementation of appropriate systems and procedures to address their responsibilities under the Regulations;
- liaison with IAAs regarding the additional requirements imposed on them by the Regulations (section 9.2 refers);
- receipt and handling of a significant number of queries relating to the Regulations (see Chapter 5 for further detail regarding queries received by the Authority); and
- development of a comprehensive Guide to the provisions of the Statutory Audit Directive Regulations (see Chapter 5 for further details regarding the Guide).

10.4 Individually Authorised Auditors

The Statutory Audit Directive Regulations enacted a significant change in relation for IAAs. While their approval to act as a statutory auditor (previously a 'company' auditor) was deemed to be continued, this deemed approval ceases unless such individuals 'as soon as may be', become either a member of, or subject to regulation by, a RAB⁴⁵.

Additionally, these individuals must ensure they are included on the Register of Auditors, maintained by the Companies Registration Office⁴⁶ as Regulation 65 prohibits a person from acting as, or representing himself as, a statutory auditor unless his name is entered in the Register of Auditors.

The Authority liaised with IAAs on an individual basis during the year to ensure they were aware of, and in compliance with, the Statutory Audit Directive Regulations and these contacts were ongoing at year end.

⁴⁵ Regulation 25(3) refers.

⁴⁶ Regulation 65 refers.

⁴⁷ The text of the Decision can be accessed at www.iaasa.ie/legislation/EU_QA_Recs310708.pdf

⁴⁸ Regulation 113 refers.

⁴⁹ Decision 2011/30/EU was issued on 19 January 2011. The text of the decision can be accessed at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:015:0012:0016:EN:PDF>

⁵⁰ The text of the S.I. can be accessed at www.iaasa.ie/legislation/si229_2009.pdf

11. Registration of third country auditors and audit entities

11.1 Context – Commission Decision

In July 2008, the European Commission issued Decision 2008/627/EC ('the Decision')⁴⁷. The purpose of the Decision was to 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 European Union provided that certain requirements were met.

The transitional period applied to audit reports concerning annual or consolidated financial statements prepared in respect of financial years starting during the period from 29 June, 2008 to 1 July, 2010. Thereafter, in the absence of an extension to the transitional period, auditors and audit entities from the third countries concerned would require registration in accordance with the provisions of Article 45 of the Statutory Audit Directive Regulations⁴⁸ in order to be eligible to issue valid audit opinions in the EU. The European Commission subsequently extended the transitional period in respect of certain third countries in early 2011⁴⁹.

11.2. Implementation of Decision in national law

The Decision was given effect to in Irish law by S.I. No. 229 of 2009 (European Communities (Transitional Period Measures in Respect of Third Country Auditors) Regulations 2009) ('the Transitional Regulations')⁵⁰.

11.3 Designation of the Authority as competent authority

Regulation 3 of the Transitional Regulations, which took effect from 26 June, 2009, designated the Authority as the competent authority for the purposes of registering transitional third country auditors. A more detailed overview of the transitional registration process was set out in the Authority's 2009 Annual Report, which can be accessed on the Authority's website⁵¹.

11.4 Applications received and auditors/audit entities registered under the Transitional Regulations

During the year under review, the Authority granted transitional registration to 24 third country entities. In addition to granting registration, the Authority is charged with maintaining a register of all such registrations. The register, which provides registrants' details, is available to the public *via* the Authority's website⁵². Registrations granted during the year related to the following jurisdictions:

Table 17: Transitional registrations granted – 2010

Jurisdiction	No. of registrations granted during 2010
United States of America	5
Russia	4
Switzerland	3
Cayman Islands	3
Singapore	2
Hong Kong	1
South Africa	1
Ukraine	1
Australia	1
Kazakhstan	1
Mauritius	1
Brazil	1
Total	24

⁵¹ www.iaasa.ie/publications/ar2009.htm

⁵² www.iaasa.ie/legislation/3cae/register.htm

11.5 Registration in accordance with Article 45 of the Statutory Audit Directive

Registration with the Authority, under Article 45 of the Statutory Audit Directive⁵³, is required if a third-country audit entity wishes to provide an audit report concerning the annual or consolidated accounts of a company incorporated outside the EU/EEA whose transferable securities are admitted to trading on a regulated market in Ireland. Registration is, however, only required for those entities that cannot avail of the transitional regime detailed in sections 11.1 to 11.4 above.

Having been designated as the competent authority in this regard, the Authority commenced the development of a registration system towards the end of the year, including the provision of guidance to third country auditors on the registration process. While the Authority received some initial enquiries, no applications for registration had been received by year end.

Unlike the transitional registration process, under which applicants are merely required to furnish the Authority with certain relatively basic information, the full registration process under Article 45 will involve a detailed assessment of each application in order that a decision can be made as to whether registration should be granted. In accordance with the provisions of the Statutory Audit Directive, the Authority will have to assess applications by reference to, amongst other matters, the following considerations and criteria:

- qualifications of auditors within the applicant firm;
- practical experience of auditors within the applicant firm;
- good repute of the applicant firm;
- knowledge of the enactments and practices of Ireland on the part of the applicant;
- the auditing standards applied in the applicant's jurisdiction; and
- the professional standards (including those relating to independence, ethics and internal quality control) applied in the applicant's jurisdiction.

11.6 Other responsibilities in relation to third country auditors and audit entities

In addition to the registration of third country auditors and audit entities, the Authority has been conferred with other significant responsibilities under the Statutory Audit Directive Regulations. These additional responsibilities include:

- updating of the Register of Auditors for approved applications and notifying changes regarding same to the Companies Registration Office ('CRO');
- assessment of third country auditors' quality assurance regimes;
- implementation of a system of external quality assurance of registered third country auditors and audit entities where those auditors' and audit entities' home system of external quality assurance has been determined as not being equivalent to EU requirements and/or where reciprocal arrangements are not possible;
- implementation of a system of investigation and discipline covering registered third country auditors and audit entities;
- acting as competent authority for liaison with other Member States' and third countries' competent authorities on any matters relevant to the Statutory Audit Directive Regulations;
- administration of fees received from third country auditor applicants;
- responsibility for negotiation, conclusion and publication of reciprocal arrangements with third country competent authorities; and
- approval of the transfer of audit documentation to third country competent authorities.

⁵³ Transposed into national law by Regulation 113 of the Statutory Audit Directive Regulations.

12. Other activities

As part of its ongoing supervisory mandate, and in the furtherance of its mission and goals, the Authority seeks to develop and maintain strong bilateral links with certain domestic and international counterparts, as considered appropriate and permitted by law. Of particular significance in that context are the Authority's links with the:

- ODCE;
- Financial Regulator/Central Bank;
- Commission of Investigation into the Banking Sector;
- European Group of Auditors' Oversight Bodies ('EGAOB');
- International Forum of Independent Audit Regulators ('IFIAR'); and
- US Public Company Accounting Oversight Board ('PCAOB').

12.1 ODCE

For the purpose of facilitating co-operation, the Authority entered into a Memorandum of Understanding with the ODCE in May, 2006. Where issues arise in the course of the Authority's ongoing supervisory activities that are considered to be connected with the Director of Corporate Enforcement's functions, the Authority refers such matters to the ODCE. During the year, 4 referrals were made to the ODCE. As set out in Table 16, the ODCE also made 24 referrals to the Authority during the year.

12.2 Financial Regulator/Central Bank

For the purpose of facilitating co-operation, the Authority entered into a Memorandum of Understanding with the Financial Regulator in June, 2008. Where issues arise in the course of the Authority's ongoing supervisory activities that are considered to be connected with the Financial Regulator/Central Bank's functions, the Authority refers such matters to the Central Bank. During the year, 1 referral was made to the Financial Regulator/Central Bank. As set out in Table 16, the Financial Regulator/Central Bank also made 194 referrals to the Authority during the year. Chapter 4 details further interactions with the Financial Regulator/Central Bank in a financial reporting context.

12.3 Commission of Investigation into the Banking Sector

The Government established a Statutory Commission of Investigation pursuant to Section 3 of the Commissions of Investigation Act 2004 on 21 September, 2010. Dr. Peter Nyberg was appointed as the sole Member of the Commission of Investigation into the Banking Sector and he was charged with completing his report by March, 2011. At the Commission's request, Authority representatives met with Dr. Nyberg and certain of his colleagues on a number of occasions during the course of the Commission's work⁵⁴.

12.4 EGAOB

During the year the Authority continued its co-operative activities with other EU Member States' oversight authorities as a member of the EGAOB, an expert group established by the EU Commission to assist it in the context of the EU-wide implementation of the Statutory Audit Directive. The functions and detailed work performed by the EGAOB were described in detail in the Authority's first Annual Report⁵⁵ and for that reason are not reproduced in this Report.

12.5 IFIAR

During the year the Authority continued to be an active member of IFIAR. IFIAR members met on three occasions during the year, twice in plenary session with a further meeting taking the form of an audit inspection workshop.

12.6 PCAOB

During the year the Authority continued its ongoing engagement with the PCAOB on the issues of implementation of the Statutory Audit Directive Regulations and proposed PCAOB inspections of Irish audit firms. This topic is discussed in further detail in Chapter 5 of this Report in the context of the Authority's advisory role.

⁵⁴ The Commission's Report, which was published on 19 April, 2011, can be accessed at www.bankinquiry.gov.ie/Documents/Misjudging%20Risk%20Causes%20of%20the%20Systemic%20Banking%20Crisis%20in%20Ireland.pdf

⁵⁵ www.iaasa.ie/publications/Annual_Report_2006.pdf

CHAPTER 4

Monitoring the Compliance of Certain Issuers' Periodic Financial Reporting
with Relevant Reporting Frameworks

Monitoring the Compliance of Certain Issuers' Periodic Financial Reporting with Relevant Reporting Frameworks

1. Introduction

This Chapter provides a summary of the activities undertaken by the Authority during 2010 in seeking to achieve its mission to support and enhance public confidence in financial reporting through the exercise of effective, independent oversight of constituent entities' statutory financial reporting. The Authority's activities in this regard are concerned principally with its role as the designated competent authority in the State for examining the compliance of certain entities' periodic financial reporting with relevant reporting frameworks, i.e. applicable accounting standards (in the main IFRS⁵⁶ and Irish GAAP⁵⁷) and relevant legislation.

Other activities include co-operation with EU counterparts, primarily for the purpose of promoting the consistent enforcement of IFRS across the EU, and the statutory function of co-operating in the development of accounting standards. The remainder of this Chapter discusses each of these activities in further detail (other than the Authority's co-operation with others in the development of accounting standards, which is elaborated upon in Chapter 5 of this Report).

2. Monitoring the compliance of issuers' periodic financial reporting with relevant reporting frameworks

2.1 Legislative context

As the context for the Authority's legislative function of monitoring the compliance of certain entities' periodic financial reporting with relevant reporting frameworks was set out in detail in the Authority's 2007 Annual Report⁵⁸, it is not reproduced in this Report. In summary, the Transparency (Directive 2004/109/EC) Regulations, 2007 ('the Transparency Regulations') provide that '*IAASA shall examine [annual and half-yearly financial reports] for the purpose of considering whether such information is in accordance with the relevant reporting framework*'⁵⁹. Throughout the remainder of this Chapter, those entities coming within the Authority's remit under the Transparency Regulations are referred to as 'issuers'.

2.2 The Authority's remit

Table 18 sets out, in approximate terms and as at 31 December, 2010, the scale of the review constituency as notified to the Authority by the Irish Stock Exchange ('ISE') on behalf of the Central Bank of Ireland⁶⁰. This data excludes certain issuers whose home Member State is Ireland but whose securities are traded on an EU regulated market outside of the State, in respect of which accurate data is not currently available to the Authority.

⁵⁶ International Financial Reporting Standards.

⁵⁷ Generally Accepted Accounting Principles, which, in an Irish context, includes the accounting standards and related interpretations as issued by the UK Accounting Standards Board ('ASB').

⁵⁸ Available at www.iaasa.ie/publications/Annual_Report2007.pdf

⁵⁹ Regulation 42(2) refers.

⁶⁰ The Central Bank of Ireland has chosen to delegate certain of its functions under the Regulations to the Irish Stock Exchange.

Table 18: Authority's financial reporting review constituency as at 31 December, 2010

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	30	30	30	60
Fund	37	37	37	74
Debt	92	66 ⁶¹	92	158
Total	159	133	159	292
Total as at 31 December, 2009	168	143	161	304

2.3 Purpose and objective of review activity

The Authority's review activity comprises two principal elements, i.e.

- examining whether issuers' periodic financial reporting complies with relevant reporting frameworks; and
- taking appropriate enforcement measures in response to identified infringements.

The purpose of the Authority's review activity is to:

- protect and promote the interests of the users of issuers' periodic financial reports;
- promote public confidence in the quality and reliability of issuers' statutory financial reporting; and
- contribute to the achievement of the objective of the consistent application of accounting standards across EU regulated financial markets.

The scope of enforcement extends to the whole reporting framework applicable to issuers, including national GAAP when applied to company individual financial statements (as opposed to consolidated financial statements where the use of IFRS is mandated) and extends to third countries' accounting standards where non-EU issuers are concerned. Consequently, the Authority is responsible for the enforcement of IFRS, Irish

GAAP and certain codes of third country GAAP depending on the financial reporting framework used by the affected issuer.

2.4 Approach towards selecting issuers' periodic financial reports for review

When determining which issuers' periodic financial reports will be the subject to examination, the Authority uses a risk based approach, which is supplemented by rotational selections (the purpose of the latter being to provide coverage of issuers that might otherwise be unlikely to be selected for examination on a purely risk-based approach).

Further details of the considerations typically affecting risk assessment and the Authority's selection process can be found in the publication entitled '*A Guide to the Financial Reporting Requirements of the EU Transparency Directive and IAASA's role under the Directive*'⁶². In summary, the Authority's risk-based approach to the selection of financial reports for review has regard to the:

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

⁶¹ Certain debt issuers, i.e. those admitted to trading on a regulated market in a Member State before 1 January, 2005, are exempt from the requirement to produce half-yearly financial reports for a period of 10 years from 1 January, 2005. As a consequence, a lower number of half-yearly financial reports were published by debt issuers coming within remit during the year than was the case with annual financial reports.

⁶² Available at www.iaasa.ie/publications/IAASA_TD_Guide.pdf

Risk factors typically considered in assessing the relative risk of an incidence of material misstatement in an issuer's periodic financial report include:

- (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 the Authority, press reportage, etc.).

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

- (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 circumstances where instances of non-compliance are identified in an issuer's periodic financial report(s), the potential for that issuer's subsequent periodic financial reports to be the subject of review increases.

The Authority has entered into Memoranda of Understanding with the Central Bank of Ireland and the Office of the Director of Corporate Enforcement. From time to time the Authority 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 the Authority's risk assessment and selection processes.

2.5 Categories of review

Depending upon risk factors identified and other relevant considerations, examinations undertaken

by the Authority during the year can be broadly categorised as being:

- i. Full Scope Reviews – these reviews comprise an examination of all aspects of the selected financial report for compliance with the recognition, measurement, classification, presentation and disclosure requirements of relevant standards, legislation and regulations;
- ii. Focussed Reviews – these reviews involve the examination of a particular aspect (or aspects) of the selected financial report; and
- iii. Follow-up Reviews – these are reviews which examine a previously reviewed issuer's financial report(s) 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 the Authority).

2.6 Approach towards issues arising from reviews of periodic financial reports

Where, having undertaken a review of an issuer's periodic financial report, it appears to the Authority that there are issues arising in respect of which further information and/or clarification is required, the Authority corresponds with those charged with the issuer's governance, i.e. the directors (the Authority corresponds with the directors as opposed to, for example, management as, under company law, it is the directors that are legally responsible for the financial statements). 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 (including, for example, details of the directors' rationale for adopting a particular accounting treatment or the basis for their judgements in certain respects).

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, the Authority typically enters into further correspondence with the directors 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. Upon

receipt of all information deemed necessary, the Authority determines whether the particular accounting treatment adopted and/or disclosures provided are in compliance with the relevant reporting framework. Where considered necessary, or otherwise likely to assist in the satisfactory resolution of issues arising, Authority staff members meet with issuers' representatives.

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

As reported on previous occasions, based on experiences to date, the Authority has found that those issuers that are most forthcoming with the requisite information, clarifications and explanations are those that bring their contacts with the Authority to a successful conclusion in the most efficient and expeditious manner. This continued to be the case during the year under review.

2.7 Periodic financial reports received during the year

Set out in Table 19 are details of the number of periodic financial reports received by the Authority from the ISE during the year ended 31 December, 2010, together with comparative data in respect of the previous year.

Table 19: Periodic financial reports received from the ISE

Issuer category	2010			2009		
	Annual reports	Half-yearly reports	Total	Annual reports	Half-yearly reports	Total
Equity	30	30	60	30	31	61
Fund	39	38	77	39	45	84
Debt ⁶³	86	66	152	92	67	159
Total	155	134	289	161	143	304

As can be seen from the Table 19, the volume of reports received during 2010 represented a decrease of 4.9% on the previous year.

2.8 Overview of review activity during the year

Set out in Table 20 are summary details of the Authority's review activity during the year.

Table 20: Summary of review activity - 2010

Reviews which had been completed or were at an advanced stage⁶³ by year end

	Equity	Fund	Debt	Total
Half-yearly reviews at an advanced stage or completed by year end	8	3	6	17
Annual reviews at an advanced stage or completed by year end	14	4	7	25
Total number of reviews at an advanced stage or completed by 31 December, 2010	22	7	13	42
Total number of reviews at an advanced stage or completed by 31 December, 2009	18	13	17	48

⁶³ 'At an advanced stage' includes reviews where final correspondence with the issuer may not have issued but the matters under review had been substantially resolved and, where applicable, agreed with the issuer by year end.

As can be seen from Table 20, the number of reviews performed during 2010 was somewhat lower than in the previous year. Contributory factors in that regard include:

- (a) an increased focus, based on risk considerations, on reviewing equity issuers' financial reports than in the previous year. Equity issuers' businesses and activities tend to give rise to more complex accounting issues, thereby resulting in the review of their reports being more time consuming; and

- (b) the fact that review activity during 2010 included the examination of a number of specific issues the nature of which were complex and, as a result, time consuming. Certain of these issues are elaborated upon in further detail in section 3.2 below.

2.9 Issuers reviewed

Set out in Tables 20.1 to 20.3 is a list of issuers whose periodic financial reports were reviewed during the year and whose reviews were, by year end, at an advanced stage or had been completed.

Table 20.1: List of issuers reviewed during 2010 – Equity

Issuer	Financial report type	Review type	Reporting date	Correspondence issued
Allied Irish Banks plc	Annual	Focussed	31-Dec-08	Yes
Aryzta AG	Annual	Full	31-Jul-09	No
The Governor and Company of the Bank of Ireland	Half-yearly	Focussed	30-Sep-08	Yes
The Governor and Company of the Bank of Ireland	Annual	Focussed	31-Dec-09	Yes
Dragon Oil plc	Half-yearly	Full	30-Jun-10	Yes
Elan Corporation plc	Half-yearly	Full	30-Jun-10	No
FBD Holdings plc	Annual	Follow-up	31-Dec-09	No
Glanbia plc	Annual	Focussed	02-Jan-10	Yes
Greencore Group plc	Annual	Follow-up	25-Sep-09	No
Independent News & Media plc	Annual	Full	31-Dec-09	Yes
Irish Life & Permanent plc	Annual	Focussed	31-Dec-09	Yes
Kerry Group plc	Annual	Full	31-Dec-09	Yes
Kingspan Group plc	Annual	Full	31-Dec-09	Yes
Kingspan Group plc	Half-yearly	Follow-up	30-Jun-10	Yes
McNerney Holdings plc	Half-yearly	Full	30-Jun-09	Yes
McNerney Holdings plc	Annual	Follow-up	31-Dec-09	No
Paddy Power plc	Annual	Full	31-Dec-09	Yes
Paddy Power plc	Half-yearly	Follow-up	30-Jun-10	No
Ryanair Holdings plc	Annual	Follow-up	31-Mar-10	No
Smurfit Kappa Group plc	Half-yearly	Full	30-Jun-10	Yes
United Drug plc	Annual	Full	30-Sep-09	Yes
United Drug plc	Annual	Follow up	30-Sep-10	No

Table 20.2: List of issuers reviewed during 2010 – Funds

Issuer	Financial report type	Review type	Reporting date	Correspondence issued
Carador plc	Half-yearly	Follow-up	30-Jun-09	No
Census Investments 26, plc	Half-yearly	Full	31-Jan-10	Yes
DWS Vietnam Fund Limited	Annual	Follow-up	31-Dec-09	No
Signet Global Fixed Income Strategies Limited	Annual	Follow-up	31-Dec-09	No
Signet Global Fixed Income Strategies Limited	Half-yearly	Follow-up	30-Jun-10	No
Special Value Opportunities Feeder Fund	Annual	Follow-up	31-Dec-09	No
SWIP Private Equity Fund of Funds II plc	Annual	Follow-up	31-Dec-09	No

Table 20.3: List of issuers reviewed during 2010 – Debt

Issuer	Financial report type	Review type	Reporting date	Correspondence issued
Anglo Irish Bank Corporation Limited ⁶⁴	Annual	Focussed	31-Dec-09	Yes
Banesto Financial Products, plc	Annual	Follow-up	31-Dec-09	Yes
Diversification Notes plc	Half-yearly	Focussed	30-Jun-10	Yes
Green Island Capital Securities plc	Half-yearly	Follow-up	30-Jun-10	Yes
Green Island Capital Securities plc	Half-yearly	Focussed	30-Jun-10	Yes
Kalvebod plc	Half-yearly	Follow-up	31-Jan-10	No
Magellan Mortgages No.2, plc	Annual	Focussed	31-Dec-09	Yes
Porsche Intl Fin Group, plc	Half-yearly	Focussed	31-Jan-10	Yes
Profile Finance plc	Annual	Follow-up	30-Apr-10	No
Profile Finance plc	Annual	Focussed	30-Apr-10	Yes
Saphir Finance, plc	Annual	Focussed	31-Jan-10	Yes
Scandinotes Five Public Limited Company	Half-yearly	Focussed	30-Jun-10	Yes
Willow No. 2 (Ireland) plc	Annual	Focussed	31-Dec-09	Yes

In respect of the reviews completed during 2010, a total of 124 (2009: 229) matters were raised with issuers' directors. The average number of matters raised with issuers in respect of full scope reviews was 6 (2009: 8). In the case of one equity issuer, the Authority had cause to raise queries in respect of 19 separate matters pertaining to its annual financial report.

The fall in the aggregate number of matters raised with issuers during the year and the average number of issues raised per review reflects a combination of (i) improvements in the quality of certain issuers' financial reporting; and (ii) as referenced above, an increased focus during the year under review on specific issues and follow up reviews as opposed to full scope reviews.

⁶⁴ Anglo's share listing on the ISE's Main Market was cancelled on 21 January, 2009 following the nationalisation of the bank. Certain of its debt securities remain listed on the ISE Main Market and, consequently, Anglo remains within scope of the Regulations.

2.10 Response to matters arising from reviews of periodic financial reports

In addressing matters arising from reviews, the Authority has a range of options at its disposal, including:

- (a) securing undertakings from an issuer's directors, i.e. to the effect that instances of non-compliance or other deficiencies in periodic financial reporting will be rectified and/or will not recur in future reports. Such undertakings may, depending on the nature and significance of the non-compliance/deficiency, be either:
 - i. applied prospectively, i.e. whereby amendments are made to future reports without the requirement to restate any previously reported amounts; or
 - ii. applied retrospectively, i.e. whereby amendments are required to previously reported amounts in the comparatives in the next financial statements and resultant disclosures are required in accordance with International Accounting Standard ('IAS') 8 *Accounting Policies, Changes in Accounting Estimates and Errors* or Financial Reporting Standard ('FRS') 3 *Reporting financial performance* and FRS 18 *Accounting policies*;
- (b) agreeing to the voluntary issuance of revised financial information by an issuer's directors, e.g. *via* the publication of revised financial statements;
- (c) invoking the Authority's statutory powers as provided for by the Transparency Regulations and under which the Authority can:
 - i. certify to the High Court an issuer's (or certain other relevant parties') failure to provide requested information and/or explanations; and
 - ii. in certain circumstances, direct an issuer's directors to prepare and publish a revised periodic financial report, publish notice of that direction and direct the issuer to pay costs incurred by the Authority in examining the report; and
- (d) request the Central Bank to appoint an assessor where the Authority has reason to suspect that a prescribed contravention of the Transparency Regulations is being committed or has been committed. In the event that the assessor issues an adverse assessment, the Central Bank may impose specified sanctions including:
 - i. public or private cautions and reprimands;
 - ii. a monetary penalty of up to €2.5m;
 - iii. a direction disqualifying the assessee from being concerned in the management of, or having a qualifying holding in, any regulated financial service provider;
 - iv. if the assessee is continuing to commit a prescribed contravention, a direction ordering the assessee to cease committing the contravention; and
 - v. a direction to pay to the Central Bank all, or a specified part, of the costs incurred by the Bank in investigating the matter to which the assessment relates⁶⁵.

In determining the most appropriate manner in which to address matters arising from its reviews, the Authority has regard to the circumstances of each case and seeks to pursue a course of action that is proportionate to the underlying matters and to their potential impact on the users of the relevant financial report(s). Accordingly, the Authority will only consider the provision of directors' undertakings in respect of future periodic financial reports to be an appropriate and proportionate response in certain instances. In cases of more significant non-compliance or other deficiency, the Authority will encourage the directors to publish an amended report (i.e., including amended financial statements) in the interests of the users of that report. In circumstances where, having afforded an issuer's directors the opportunity to offer their comments and observations, the Authority considers that the publication of an amended report is the most appropriate corrective action in users' interests and the issuer's directors do not share that analysis, the Authority considers whether it is necessary to take formal enforcement action under the Transparency Regulations.

⁶⁵ Regulations 61 to 74 refer.

During the year the Authority continued successfully to secure outcomes that were proportionate and in users' interests. As a result, the Authority completed the year's review activity without having to resort to the exercise of statutory powers. Whilst, as previously communicated, the Authority will not hesitate to exercise such powers as and when considered necessary, the Authority continues to hold the view that the current approach, which is considerably less costly and therefore more efficient than statutory enforcement actions, should, to the extent practicable, remain the

principal means of ensuring high quality statutory financial reporting. As previously communicated, the extent to which this approach will continue to be practicable over the coming years will, however, be largely contingent upon issuers' continued willingness to engage positively with the Authority and to take the necessary steps to address adequately issues arising in users' interests.

Set out in Table 21 is a summary of issuers' responses to matters arising from reviews completed during the year.

Table 21: Issuers' responses to matters arising from reviews

Issuer category	No. of reviews where issuers' directors provided undertakings in respect of future periodic financial reports	No. of reviews where issuers' directors agreed to the voluntary publication of amended half-yearly financial reports	No. of reviews where issuers' directors agreed to the voluntary publication of amended annual financial reports	No. of issuers whose directors published non-voluntary amended financial reports
Equity	10	-	-	-
Fund	1	1	-	-
Debt	7	2	-	-
Total - 2010	18	3	-	-
Total - 2009	33	6	2	-

As alluded to earlier in this Chapter, the lower level of undertakings and re-filings than occurred during the previous year was largely a consequence of the fact that a number of the reviews undertaken during 2010 were follow up reviews for the purpose of assessing the adequacy of directors' responses to previously raised issues. By their nature, follow up reviews are expected to give rise to a lesser necessity for undertakings and/or re-filings. A further factor contributing to this lower level of undertakings and re-filings is the improvement evident in the quality of certain issuers' financial reporting.

Readers should note that the above Table reflects the number of issuers who took remedial action as a result of correspondence received from the Authority as opposed to the number of individual

financial reporting matters arising. The Authority secured undertakings from issuers in respect of 79 separate matters.

Details of some of the matters in respect of which issuers' directors provided undertakings, together with details of other matters raised with issuers' directors, can be found in section 3 of this Chapter.

The remainder of this Chapter elaborates on the Authority's financial reporting review activity during 2010 under the following headings:

- (a) matters arising from the Authority's 2010 reviews (section 3); and
- (b) activities relating to the enforcement of IFRS across the EU (section 4).

3. Matters arising from the Authority's 2010 reviews

3.1 Preface

With a view to providing readers with a flavour for the types of issues that were considered during the course of examinations of periodic financial reports during 2010, and of the Authority's responses to those issues, this section provides an outline of some of the more significant issues identified and examined during the year. These issues are presented under the following headings:

- (a) issuer/sector specific matters requiring the devotion of significant resources (section 3.2 below); and
- (b) issues impacting a wider issuer population (section 3.3 below).

It should be noted that the matters set out below are, for the purposes of reporting, summarised versions of what were, in some cases, protracted engagements with issuers on often quite complex issues.

3.2 Issuer/sector specific matters requiring the devotion of significant time resources

The sections that follow deal with the following financial reporting matters:

- 3.2.1 Accounting for pension curtailments – annual financial statements in respect of the year ended 31 December, 2009
- 3.2.2 Multiple financial reporting issues – annual financial statements in respect of the year ended 31 December, 2009
- 3.2.3 Inter-institutional transactions and balances (Anglo Irish Bank Corporation plc ('Anglo')) – annual financial statements in respect of the year ended 30 September, 2008
- 3.2.4 Treatment of an entity as an associate – annual financial statements in respect of the year ended 31 December, 2009
- 3.2.5 Accounting for asset transfers to the National Asset Management Agency ('NAMA')
- 3.2.6 Accounting for taxation and tax authority audits – annual financial statements in respect of the year ended 31 December, 2009
- 3.2.7 Cash flow statements – half-yearly financial statements in respect of the six months ended 30 June, 2010

3.2.8 Impairment of existing loan and recognition and measurement of the fair value of a new loan – annual financial statements in respect of the year ended 31 December, 2008

3.2.9 Disclosures under IFRS 7 – limited recourse debt issuers (various debt issuers with various reporting dates)

3.2.1 Accounting for pension curtailments – annual financial statements in respect of the year ended 31 December, 2009

Background

The issuer, a manufacturing entity operating principally in Ireland, the UK and the USA, operates defined benefit pension plans for the majority of its employees in Ireland. In common with many such defined benefit pension plans, there were significant deficits on the plans and these deficits were recognised as a liability of the issuer in its financial statements in accordance with IAS 19 *Employee Benefits*.

The issuer, in order to reduce the cost and risks associated with the operation of the defined benefit plans, undertook a review of its pension arrangements. This review was completed during 2009, following which the issuer revised benefits under the defined benefit plans. The revision of benefits gave rise to the recognition of a gain in the financial year; that gain being attributable to curtailment gains and negative past service costs respectively. This gain was presented in the Consolidated Income Statement as an exceptional gain credited in arriving at the operating result for the year. The curtailment gains and negative past service costs arose following the removal of guaranteed increases to pensions in payment for all members and the provision of benefits for members in employment on a career average basis rather than the previous final salary basis.

Matter for consideration from a financial reporting perspective

The principal issue requiring consideration in this instance was the timing of the recognition of the curtailment gains and negative past service costs by the issuer, i.e. whether, in the particular circumstances of the issuer, the changes to the pension plans' benefits had occurred on, or prior to, the reporting date and, consequently, whether the gain was appropriately recognised in the issuer's financial statements.

An examination of the basis for the directors' judgements regarding the timing of recognition of the gain was considered important in that the gain accounted for a substantial proportion of the issuer's reported profit after tax.

Relevant accounting pronouncements

Paragraph 52 of IAS 19 requires an issuer to account for its legal obligations under the formal terms of a defined benefit pension plan but also for any constructive obligations that arise from the issuer's informal practices.

Paragraph 53 of that Standard recognises that the formal terms of a defined benefit plan may permit an employer to terminate its obligations under the plan and that, in the absence of evidence to the contrary, pensions accounting assumes that the issuer will continue to promise such benefits in the future.

Paragraph 109 states that *'An entity shall recognise gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occur'* and paragraph 111 states that *'A curtailment occurs when an entity ... (b) amends the terms of a defined benefit plan so that a significant element of future service ... will qualify only for reduced benefits.'*

Outcome of the Authority's examination

In view of the significance of the timing issue, the Authority directed certain queries and information requests to the issuer's directors. Specifically, the Authority sought and obtained additional information and explanations from the directors, including pension plan documentation and minutes of both Board and Trustees' meetings. From its enquiries the Authority confirmed, amongst other things, that the issuer had substantially completed its consultation process with members of the pension plans prior to the reporting date. Given the nature of the subject matter, the Authority also sought and obtained the assistance of the Pensions Board in examining this matter.

Having examined the information and explanations provided by the directors, the Authority concluded that the directors' recognition of the curtailment gain and negative past service cost in the Consolidated Income Statement for the year did not represent an infringement of the relevant reporting framework. The Authority concluded that the issuer had reduced its obligations under the pension plans by the reporting date by virtue of, amongst other matters:

- (a) the issuer having the legal right to unilaterally terminate the plans at any time;
- (b) the issuer having formally recorded its decision to proceed with the revised benefits levels prior to the reporting date;
- (c) the issuer having substantially engaged with members of the affected plans prior to the reporting date; and
- (d) the receipt of certain approvals from the Pensions Board not being a prerequisite to effect the revised benefits levels.

3.2.2 Multiple financial reporting issues - annual financial statements in respect of the year ended 31 December, 2009

The Authority reviewed the issuer's financial statements for the year ended 31 December, 2009 and, based on that review, sought information and explanations from the directors regarding a total of 19 matters. Matters raised in correspondence with the issuer's directors included:

- (a) presentation of the issuer's retirement benefit obligation net of a related deferred tax asset;
- (b) the holding company's retained earnings including a profit realised on the transfer of shareholdings in subsidiary undertakings to another group undertaking and whether the financial statements should have disclosed that such reserves were not distributable;
- (c) the composition of amounts included in *'non-trading items'* and the consistency in presentation of such items from one year to the next;
- (d) presentation in the current year of a fair value adjustment arising on an acquisition undertaken in the previous year as part of the current year's depreciation;
- (e) disclosures regarding the impact of the adoption of a new IFRIC⁶⁶ Interpretation for the first time;
- (f) the accounting policy for, and disclosures regarding, research & development expenditures;
- (g) the accounting treatment of impairment charges together with related IAS 36 *Impairment of Assets* disclosures;
- (h) disclosures regarding movements in the currency translation reserve;

⁶⁶ International Financial Reporting Interpretations Committee.

- (i) the determination of cash-generating units for the purpose of goodwill impairment testing;
- (j) impact on goodwill of purchase of a non-controlling interest in a subsidiary;
- (k) measurement and disclosure of warranty claims provisions;
- (l) omission of mortality assumptions and apparent inconsistencies in post retirement benefit disclosures;
- (m) inconsistencies between non-cash amounts in the Statement of Cash Flows as compared to their disclosures in the notes to the financial statements;
- (n) extent of disclosures regarding operating segments; and
- (o) other matters including weighted average of fair value of share options granted, minimum lease payments and basis of calculation of gearing ratio.

In response to the issues raised, the directors provided 17 undertakings to enhance future periods' financial statements including, as applicable, amendment of comparative amounts. At year end, the Authority's examination of three issues was ongoing.

3.2.3 Inter-institutional transactions and balances (Anglo Irish Bank Corporation plc ('Anglo')) – annual financial statements in respect of the year ended 30 September, 2008

The Authority's 2009 Annual Report included certain references to the work being carried out in respect of certain specific matters of relevance to Anglo⁶⁷, including inter-institutional transactions and balances with Irish Life & Permanent plc ('IL&P'). In February, 2011 the Authority completed its examination of Anglo's annual financial statements for the year ended 30 September, 2008 (i.e. as published on 20 February, 2009). The first set of financial statements approved by the directors in respect of this period, and upon which the Bank's Preliminary Announcement of 3 December, 2008 was based, were withdrawn prior to publication and, as a result, do not come within the Authority's remit (under the Transparency Regulations, an issuer's periodic financial report only comes within the Authority's scope upon publication).

Background

In February 2009, both Anglo and IL&P made public disclosures setting out details of certain transactions between the two institutions which occurred across those institutions' respective reporting dates during 2008 including:

- during September 2008, when IL&P, through its non-bank subsidiary Irish Life Assurance ('ILA'), deposited a total of €3.45bn with Anglo, with Anglo placing a corresponding €3.45bn with Permanent TSB. These transactions matured in early October, 2008; and
- on 30 September 2008, when IL&P, through its non-bank subsidiary ILA, deposited a total of €4bn with Anglo overnight on receipt of €4bn by Permanent TSB. These transactions matured on 1 October, 2008.

Matters for consideration from a financial reporting perspective

In its published financial statements, Anglo presented these balances gross in its Consolidated Statement of Financial Position, the asset being included in the line item '*Loans and advances to banks*', with the liability being included in the line item '*Customer accounts*'. In addition, the directors provided extensive disclosures regarding the transactions in question, those disclosures being provided in both the notes to the financial statements and in other parts of the Annual Report document (including the Executive Chairman's Letter and in the Business Review).

The principal issues requiring consideration from a financial reporting perspective in respect of these transactions related to measurement, recognition, presentation and disclosure and, in particular, as to whether, in accordance with relevant accounting pronouncements:

- (a) the amounts in question were appropriately recognised, measured, presented, classified and disclosed in accordance with IFRS;
- (b) each placement and corresponding deposit should have been presented separately as assets and liabilities respectively (i.e., 'gross presentation') in Anglo's Statement of Financial Position or, alternatively, whether the asset and liability should have been offset against each other with any residual balance presented as a single asset or liability as appropriate (i.e., 'net presentation');

⁶⁷ Section 4 of Chapter 4 of the Authority's 2009 Annual Report refers.

- (c) the disclosures provided in respect of the transactions in question were sufficient to provide users with an understanding of the impact of the transactions on the issuer and its financial position at the reporting date; and
- (d) there were any further transactions of a similar nature, with the same or other counterparties, which should have been disclosed either in respect of the current year, or the comparative period.

Relevant accounting pronouncements

Paragraph 33 of IAS 1 states that offsetting of assets and liabilities in the Statement of Financial Position is not appropriate except when it reflects the substance of the transaction or event.

Paragraph 3 of IAS 1 *Presentation of Financial Statements* provides that, for specific transactions and other events, other IFRS standards set out the recognition, measurement and disclosure requirements. Given that the transactions referred to above come within the category of financial instruments, IAS 32 *Financial Instruments: Presentation* is therefore of relevance.

In dealing specifically with financial assets and liabilities, paragraph 42 of IAS 32 provides that a financial asset and a financial liability may only be offset and presented as a net amount in the Statement of Financial Position in certain specified circumstances, i.e.:

- (a) if there is a legally enforceable right to set off the recognised amounts; and
- (b) the entity intends to settle on a net basis or realise the asset and the liability simultaneously.

Paragraph 45 of IAS 32 explains that such a right does not have to be contractually based, i.e., *'a right of set-off is a debtor's legal right, by contract, or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount an amount due from the creditor'*.

Paragraphs 50 and AG38 of IAS 32 provide that where an entity enters into a *'master netting agreement'* with a counterparty which provides for a single net settlement only in the event of default or in other circumstances not expected to arise in the normal course of business, this does not

provide a basis for offsetting unless both of the criteria in paragraph 42 of IAS 32 are satisfied.

Anglo's accounting policy note (Note 1.12 to the published financial statements refers) states that financial assets and liabilities are offset in the Statement of Financial Position if, and only if, there is:

- a currently enforceable legal right to offset the recognised amounts; and
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The accounting policy note also states that Anglo enters into master netting agreements with counterparties which provide that, in an event of default, the amounts outstanding will be settled on a net basis. Disclosures in the notes to the published financial statements state that *'...as no right of set-off existed between these deposits and placements, these non-retail deposits were recorded as liabilities on the Group's balance sheet in accordance with accounting standards'*;

The published financial statements were silent as to the inclusion of the liability in the *'Customer accounts'* line item as opposed to the *'Deposits from banks'* line item. However, the deposit originated from a non-bank subsidiary of the counterparty banking group.

Paragraph 13 of IAS 1 provides that *'Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.'*

Paragraph 17 of IAS 1 states that *'... A fair presentation also requires an entity ... to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.'*

Paragraph 46 of the *Framework for the Preparation and Presentation of Financial Statements* deals with the concepts of *'true and fair view'* and *'fair presentation'* and notes that, while the Framework

does not deal directly with such concepts, *'the application of the principal qualitative characteristics and of appropriate accounting standards normally results in financial statements that convey what is generally understood as a true and fair view ...'* The *Framework* provides that *'reliability'* is a principal qualitative characteristic of information in financial statements. Information is reliable when *'it is free from material error and bias and can be depended on by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent'*.

Paragraph 35 of the *Framework* further provides that in order to *'represent faithfully transactions and other events, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with that which is apparent from their legal or contrived form'*. Paragraph 36 states that to be reliable, information must be neutral. Neutrality is not achieved if, *via* the selection and presentation of information, a predetermined result or outcome is achieved.

However, as noted in paragraphs 2 and 3 of the *Framework*, the *Framework* is not a Standard and, importantly, does not override a Standard. Indeed, as provided for by paragraph 3 of the *Framework*, if there is a conflict between a Standard and the *Framework*, the requirements of the Standard prevail.

Outcome of the Authority's examination

In February, 2011 the Authority completed its examination of Anglo's published annual financial statements. During the course, and subsequent to the completion, of that review, the Authority has co-operated, and shared information, with three parties, namely, An Garda Síochána, the Office of the Director of Corporate Enforcement and the Special Investigator appointed by the Institute of Chartered Accountants in Ireland. In view of the fact that criminal investigations are ongoing at this time, the Authority does not consider it appropriate to elaborate further on the outcome of its review at this time.

3.2.4 Treatment of an entity as an associate – annual financial statements in respect of the year ended 31 December, 2009

Background

The issuer held a 29.99% ordinary shareholding in an entity ('the Company') and this investment was accounted for as an associated undertaking in the issuer's consolidated financial statements. In addition, the issuer had a significant holding of redeemable preference shares in the Company and had advanced loans to the Company secured on the Company's assets. Neither the loans nor the preference dividend are being repaid. The Company had a substantial total shareholders' deficit as at 31 December, 2009. In the consolidated financial statements, the issuer had written off its investment in the Company, along with the preference shares and loans.

Matters for consideration from a financial reporting perspective

The financial reporting issue to be examined was whether, in the circumstances where the issuer's relationship with the Company was such that the issuer was the principal financier of the Company and, consequently was in a position to control the Company, the directors' judgement that the Company should be accounted for as an associate rather than as a subsidiary was appropriate. Were it the case that the directors' chosen accounting treatment was not appropriate, the effect would have been that the issuer would have been required to consolidate the Company and, in consequence, to recognise additional liabilities in its Consolidated Statement of Financial Position and to recognise any losses recognised by the Company.

Relevant accounting pronouncements

Paragraph 4 of IAS 27 *Consolidated and Separate Financial Statements* (revised) provides that:

- a subsidiary is an entity that is *'controlled by another entity'*; and
- control is *'the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities'*.

Paragraph 13 of IAS 27 describes circumstances in which control exists when the parent owns half or less of the voting power of an entity, as follows, i.e.: the parent has:

- (a) power over more than half of the voting rights of the entity by virtue of an agreement with other investors;
- (b) power to govern the financial and operating policies of the entity under a statute or an agreement;
- (c) power to appoint or remove the majority of the members of the entity's board of directors or equivalent governing body and control of the entity is by that board or body; or
- (d) power to cast the majority of votes at meetings of the entity's board of directors or equivalent governing body and control of the entity is by that board or body.

Outcome of the Authority's examination

The Authority sought certain information and explanations from the directors regarding their rationale in classifying the investment as an associate rather than as a subsidiary. In response to those requests, the directors advised as follows:

- (a) there are certain restrictions on the issuer's ability to control the Company, which were imposed several years ago by the relevant regulatory authority, as well as a Government prohibition on increasing its shareholding above the current 29.99%;
- (b) there are no conversion rights attaching to the redeemable preference shares held by the issuer in the Company and such shares, therefore, did not represent an equity interest;
- (c) two of the four Company directors are issuer representatives. The Company's Chairman, who has a significant shareholding in the Company, is not an issuer representative. In the case of an equality of votes, the Chairman has a casting vote. Therefore, the directors consider that the issuer has '*significant influence*' rather than '*control*'; and
- (d) whilst the issuer participates in the Company's policy-making processes and decisions, it does not have the power to control such decision making processes by virtue of its Board representation and the absence of a contractual or other entitlement.

In this case, paragraphs (a) and (c) of paragraph 13 of IAS 27 did not apply. In respect of (b) and (d) the Authority considered that the issuer may have been able to govern the Company's financial policies by virtue of being the Company's main creditor. However, because it could not cast the majority of votes at directors' meetings, it did not control the operating policies of the entity, albeit that its representatives could exert significant influence by representing the issuer's main creditor. On that basis, the Authority concluded that the directors' assessment that the investment represented an associate rather than a subsidiary was not an infringement of the relevant reporting framework.

3.2.5 Accounting for asset transfers to the National Asset Management Agency ('NAMA')

Background

The National Asset Management Agency Act 2009 was enacted on 22 November, 2009. Participation in NAMA was approved by certain financial institutions' shareholders prior to their reporting dates and by others subsequent to their reporting dates. Subsequently, the financial institutions concerned formally applied to participate in NAMA and were designated as NAMA participants in January/February, 2010. European Commission approval for NAMA was granted on 26 February, 2010 and the first tranches of loans started transferring to NAMA from the end of February, 2010 with the transfer of those first tranches completed by April 2010.

NAMA's statutory mandate includes acquiring certain loans and receivables (including associated derivative contracts) from participating financial institutions. These assets are purchased by NAMA at a price determined by NAMA, such determinations being subject to a limited right of challenge by the affected financial institutions. NAMA valuations are based on the current market value of the underlying collateral, adjusted to reflect a longer term economic value which the underlying asset could reasonably be expected to attain⁶⁸.

Once a financial institution elects to participate in NAMA, all eligible loans transfer to NAMA (i.e. the financial institution has no discretion as to which loans will transfer). The loans transferred include both fully performing and non-performing loans. When loans are transferred to NAMA, NAMA assumes responsibility for those loans and the financial institution from which loans have been transferred no longer controls the loans in question.

⁶⁸ National Asset Management Agency FAQs, available at www.nama.ie/Publications/2009/NAMAFQs.pdf, refers.

Matters for consideration from a financial reporting perspective

The principal issue for consideration from a financial reporting perspective related to the determination by relevant financial institutions⁶⁹ of loan loss provisions relating to assets that were, at period end, in the process of transferring to NAMA and in respect of which losses on transfer might reasonably be expected to be incurred upon transfer. In that context, two issues in particular required consideration, i.e.:

- (a) whether and, if so, when, the issuers' decision to participate in NAMA represents a 'loss event' for the purposes of paragraph 59⁷⁰ of IAS 39 *Financial Instruments: Recognition and Measurement*; and
- (b) whether, in accordance with paragraph 63⁷¹ of IAS 39, the 'estimated future cash flows' are based on either:
 - i. the contractual cash flows from the borrower; or
 - ii. cash flows from the sale of the loan and receivable to NAMA.

Each of the three affected financial institutions had significant loans and receivables from borrowers in the property and construction sectors. In common with other Irish financial institutions, a significant proportion of these loans and receivables were impaired.

The issue for consideration revolved around when any loss arising on the transfer of loans and receivables to NAMA should be recognised in the affected institutions' financial statements. The principal alternative accounting treatments available would be to recognise losses:

- (a) at the time the loans and receivables are classified as held for sale to NAMA, which, in the case of each of the three financial institutions concerned, was prior to their reporting dates; or
- (b) at the time those loans and receivables were actually legally transferred to NAMA, which, in the case of each of the three financial institutions concerned, was subsequent to their reporting dates.

Each of the three financial institutions concerned accounted for the loss in accordance with (b) above; in other words, each institution's impairment losses at the reporting date were determined on the basis of:

- losses incurred up to the reporting date based on discounted cash flows arising from existing contractual arrangements with borrowers; and
- not taking account of any further losses expected to be incurred on subsequent transfer of those assets to NAMA.

Each institution did however provide disclosures regarding the scale of losses expected to be

⁶⁹ Three financial institutions falling within the Authority's financial statement review remit are participants in NAMA, namely AIB Bank, Anglo Irish Bank and Bank of Ireland.

⁷⁰ Paragraph 59 of IAS 39 states that:

'A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- a. significant financial difficulty of the issuer or obligor;
- b. a breach of contract, such as a default or delinquency in interest or principal payments;
- c. the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- d. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- e. the disappearance of an active market for that financial asset because of financial difficulties; or
- f. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - i. adverse changes in the payment status of borrowers in the group (eg an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or
 - ii. national or local economic conditions that correlate with defaults on the assets in the group (eg an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).'

⁷¹ Paragraph 63 of IAS 39 states that: *'If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.'*

incurred upon transfer to NAMA as a non-adjusting event after the reporting period.

The directors' chosen accounting treatments were of significance in that, were losses to be treated in accordance with (a) above, losses would be likely to be substantially higher than under (b) above due to their earlier recognition in the financial statements. That being the case, the Authority requested the directors of the institutions concerned to provide detailed accounts of their rationale for adopting their selected accounting treatments. In that regard, it was of note that the financial reporting treatments adopted by the three issuers concerned were consistent with each other.

Relevant accounting pronouncements

Paragraph 9 of IAS 39 states:

*'... When calculating the effective interest rate, an entity shall estimate cash flows considering **all contractual terms** of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses...The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see IAS 18 Revenue), transaction costs, and all other premiums or discounts' [bold emphasis added].*

Paragraph 58 of IAS 39 states:

'An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply paragraph 63 (for financial assets carried at amortised cost) ...'

The requirements of paragraph 59⁷⁰ and paragraph 63⁷¹ of IAS 39 are relevant in this context.

Paragraph 5 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* states:

'The measurement provisions of this IFRS do not apply to the following assets, which are covered by the IFRSs listed, either as individual assets or as part of a disposal group: ...

(c) financial assets within the scope of IAS 39.'

Outcome of the Authority's examination

Having corresponded with the issuers in detail and considered the information and explanations provided by the affected institutions' directors, the Authority concluded that the accounting

treatment applied by the affected financial institutions, i.e. the:

- classification (as distinct from measurement) of loans and receivables held for disposal to NAMA as a separate line item on the face of the Statement of Financial Position in accordance with IFRS 5;
- measurement of impairment charges based on the expected contractual cash flows from the borrowers in accordance with IAS 39;
- provision of information regarding the extent of losses expected to arise on transfer to NAMA; and
- recognition of such losses when the assets legally transferred to NAMA,

did not represent an infringement of the relevant reporting framework on the basis that impairment losses are measured under the 'incurred loss' model of IAS 39 and there was no objective evidence that an impairment loss on loans and receivables had been incurred at the reporting dates of the institutions concerned. In arriving at this conclusion, the Authority was guided by, amongst others, the following considerations:

- the issuers classified those loans and receivables they expected to transfer to NAMA as '*Financial assets held for sale to NAMA*' in their Statements of Financial Position in accordance with IFRS 5 and continued to measure those assets in accordance with the provisions of IAS 39. The effect of the accounting policy adopted was that the issuers concerned recognised impairment losses on the assets in the accounting period under review based on the expected cash flows from the borrower. Additional losses were recognised in subsequent accounting periods when those loans and receivables actually transferred to NAMA;
- the designation of an issuer as a participant in NAMA does not constitute a '*loss event*' under IAS 39 and no additional impairment loss was incurred solely as a result of such designation. Paragraph 59 of IAS 39, which provides that '*Losses expected as a result of future events, no matter how likely, are not recognised*', is relevant in this regard; and
- the definition of the effective interest rate in paragraph 9 of IAS 39 supports the view that, at the issuers' reporting dates, NAMA was not a

contractual party to the loans (and would not become a contractual party until the loans and receivables legally transferred to NAMA subsequent to the reporting dates) and, consequently, that the impairment loss calculation continued to be based on the contracted cash flows (i.e., the cash flows from the borrowers).

3.2.6 Accounting for taxation and tax authority audits – annual financial statements in respect of the year ended 31 December, 2009

Background

The issuer, an entity with international operations, was subject to tax authority audits in some of its countries of operation. The outcome of the tax authority audits was the imposition of additional tax liabilities together with interest on the issuer.

Matter for consideration from a financial reporting perspective

The issue considered by the Authority concerned whether the changes to tax liabilities arising following the conclusion of a tax authority audit represented a change in accounting estimate (which, if the case, would be accounted for in the current period) or a prior period error (which, if the case, would require a restatement of prior period amounts and further explanations of same in the notes to the financial statements).

From its review of the financial statements and subsequent queries raised with the issuer's directors, the Authority established that the tax adjustments resulting from the taxation authority audits were being treated by the issuer as a change in accounting estimate.

Relevant accounting pronouncements

Paragraph 79 of IAS 12 *Income Taxes* provides that the major components of tax expense shall be disclosed separately. Paragraph 80 provides that any adjustments recognised in the period for current tax of prior periods are such components.

Paragraph 5 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states that prior period errors are omissions from, and misstatements in, an issuer's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that was available when financial statements for those periods were authorised for issue and could

reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Outcome of the Authority's examination

The key issue for consideration from the Authority's perspective was whether, in this particular instance, the tax audit adjustments arose from a failure to use reliable information which was available during previous reporting periods, such as failing to correctly apply the provisions of tax law, rules or guidance issued by taxation authorities. Having considered the information and explanations provided by the issuer's directors, the Authority accepted the issuer's assessment that the adjustments to taxation were appropriately treated as changes in accounting estimates. The Authority's conclusion in this regard was informed by, amongst other matters, the fact that:

- the issues that resulted in the tax audit adjustments were not breaches of tax law but, rather, related predominantly to transfer pricing issues for which there was a range of possible outcomes;
- the adjustments arising from the outcome of the tax audits arose subsequent to detailed negotiations and agreement with the taxation authorities during 2009, although the tax audits had been ongoing over a number of years;
- at the end of 2008, the issuer appeared to have accounted for all known issues arising from the tax audits to that date; and
- the deferred tax adjustment in 2009 could not have been foreseen as at the end of 2008 because a change in the scope of the tax audits, to encompass the future reporting periods, occurred during 2009.

However, it was the view of the Authority that the amounts arising from the impact of derecognising a deferred tax asset and the release of a corporation tax accrual arising from the tax settlement represented components which were separate to the other components of the tax expense and should, therefore, have been disclosed separately in accordance with paragraph 79 of IAS 12.

3.2.7 Cash flow statements – half-yearly financial statements in respect of the six months ended 30 June, 2010

Background

The principal activity of the issuer, which is structured as a limited recourse vehicle and prepares its financial statements using Irish GAAP, is to raise funds (by means of the issue of Notes to investors) which are used to invest in the interest bearing securities of another entity. The issuer exclusively owns the securities of the entity in which investments are made and the fair value of Notes and the repayment of the Notes are dependent upon the performance of the underlying financial assets. The Notes trade at a significant discount to their par value.

Relevant accounting pronouncements

Paragraph 6 of FRS 1 *Cash Flow Statements* requires the Cash Flow Statement to include all the reporting entity's inflows and outflows of cash. Transactions that do not result in cash flows of the reporting entity should not be reported in the Cash Flow Statement.

Matters for consideration from a financial reporting perspective

The Authority conducted a follow up review of the issuer's half yearly financial report for the six months ended 30 June, 2010, having previously received undertakings regarding matters raised in respect of a review of the issuer's financial report for the half year ended 30 June, 2009. As a consequence of this follow up review, a number of matters were identified in the half-yearly financial statements in respect of which it was considered necessary to seek clarifications and explanations from the directors. The principal matter raised with the directors related to the presentation in the Cash Flow Statement of the redemption at a discount of a significant portion of the issuer's debt.

Outcome of the Authority's examination

The Authority established that, in early June 2010, the issuer had launched a tender offer to all Noteholders to re-purchase the listed Notes at a significant discount from par. In late June 2010, following the expiry of the tender offer period, the issuer re-purchased and cancelled Notes whose par value amounted to €78.9m (total par value of debt in issue amounted to €125m). To finance the re-purchase the issuer sold the relevant underlying investments.

The issuer's Cash Flow Statement reported cash flow receipts generated from the sale of assets amounting to €78.9m and cash flow payments arising from the re-purchase of Notes amounting to €78.9m.

However, consequent upon the examination conducted by the Authority, it was established that the cash required for the redemption of Notes at fair value, and which amounted to €32.4m (as opposed to the par value of €78.9m which had been reported in the Cash Flow Statement), was funded by the cash flow generated from the sale of the investments amounting to €32.4m. Furthermore, it was stated in the financial statements that there were no other additions or redemptions of financial assets during the period. As a consequence of engagement with the Authority, the directors accepted that the aforementioned cash inflows/(outflows) recognised in the Statement of Cash Flows were incorrect (Notes redeemed were recognised at the par value of €78.9m rather than the actual cash outflow of €32.4m and the corresponding sale proceeds of the financial assets were similarly incorrect, i.e. by the sum of €46.5m), and therefore did not accurately reflect the actual cash inflows and outflows for the period.

Following correspondence with the Authority, the directors published an amended financial report which included:

- (a) an amended Cash Flow Statement;
- (b) an amended Income Statement (including a realised loss on redemption of Notes amounting to €46.5m);
- (c) an amended '*Principal Activities, Business Review and Future Developments*' section of the Directors' Report which included a more detailed description of the Notes redeemed during the period, the cash flows generated by the redemption and the par value of the Notes impacted, together with the circumstances surrounding same; and
- (d) various amendments to relevant notes to the financial statements.

3.2.8 Impairment of existing loan and recognition and measurement of the fair value of a new loan – annual financial statements in respect of the year ended 31 December, 2008

Background

The issuer concluded an agreement to sell a repossessed property portfolio to a third party and provided funding to that third party for 100% of the purchase price (with the funding being secured on the property portfolio on a limited recourse basis). The sale of the property portfolio was not openly marketed owing to the likelihood that the perception of a forced sale in a stressed and illiquid market prevailing at the time would undermine the achievable sale price and the threat of legal action from the original borrower. The sale price represented a less than 10% discount on the peak prices prevailing during the property boom for similar investment properties and was negotiated with the new borrower only.

Matters requiring examination from a financial reporting perspective

The principal matters which, in the Authority's assessment, required consideration included whether the:

- (a) issuer measured the impairment of the original loan in accordance with IAS 39;
- (b) transaction price agreed with the new borrower represented an observable market transaction that could be used to estimate fair value;
- (c) loan provided to the new borrower had been measured at fair value in accordance with IAS 39; and
- (d) issuer remained exposed to the risks and rewards of the underlying collateral (i.e. the property portfolio).

Relevant accounting pronouncements

Paragraph AG 76 of IAS 39 states that the best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is:

- i. evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging); or
- ii. based on a valuation technique whose variables include only data from observable markets.

Paragraph AG77 of IAS 39 states that if the financial instrument is a debt instrument (such as a loan), its fair value can be determined by reference to the market conditions that existed at its acquisition or origination date and current market conditions or interest rates currently charged by the entity or by others for similar debt instruments (i.e. similar remaining maturity, cash flow pattern, currency, credit risk, collateral and interest basis).

Outcome of the Authority's examination

Having considered the information and explanations provided by the issuer's directors, the Authority concluded that:

- (a) there were no apparent aspects of non compliance with IAS 39 in relation to the measurement of impairment of the original loan; and
- (b) there were no apparent aspects of non compliance with IAS 39 in relation to the measurement of the fair value of the loan to the new borrower.

However, in preparing future financial reports the directors were requested to enhance their disclosures of credit risk (and concentration risk disclosures, if relevant) in accordance with IFRS 7 *Financial Instruments: Disclosures* and, in particular, to consider whether loans should be disaggregated into sub-classes such that differences in the nature and characteristics of different financial instruments are more evident to the users of the financial statements.

3.2.9 Disclosures under IFRS 7 – limited recourse debt issuers (various debt issuers with various reporting dates)

Background

The issuer's business is the repackaging of a portfolio of underlying investments, (principally corporate bonds), and financing the purchase of same through the issuance of listed note-specific limited recourse Notes. Depending on the use, or otherwise, of derivative financial instruments to mitigate some/all of the risks, individual Notes behave as either pass-through securities (i.e. the risk of the underlying investments is passed directly to the Noteholders) or the Noteholders may hedge some/all of the interest rate risk, or currency risk, and be left with the underlying other price risk, with derivative counterparties sharing the risks.

The repayment of the Notes is dependent upon the performance of the investments/underlying collateral assets, e.g. securities, funds and loans and/or the ability of the derivative counterparties to honour their obligations.

Noteholders bear the ultimate risks and rewards of ownership of the underlying investments.

Matters for consideration from a financial reporting perspective

The matter considered by the Authority was whether, in circumstances where an issuer's sole source of finance is the issuance of listed and limited recourse Notes whose value is determined solely by the fair value of the underlying investments, the issuer should consider its Noteholders as being amongst the key users of the financial statements and, accordingly, provide disclosure of Noteholders' exposure to risks. Such risks would include, amongst others, other price risk, concentration risk (if relevant) and sensitivity analysis to the underlying portfolio in accordance with IFRS 7 and, in the case of issuers applying Irish GAAP, FRS 29 (*IFRS 7*) *Financial instruments: disclosures*.

The Authority's examination of this issue was prompted by indications that issuers' perceptions as to who might reasonably be considered to be the users of limited recourse debt issuers' financial statements may be too narrow. Indications in this regard include the fact that the disclosures provided by many such entities have historically tended to be both boilerplate and minimal in nature, together with lacking disclosures regarding other price risk and counterparty risk.

Relevant accounting pronouncements

Paragraph 9 of IAS 1 states that:

'the objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions'

Paragraph 7 of IAS 1 states that omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements.

Paragraph 33 of IFRS 7 states that, for each type of risk arising from financial instruments, *'an entity shall disclose:*

- (a) *the exposures to risk and how they arise;*
- (b) *its objectives, policies and processes for managing the risk and the methods used to measure the risk; and ...'*

Paragraph B3 of Appendix B to IFRS 7 states that:

'An entity decides, in the light of its circumstances ... how it aggregates information to display the overall picture without combining information with different characteristics. ... Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between individual transactions or associated risks'.

As part of its review, the Authority:

- i. sought and obtained additional detailed information and explanations from the issuer; and
- ii. examined the financial statements of a number of similar limited recourse debt issuers in order to gain an understanding of the practice adopted by similar issuers and to identify any infringements of IFRS 7 and risk reporting by this type of entity.

Outcome of the Authority's examinations

The Authority concluded that:

- (a) issuers' perceptions of who could reasonably be considered to be the users of limited recourse debt issuers' financial statements had become too narrow, being limited to the entities' shareholders (rather than including Noteholders). The aforementioned review activity resulted in a number of issuers undertaking to enhance their risk disclosures in future periodic reports; and
- (b) meaningful and comprehensive risk disclosures are those which clearly communicate all of the principal risks to which an issuer is exposed to all users of the financial statements, including details of changes, if any, to those risks that have occurred during the period and changes, if any, in the manner in which those risks are managed/mitigated.

3.3 Issues impacting a wider issuer population

Certain recurring features of the Authority's review findings remain areas of some concern and consequently remain the subject of review focus. These features, further details of which are set out below, include:

- (a) the continued non-compliance with the disclosure requirements of IAS 24 *Related Party Disclosures* with regard to key management personnel ('KMP') compensation;
- (b) the apparent failure of issuers to comply adequately, or at all, with the requirements of IAS 1 and/or IAS 8 in instances where comparative amounts are reclassified; and
- (c) the apparent failure on the part of directors of fund and debt issuers to consider review issues raised in the context of their directorships of other such entities (multiple directorships is a common feature amongst these constituencies of issuer).

3.3.1 IAS 24 Related Party Disclosures

IAS 24⁷² requires the disclosure of KMP compensation in total and for each of the following categories:

- (a) short-term benefits;
- (b) post-retirement benefits;
- (c) other long-term benefits;
- (d) termination benefits; and
- (e) share-based payment⁷³.

The term '*key management*' is defined 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*'⁷⁴.

IAS 24's requirements in this regard are clear and have been in place for a number of years. It is, therefore, not acceptable that issuers continue to fail to meet their obligations in this regard, particularly given the sensitivity of the required disclosures and given that users may wish to use such information for the purposes of evaluating the stewardship and accountability of those entrusted to govern and manage the entity.

The Authority's findings in 2010 are consistent with those in previous years and as reported previously. Reviews undertaken during 2010 of equity issuers' financial reports identified the following examples of non-compliance:

- (a) one instance in which amounts paid to KMP in respect of termination benefits, and a contribution to a director's personal pension scheme, were not included in the disclosed total for KMP compensation. IAS 24 requires disclosure of KMP compensation in total and for each category of benefit. Arising from the Authority's review, the issuer's directors provided an undertaking to include the total amounts in future financial reports and to amend the comparative amounts accordingly;
- (b) two instances in which issuers failed to include details of compensation paid to non-executive directors in their KMP compensation disclosures. In response to the Authority's reviews, the relevant issuers' directors provided undertakings to include non-executive directors' compensation in future financial reports and to amend the comparative amounts accordingly; and
- (c) one instance in which share-based payments were excluded from the issuer's KMP compensation disclosures. In response to the Authority's review, the issuer's directors provided an undertaking to include the required disclosures in future financial reports.

A further finding in this regard is non-compliance on the part of certain issuers with the IAS 1 requirement that financial statements should be clearly identified and distinguished from other information in the published document. In that context, it is noted that certain issuers do not provide details of directors' remuneration in their KMP disclosures as part of related party disclosures, referring readers instead to the Report on Directors' Remuneration, usually provided as part of the Corporate Governance section of the Annual Report. However, as such information lies outside the audited financial statements, and is, therefore, generally scoped out of the auditors' report, it can be unclear to users as to whether such information has been audited. Moreover, in some instances the information provided would be

⁷² For Irish GAAP issuers, FRS 8 *Related Party Disclosures* is the applicable Standard.

⁷³ Paragraph 17 of IAS 24 (revised) refers. FRS 8 does not require disclosure of KMP compensation.

⁷⁴ Paragraph 9 of IAS 24.

insufficient to meet the requirements of IAS 24 in any event, with issuers having been identified as having omitted members of KMP who may not be directors, as well as failing to include certain benefits such as share-based payments in the amounts disclosed.

3.3.2 Reclassification of comparative amounts

IAS 1 requires that, when an entity changes the presentation or classification of items in its financial statements, the reporting entity shall reclassify comparative amounts unless reclassification is impracticable. IAS 1 further requires that when the entity reclassifies comparative amounts, the entity shall disclose:

- (a) the nature of the reclassification;
- (b) the amount of each item, or class of items, reclassified; and
- (c) the reason for the reclassification⁷⁵.

IAS 8 requires that an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

- i. 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;
- ii. restating the opening balances of assets, liabilities and equity for the earliest prior period presented⁷⁶. In applying this requirement, IAS 8 mandates that the entity shall disclose, amongst other matters, the nature of the prior period error⁷⁷.

During the year under review, the Authority entered into correspondence with a number of issuers with regard to the extent, if at all, to which those issuers had provided the disclosures required in instances where comparative amounts had been reclassified. Review activity has identified that certain issuers reclassify comparative amounts but, in doing so, provide no disclosures, or provide only limited disclosures, as to the reasons for the reclassifications. As a result of having raised this issue with the issuers concerned, the Authority received a number of undertakings from issuers' directors to provide appropriate disclosures in this regard.

The requirements of IFRS in this regard are clear and permit reclassifications only in limited circumstances, i.e.:

- (a) to correct material prior period errors (paragraph 42 of IAS 8 refers);
- (b) on application of a change in accounting policy (paragraph 19 of IAS 8 and paragraph 45(b) of IAS 1 refer); or
- (c) where, following a significant change in the nature of the entity's operations or a review of its financial statements, another classification would be more appropriate (paragraph 45(a) of IAS 1 refers).

In each instance, the issuer is required to disclose the reason for the reclassification.

It is the Authority's view that, given the limited circumstances in which reclassifications are permitted, the failure to comprehensively explain the reasons for reclassifications to users is not acceptable. Accordingly, the Authority will continue to challenge issuers on this matter where such issues arise.

⁷⁵ Paragraph 41 of IAS 1.

⁷⁶ Paragraph 42 of IAS 8.

⁷⁷ Paragraph 47 of IAS 8.

3.4 Summary of certain other issues arising from reviews conducted during the year

In addition to the matters detailed in the preceding sections, the following Table summarises certain other issues arising from reviews conducted during the year.

Table 22: Issues arising from reviews conducted

Summary of matter for consideration from a financial reporting perspective and relevant accounting pronouncements	Outcome of the Authority's examination
<p>1. Contents of the half-yearly report and corresponding amounts</p> <p><i>Requirements</i></p> <p>Paragraph 54 of the <i>ASB Statement on Half-Yearly Financial Reports</i> (July 2007) ('the ASB Statement') requires corresponding amounts for the condensed Profit and Loss Account, the Statement of Total Recognised Gains and Losses and the condensed Cash Flow Statement to be presented for both the corresponding half-yearly period and the previous full financial year.</p> <p><i>Findings</i></p> <p>An issuer provided comparative data for the full year in the Statement of Operations, Statement of Changes in Net Assets and Statement of Cash Flows. However, the issuer failed to provide comparative data for the corresponding half-year period for the Statement of Operations, Statement of Changes in Net Assets and Statement of Cash Flows.</p>	<p>The issuer filed amended financial statements with the ISE.</p> <p>Furthermore, the issuer provided an undertaking to ensure that future half-yearly financial reports would comply in full with the ASB Statement.</p>
<p>2. Collective impairments methodology and directors' judgements</p> <p><i>Requirements</i></p> <p>IAS 39 states that, in certain instances, the observable data required to estimate the amount of an impairment loss on a financial asset may be limited or no longer fully relevant to current circumstances. In such cases, an issuer uses its experienced judgement to estimate the quantum of any impairment loss.</p> <p>Similarly, an issuer uses its experienced judgement to adjust observable data for a group of financial assets to reflect current circumstances (paragraph AG89 refers). Furthermore, estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude).</p> <p><i>Findings</i></p> <p>An issuer's financial statements lacked clarity as to the basis for the directors' experienced judgements concerning the measurement of impairments.</p>	<p>The issuer undertook to provide enhanced disclosures in future periodic financial reports as to the basis for the directors' experienced judgements concerning the measurement of impairment and, in particular, where this can have a material impact on the amounts recognised in the financial statements.</p>

Table 22: Issues arising from reviews conducted (continued)

Summary of matter for consideration from a financial reporting perspective and relevant accounting pronouncements	Outcome of the Authority's examination
<p>3. Disclosure of reasonably possible changes to fair values: Level 3 prices</p> <p><i>Requirements</i></p> <p>Paragraph 27B(e) of IFRS 7 states that, for fair value measurements recognised in the Statement of Financial Position, an issuer shall disclose (for each class of financial instruments):</p> <p><i>'for fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated...'</i></p> <p><i>Findings</i></p> <p>A number of issuers were identified as having failed to comply with the disclosure requirements of paragraph 27B(e) of IFRS 7.</p>	<p>Undertakings were provided by a number of issuers to remedy such instances of non-compliance in future periodic financial reports.</p>
<p>4. Disclosure of breaches of loan agreement terms</p> <p><i>Requirements</i></p> <p>Paragraph 19 of IFRS 7 states that if, during the period, there were breaches of loan agreement terms other than those described in paragraph 18, an issuer shall disclose the same information as required by paragraph 18 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the end of the reporting period).</p> <p><i>Findings</i></p> <p>The notes to an issuer's financial statements indicated that selected loan agreement terms had been breached during the period. The details required by paragraph 19 of IFRS 7 were not, however, provided.</p>	<p>The issuer provided undertakings to enhance the information disclosed in relation to breaches of the terms of loan agreements and to comply in full with the requirements of paragraph 19 of IFRS 7 in the preparation of future financial statements.</p>
<p>5. Quantitative and qualitative risk disclosures</p> <p><i>Requirements</i></p> <p>Paragraph 33 of IFRS 7 states that, for each type of risk arising from financial instruments, an entity shall disclose:</p> <ul style="list-style-type: none"> (a) the exposures to risk and how they arise; (b) its objectives, policies and processes for managing the risk; and (c) the methods used to measure the risk and any changes in (a) or (b) from the previous period. <p>Paragraph 34 of IFRS 7 states that, for each type of risk arising from financial instruments, an entity shall disclose summary quantitative data about its exposure to that risk at the end of the reporting period.</p> <p><i>Findings</i></p> <p>A number of issuers and, in particular, Funds and Debt issuers, showed varying levels of non-compliance with the requirements of paragraphs 33 and 34. The risk disclosures of certain Funds and Debt issuers were found to be boilerplate in nature and/or with only minimal disclosure being provided.</p>	<p>A number of issuers provided undertakings to provide enhanced qualitative and quantitative risk disclosures in future periodic financial reports, including disclosures regarding:</p> <ul style="list-style-type: none"> (a) other price risk; (b) counterparty risk; (c) concentration risk; (d) sensitivity analysis; and (e) credit quality.

Table 22: Issues arising from reviews conducted (continued)

Summary of matter for consideration from a financial reporting perspective and relevant accounting pronouncements	Outcome of the Authority's examination
<p>6. Sensitivity analysis</p> <p><i>Requirements</i></p> <p>Paragraph 40 of IFRS 7 states that, unless an issuer complies with paragraph 41, it shall disclose a sensitivity analysis for each type of market risk to which the issuer is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variables that were reasonably possible at that date.</p> <p><i>Findings</i></p> <p>A number of Fund and Debt issuers and, in particular, limited recourse debt issuers, were observed to have failed to provide a sensitivity analysis in accordance with the requirements of paragraph 40 of IFRS 7.</p>	<p>A number of issuers provided undertakings to provide a sensitivity analysis in the preparation of future periodic financial statements, including the other price risk sensitivity analysis to which the Noteholders in debt issuers are exposed (refer to case study 3.2.9).</p>
<p>7. Credit quality</p> <p><i>Requirements</i></p> <p>Paragraph 36(c) of IFRS 7 requires that an issuer shall disclose, by class of financial instrument, information about the credit quality of financial assets that are neither past due nor impaired.</p> <p><i>Findings</i></p> <p>A number of Fund and Debt issuers failed to provide the required disclosures concerning the credit quality of their financial instruments.</p>	<p>A number of Fund and Debt issuers' directors provided undertakings to provide disclosures concerning the credit quality of financial instruments in future periodic financial reports.</p>
<p>8. Management Reports - fair review of the development and performance of the business</p> <p><i>Requirements</i></p> <p>Regulation 5(4)(c)(ii) of the Transparency Regulations requires that Management Reports include a fair review of the development and performance of the business and the position of the issuer together with a description of the principal risks and uncertainties that it faces.</p> <p>Rule 6.1 of the Transparency Rules states that the annual Management Report referred to in Regulation 4(3)(b) must contain:</p> <p>(a) a fair review of the issuer's business; and</p> <p>(b) a description of the principal risks and uncertainties facing the issuer.</p> <p>This review must be a balanced and comprehensive analysis of the development and performance of the issuer's business during the financial year [bold emphasis added]. Section 13 of the Companies (Amendment) Act 1986 contains similar requirements regarding the contents of Directors' Reports.</p> <p><i>Findings</i></p> <p>The Management Reports included in certain issuers' financial reports were observed to be of low quality (for example, the use of minimal and boiler plate disclosures, absence of information useful to users' understanding of the development, performance and financial position of the entity and the risks and uncertainties in future periods; failure to provide an analysis of the performance of the issuer for the period; omission of reference to important events after the Balance Sheet date; and failure to identify key financial and/or non-financial performance indicators).</p>	<p>A number of issuers' directors provided undertakings to enhance the contents of Directors' Reports/Management Reports in future financial reports.</p>

Table 22: Issues arising from reviews conducted (continued)

Summary of matter for consideration from a financial reporting perspective and relevant accounting pronouncements	Outcome of the Authority's examination
<p>9. Fair value: recognition, measurement and disclosure</p> <p><i>Requirements</i></p> <p>Paragraph 27 of IFRS 7 states that an issuer shall disclose, for each class of financial instruments, the methods and, where a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities.</p> <p>Paragraph 122 of IAS 1 requires that an entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (paragraph 125 of IAS 1 refers), that management has made in the process of applying the issuer's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.</p> <p><i>Findings</i></p> <p>The Authority has observed that a number of issuers – in particular, but not limited to, Fund and Debt issuers – describe a range of valuation techniques that may be applied generally in the measurement of the fair values but without specifying which valuation technique(s) has/have in fact been applied or the significant assumptions underpinning each significant valuation technique that has been applied.</p> <p>Based on the Authority's review experience, where issuers' circumstances have changed, for example, a material increase in the proportion of its financial instruments that are classified as Level 3⁷⁸ prices or changes in the valuation techniques applied during the period, it has not always been apparent that the required disclosures have been provided in the notes to the financial statements.</p>	<p>The Authority sought clarifications and additional information from a number of issuers' directors. Arising from those enquiries a number of issuers' directors provided undertakings to clarify the valuation techniques most frequently applied and the nature of the most significant assumptions underpinning same in future financial reports.</p>
<p>10. New standards or interpretations: disclosure</p> <p><i>Requirements</i></p> <p>Paragraph 28 of IAS 8 states that when the initial application of an IFRS has an effect on the current period or any prior period, an entity shall disclose, amongst other matters, the title of the IFRS and the nature of the change in accounting policy.</p> <p><i>Findings</i></p> <p>A number of Fund and Debt issuers were observed to have failed to make reference to the nature of new standards that had been adopted during the current period and to have failed to comply in full with paragraph 28 of IAS 8.</p>	<p>A number of issuers' directors undertook to comply in full with paragraph 28 of IAS 8 in future periodic financial reports.</p>

⁷⁸ Level 3 – 'inputs for the asset or liability that are not based on observable market data (unobservable inputs)' (Paragraph 27A(c) of IFRS 7 refers).

Table 22: Issues arising from reviews conducted (continued)

Summary of matter for consideration from a financial reporting perspective and relevant accounting pronouncements	Outcome of the Authority's examination
<p>11. Operating segments and minimum segment disclosures</p> <p><i>Requirements</i></p> <p>IFRS 8 <i>Operating Segments</i> requires an issuer to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.</p> <p>IFRS 8 requires the identification of operating segments on the basis of internal reports that are regularly reviewed by the issuer's Chief Operating Decision Maker ('CODM') for the purpose of allocating resources to segment(s) and assessing segment performance.</p> <p>Paragraph 22 of IFRS 8 requires that an issuer shall disclose the factors used to identify the issuer's reportable segments, including the basis of organisation.</p> <p>Paragraphs 32 to 34 of IFRS 8 require certain entity-wide disclosures including by those issuers that have a single reportable segment. Minimum disclosures include information in respect of products and services, geographical information and information regarding major customers.</p> <p><i>Findings</i></p> <p>The highest level of non-compliance with the requirements of IFRS 8 has been identified with Fund and Debt issuers.</p> <p>The following examples of non-compliance with the relevant requirements of IFRS 8 were identified:</p> <ul style="list-style-type: none"> (a) omission of any reference to IFRS 8; (b) failure to identify the CODM; (c) failure to identify whether the issuer operates through a single segment or through multiple operating segments; and (d) notwithstanding that there may be a single reportable segment, failure to comply with the general disclosure requirements of paragraph 22 of the standard and the minimum entity-wide disclosure requirements of paragraphs 32 to 34. 	<p>The Authority sought and received clarification of the particular circumstances of a number of individual Fund and Debt issuers in order to determine whether the issuers concerned had a single segment or multiple reportable segments in accordance with IFRS 8.</p> <p>A number of the issuers concerned demonstrated that they had a single reportable segment and undertook to provide the general disclosures and minimum entity-wide disclosures required by IFRS 8 in preparing future periodic financial reports.</p>
<p>12. Identification of operating segments</p> <p><i>Requirements</i></p> <p>IFRS 8 defines an operating segment as a component of an entity (a) that engages in business activities from which it may earn revenues and incur expense; (b) whose operating results are regularly reviewed by the issuer's CODM to make decisions about resource allocation and performance assessment; and (c) for which discrete financial information is available.</p> <p><i>Findings</i></p> <p>One issuer whose annual financial report was reviewed was observed to have identified three operating segments including one that combined certain of its Irish and UK operations.</p>	<p>The issuer's directors provided the Authority with their rationale for determining that certain of the issuer's Irish and UK operations constituted a single operating segment, i.e. on the basis of the internal results regularly reviewed by the CODM and that those operations were conducted in similar economic environments.</p> <p>The Authority did not identify an apparent instance of non-compliance with IFRS 8.</p>

Table 22: Issues arising from reviews conducted (continued)

Summary of matter for consideration from a financial reporting perspective and relevant accounting pronouncements	Outcome of the Authority's examination
<p>13. Provisions</p> <p><i>Requirements</i></p> <p>Paragraph 81 of IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> states that a restructuring provision does not include costs such as retraining or relocating continuing staff, marketing or investment in new systems and/or distribution networks.</p> <p>Paragraph 87 of IAS 37 provides guidance as to the circumstances in which provisions may be aggregated to form a class.</p> <p><i>Findings</i></p> <p>An issuer was noted to have included relocation costs for continuing employees in its restructuring provision. The issuer also disclosed provisions for onerous leases and pension payments as a single class.</p>	<p>The issuer accepted the Authority's view that relocation costs for continuing employees should not have been included in the restructuring provision.</p> <p>The issuer also provided an undertaking to disaggregate the disclosures in respect of the onerous leases provision and the pension payments provision in future periodic financial reports.</p>
<p>14. Presentation of Statement of Other Comprehensive Income ('OCI')</p> <p><i>Requirements</i></p> <p>Paragraph 91 of IAS 1 (revised) provides that an issuer may present components of other OCI either net of related tax effects or before related tax effects with one amount shown for the aggregate amount of income tax relating to those components.</p> <p><i>Findings</i></p> <p>An issuer was noted to have omitted to disclose the tax impact of certain components of OCI.</p>	<p>The issuer's directors provided an undertaking to disclose the tax impact of each of the components of OCI.</p>
<p>15. Treatment of entity as a subsidiary</p> <p><i>Requirements</i></p> <p>Paragraph 4 of IAS 27 states that a subsidiary is an entity that is '<i>controlled by another entity</i>', and states that control is '<i>the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities</i>'.</p> <p>Paragraph 13 of IAS 27 states that control exists when the parent owns half or less of the voting power of the entity and where there is '<i>... power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body</i>'.</p> <p>Paragraph 41(a) of IAS 27 requires the disclosure of the nature of the relationship between the parent and a subsidiary when the parent does not own more than half of the voting power.</p> <p><i>Findings</i></p> <p>The issuer treated an entity in which it held over 30% and less than 40% of the voting rights as a subsidiary.</p>	<p>The issuer's directors provided their rationale for determining that the entity should be treated as a subsidiary under IAS 27, based on the constitution of the Board of the entity and the organisation of the shareholders holding the remainder of the shares in the entity.</p> <p>In the particular circumstances of the issuer and its relationship with the entity, the Authority did not identify an apparent instance of non-compliance with IAS 27.</p>

Table 22: Issues arising from reviews conducted (continued)

Summary of matter for consideration from a financial reporting perspective and relevant accounting pronouncements	Outcome of the Authority's examination
<p>17. Disposal of business</p> <p><i>Requirements</i></p> <p>Paragraph 32 of IFRS 5 provides that a discontinued operation is a component of an entity that:</p> <ul style="list-style-type: none"> • has been disposed of; or • is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. <p><i>Findings</i></p> <p>An issuer disposed of its operations in one territory and did not consider this to be a discontinued operation.</p> <p>It was noted that the issuer disposed of a number of subsidiaries during the year. The notes to its financial statements disclosed the book value of the assets disposed of and the loss on disposal.</p>	<p>The directors' rationale in this regard included their assessment as to what constituted a 'major' line of business or geographical area of operation including quantitative criteria.</p> <p>In the particular circumstances of the issuer and the disposal, the Authority did not identify an apparent instance of non-compliance with IFRS 5.</p>
<p>18. Provision for impairment losses on loans and receivables</p> <p><i>Requirements</i></p> <p>Paragraph 58 of IAS 39 provides that an issuer shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.</p> <p>Paragraph 63 provides that if there is such objective evidence that a loss has been incurred, the amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Paragraph BC108 describes deterioration in the credit quality of an asset or a group of assets after their initial recognition as an '<i>incurred loss</i>'. Paragraph 59 provides that losses expected as a result of future events, no matter how likely, are not recognised.</p> <p><i>Findings</i></p> <p>The issuer, a financial institution, disclosed in the narrative accompanying its periodic financial report the expected scale of losses to be incurred in future periods.</p> <p>The issuer was requested to provide detailed explanations of what further loss events were expected which would lead to deterioration in the credit quality of borrowers i.e. to explain the factors that contributed to the expected future losses being anticipated at the reporting date as opposed to having been incurred at that date.</p>	<p>The issuer's directors provided explanations of:</p> <ul style="list-style-type: none"> (a) the economic background and its impact on the issuer's asset quality; (b) the issuer's policies and procedures in respect of impairment provisioning; and (c) the key economic assumptions (e.g. house prices, unemployment rates and GDP growth rates) underpinning the issuer's impairment forecast. <p>Having reviewed the directors' responses, the Authority did not identify an apparent instance of non-compliance with IAS 39's '<i>incurred loss</i>' model.</p>

Table 22: Issues arising from reviews conducted (continued)

Summary of matter for consideration from a financial reporting perspective and relevant accounting pronouncements	Outcome of the Authority's examination
<p>19. Accounting for an asset swap</p> <p><i>Requirements</i></p> <p>Paragraph 6 of IFRS 5 provides that an issuer shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.</p> <p>Paragraph 32 of IFRS 5 provides that a discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.</p> <p>Paragraph 16(i) of IAS 34 <i>Interim Financial Reporting</i> requires an issuer to disclose in the notes to its condensed financial statements, if material and not disclosed elsewhere in its interim report, information concerning the effect of changes in the composition of the entity during the half-year period, including business combinations, restructurings and discontinued operations. In the case of business combinations, an issuer is also required to disclose the information required by IFRS 3 <i>Business Combinations</i> (revised).</p> <p><i>Findings</i></p> <p>In the first quarter of its financial year, the issuer completed an asset swap agreement with a competitor in which it acquired an operation in return for disposing of three operations. The deal resulted in an exceptional loss being recorded by the issuer.</p> <p>The issuer had not classified the operation disposed of as held for sale at its previous full year reporting date and the issuer did not classify the operation disposed of as a discontinued operation in the period.</p> <p>The issuer did not disclose in its half-yearly financial report information concerning the effect of changes in the composition of the issuer during the half-year period.</p>	<p>The issuer's directors provided details of the timeline for the deal which indicated that, at the previous full year reporting date, the sale was not <i>'highly probable'</i>. Consequently, the facility did not meet the definition of a discontinued operation at the date.</p> <p>The directors also provided the Authority with their rationale for determining that the disposal of the operation did not constitute a discontinued operation.</p> <p>The directors provided an undertaking to provide the IFRS 3 (revised) disclosures in the following annual financial statements.</p>
<p>20. Commitments</p> <p><i>Requirements</i></p> <p>Paragraph 16 of IAS 34 states that an entity shall disclose any events or transactions that are material to an understanding of the current interim period.</p> <p><i>Findings</i></p> <p>The issuer operates under an agreement with the Government which, while it does not impose financial obligations on the issuer, does require the issuer to carry out certain activities in accordance with annual work programmes and budgets approved by the Government.</p> <p>Such information was not disclosed in the issuer's half-yearly financial report.</p>	<p>The issuer provided an undertaking to give appropriate disclosure in future financial reports regarding obligations imposed on it under the terms of its agreement with the Government.</p>

3.5 Applying the outcome of financial statement reviews to the broader issuer population

The Authority has undertaken reviews of issuers' half-yearly and annual financial reports since late 2007 and is now nearing the end of its first three year cycle of reviews. As a consequence, a significant number of affected issuers – and their directors, auditors, and, in the case of Debt and Fund issuers, their administrators – have seen correspondence from the Authority.

Based on the results of financial statement reviews performed by the Authority to date, it would appear that the majority of equity issuers have a better understanding of the purpose, activities and powers of the Authority and, as a result, such issuers do, in the Authority's assessment, take account of the Authority's likely response to accounting treatments that they choose to apply when preparing periodic financial reports.

However, in the case of certain issuers, particularly certain Debt and Fund issuers, instances of non-compliance continue to occur. This suggests that the issuers concerned may not be applying lessons that should have been learned from the review process to subsequent financial reports. Such recurring failures may be indicative of weak financial statement preparation processes and result in affected issuers having an increased likelihood of being selected for review.

The Authority is disappointed that:

- (a) certain issuers (primarily of Debt) have had cause to revise and re-file periodic financial reports in successive accounting periods;
- (b) certain issuers (primarily of Debt), as a body, appear to take a narrow interpretation as to the users of their periodic financial reports; and
- (c) the overall quality control processes in place prior to the publication of period financial reports of such issuers appear to be poor, resulting in poor quality financial reports being published.

As a consequence, significant resources are invested by the Authority in corresponding with such issuers' directors and the affected issuers incur additional costs in responding to the Authority and, as applicable, amending and publishing revised financial reports.

The Authority has endeavoured to work with issuers, directors, management, auditors, administrators, industry bodies and other parties through seminars, meetings, presentations, and the development of publications designed to improve the quality of constituent entities' financial reporting. The Authority is pleased to report that many issuers, and other parties, have responded positively to these actions and initiatives.

In addition to the foregoing, the Authority is considering a number of additional initiatives to address shortcomings in certain issuers' periodic financial reporting processes. Possible initiatives include:

- (a) amending the selection process, whereby the criteria for the selection of issuers' periodic financial reports for review would include, in addition to existing criteria, the identities of issuers' advisers and service providers;
- (b) placing greater emphasis on meetings with issuers' directors at an early stage in the review process;
- (c) the possibility of hosting seminars with interested parties to address matters of concern to the Authority and to set out the Authority's expectations of issuers, their directors, advisers and service providers;
- (d) the possibility of issuing press statements where directors publish revised financial reports for the purpose of drawing such matters to the public's attention. As the publication of revised financial information is a matter of public record, the Authority's confidentiality obligations would not preclude such a course of action; and
- (e) the possibility of naming, in more specific terms that is currently the case, issuers whose financial reporting has been reviewed by the Authority in future annual reports.

4. Enforcement of IFRS across the European Union – EECS

4.1 Background to the Authority's membership of the EECS

The background to the establishment of the CESR (now ESMA)⁷⁹ sponsored EECS⁸⁰ was set out in detail in the Authority's first Annual Report⁸¹ and is

⁷⁹ CESR (the Committee of European Securities Regulators) was replaced by ESMA (the European Securities and Markets Authority) with effect from 1 January, 2011.

⁸⁰ European Enforcers' Co-ordination Sessions.

⁸¹ Section 4 of Chapter 2 of the Authority's 2006 Annual Report refers.

not, therefore, reproduced in this Report. In summary, the EECS was established with a view of facilitating the co-ordination and consistency of financial reporting enforcement practices across the EU. To that end, its membership includes both organisations that are securities regulators (and are, therefore, ESMA members) and where Member States' financial reporting enforcement responsibilities do not reside with the national securities regulator (as is the case in Ireland⁸²), non-ESMA members. It is in this context that the Authority is a member of the EECS.

In the context of the foregoing, it is important to note that the EECS does not take enforcement decisions. Rather, while enforcement decisions are taken by Member States' national enforcement authorities, the EECS serves as a forum whereby EU financial reporting enforcement authorities discuss decisions taken by enforcement authorities and share perspectives, experiences and knowledge with each other. Similarly, the EECS does not issue interpretations of IFRS, which remains the role of the IFRS Interpretations Committee (formerly known as IFRIC).

4.2 EECS enforcement decisions database

With a view to fostering the consistent enforcement of IFRS across the EU, EECS members' enforcement decisions are recorded on a confidential database for members' future reference. While such decisions do not constitute precedent and are not, therefore, binding on other financial reporting enforcement authorities, the purpose of the database is to enable EU financial reporting enforcement authorities to consider decisions taken by their counterparts on similar issues and to determine the extent to which regard might appropriately be had to same in their own decision making processes – while having regard to the fact that the circumstances surrounding individual issues are rarely the same.

For the benefit of preparers and other stakeholders, summaries of enforcement decisions taken by EECS members are published periodically. During 2010, CESR published its eighth and ninth such summaries (on 13 July and 25 October respectively). Those summaries published by CESR to date,

which do not name the issuers concerned, can be accessed on the Authority's website⁸³.

4.3 EECS activities

During the year, the EECS' principal activities included:

- (a) considering issues giving rise to enforcement in Member States and sharing perspectives thereon;
- (b) discussing accounting enforcement decisions taken by EU accounting enforcement authorities;
- (c) discussing emerging issues currently under examination by counterparty accounting enforcement authorities across the EU;
- (d) contributing to the confidential database of enforcement decisions;
- (e) publishing, for the benefit of issuers and other interested parties, summaries of enforcement decisions posted to the EECS database;
- (f) publishing (*via* CESR) the first annual activity report on the enforcement of IFRS in Europe, the purpose of which was to provide stakeholders with an overview of the monitoring and enforcement of IFRS across the EU⁸⁴;
- (g) publishing (*via* CESR) a follow-up Statement on an earlier report on the *'Application of Disclosure Requirements related to Financial Instruments in the 2008 Financial Statements of Financial Institutions'* published in November 2010⁸⁵; and
- (h) holding two meetings with representatives of the IFRS Interpretations Committee 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.

4.4 Authority participation in the EECS

During the year under review:

- (a) Authority staff attended all 8 (2009: 7) EECS plenary meetings and actively participated in the consideration of issues brought to the EECS by other members;

⁸² The Central Bank, which is an ESMA member, is also a member of the EECS.

⁸³ www.iaasa.ie/publications/index.htm

⁸⁴ A link to this document can be found on the Authority's website at www.iaasa.ie/publications/CESR_Report_IFRS_2009.pdf

⁸⁵ A link to this document can be found on the Authority's website at www.iaasa.ie/news/prev_news_2010.htm

- (b) the Authority submitted 4 (2009: 13) decisions to the database;
- (c) Authority staff presented 12 (2009: 8) decisions to the plenary for discussion;
- (d) the Authority submitted and presented 4 (2009: 2) emerging cases to the plenary for discussion;
- (e) Authority staff presented 1 (2009: 5) Discussion Paper to the plenary for discussion amongst members;
- (f) Authority staff actively participated in 2 meetings held with the IFRS Interpretations Committee (where 5 out of the 14 issues discussed related to enforcement decisions of the Authority). The subject matter of the issues discussed included:
 - i. impairment of assets and interaction with operating segments;
 - ii. discontinued operations - 'major' line of business or geographical area of operations;
 - iii. current/non-current classification of financial liabilities; and
 - iv. various issues relating to the application of IFRS 8;
- (g) Authority staff presented on the Authority's 'Observations on Selected Financial Reporting Issues'⁸⁶ and 'Observations on Materiality in Financial Reporting'⁸⁷ to the plenary; and
- (h) conducted research and analysis, from an Irish perspective, on the compliance of European financial institutions with financial reporting disclosure requirements relating to financial instruments for collation at EU level by CESR⁸⁸;

In addition to the Authority's participation in plenary related matters, the Authority's Head of Financial Reporting Supervision is also a member of the EECS' Agenda Group. Accordingly, in addition to being an active contributor to the Group's activities at plenary level, the Authority

also has a direct input to, and involvement in:

- (a) the review of emerging cases and decisions as tabled by EU national enforcers with a view to assessing those which should be afforded priority for consideration and discussion at the plenary; and
- (b) the review of enforcement decisions taken by EU national enforcers with a view to determining whether they meet the criteria for publication⁸⁹.

During the year, the Authority's Head of Financial Reporting Supervision was also appointed to the following EECS working groups:

- (a) Sub-group on Materiality (as Chair), whose objective is to analyse and identify the principles of a common approach to be considered by European accounting enforcers. The output of the discussions will be the preparation of a Paper which may be published by ESMA;
- (b) Enforcement Methodology Group, which is charged by the plenary with the development of common review methodologies; and
- (c) Enforcement Actions Group, which is charged by the plenary with the examination of enforcement actions taken by EU national enforcers with the aim of providing an overview and analysis of actions taken by national enforcers across the EU.

5. Accounting Standards Board ('ASB')

During the year the Authority continued to act as an observer at ASB meetings, an activity that facilitates the Authority in discharging its role of co-operating in the development of accounting standards and to identify at an early stage developments that may have a particular relevance to, or bearing on, Ireland. Further detail of the Authority's ASB-related activities can be found in Chapter 5 of this Report.

⁸⁶ Available at www.iaasa.ie/publications/Obsdoc_Jan10.pdf

⁸⁷ Available at www.iaasa.ie/publications/Obs_materiality2010.pdf

⁸⁸ CESR subsequently published a follow up Statement 'Application of Disclosure Requirements Related to Financial Instruments' which can be accessed at www.iaasa.ie/news/prev_news_2010.htm

⁸⁹ All decisions submitted to the enforcement database are considered as appropriate for publication, unless:

- similar decisions have already been published by CESR, and publication of a new decision would not add any substantial value to the fostering of consistent application;
- the decision deals with a simple accounting issue that, even having been considered a material infringement, does not in itself have any accounting merit;
- there is no consensus in the EECS to support the submitted decision; or
- a particular EU National Enforcer, on a grounded and justified basis, believes that the decision should not be published.

CHAPTER 5

Promotion of Adherence to High Professional Standards in the Auditing and Accountancy Profession and Acting as a Specialist Source of Advice to the Minister on Auditing and Accounting Matters

Promotion of Adherence to High Professional Standards in the Auditing and Accountancy Profession and Acting as a Specialist Source of Advice to the Minister on Auditing and Accounting Matters

1. Promotion of adherence to high professional standards in the auditing and accountancy profession

1.1 Approach to promoting adherence to high professional standards in the auditing and accountancy profession

The promotion of adherence to high professional standards by the auditing and accountancy profession is a core element of the Authority's mission and is, therefore, embedded within, and permeates all aspects of, the Authority's activities.

In summary, during the year the Authority's approach continued to be to promote adherence to high professional standards by the auditing and accountancy profession through three principal avenues, i.e. by:

- promoting adherence to high professional standards through interaction with the auditing and accountancy profession;
- promoting adherence to high professional standards through interaction with other stakeholder groups and with the wider public; and
- co-operating with interested parties in the development of auditing and accounting standards.

1.2 Interaction with the auditing and accountancy profession

During the year the Authority sought to promote adherence to high professional standards through:

- i. continuing to provide members of the auditing and accountancy profession with an understanding of the Authority's role, functions and principal findings through, amongst other avenues, the delivery of information presentations and contributing articles to professional publications (details of presentations delivered and articles written by Authority staff during the year are set out in the Appendix to this Report);
- ii. reviewing proposed amendments to the PABs' constitutions, Bye-laws, regulations and other standards and, where considered necessary or otherwise appropriate, seeking/requiring amendments thereto;
- iii. tabling recommendations to the PABs where the Authority's ongoing review and related activities identified scope for improvement in the manner in which members and member firms are being regulated and, where applicable, monitored; and
- iv. reviewing complaints received relating to members of the PABs and to the PABs themselves and, where considered necessary, initiating statutory Enquiries into such matters with a view to determining whether:
 - breaches of approved procedures have occurred; and
 - parallel regulatory responses are necessary or otherwise appropriate.

Further information regarding the Authority's activities in the context of (ii) to (iv) above is set out in Chapter 3 of this Report.

1.3 Interaction with other stakeholder groups and with the wider public

Other avenues through which the Authority sought to promote adherence to high professional standards (on the part of the profession and in a wider context) during the year included:

- (a) continuing to review, on a risk assessed basis, selected constituent issuers' periodic financial reports for compliance with relevant reporting frameworks and, where considered necessary or otherwise appropriate, seeking further information and clarification from issuers regarding matters including apparent non-compliance with relevant aspects of accounting standards and legislative requirements;

- (b) responding to queries received from members of the public, thereby providing querists with the information necessary to enable them to:
- i. understand the Authority's and PABs' respective roles in the complaints/disciplinary processes;
 - ii. understand issuers' periodic financial reporting obligations under the Transparency Regulations; and
 - iii. direct complaints to other relevant authorities, where appropriate; and
- (c) providing stakeholder groups and the wider public with an understanding of the Authority's role and functions through the delivery of information presentations and contributing articles to professional publications (details of presentations delivered and articles written by Authority staff during the year are set out in the Appendix to this Report).

Further information regarding the Authority's activities in the context of (a) above can be obtained in Chapter 4 of this Report while further information regarding (b) above can be obtained in Chapter 6.

1.4 Provision of observations on year-end financial reporting issues for stakeholders' benefit – financial years ended 31 December, 2009

In previous years the Authority has published its observations on certain financial reporting matters considered to warrant particular attention by issuers' Boards and Audit Committees as they prepare their annual financial statements. Feedback received strongly suggests that these publications are considered to be useful to a number of the Authority's principal stakeholder groupings.

In presenting their results in respect of the year ended 31 December, 2009 issuers reported against a background of ongoing market uncertainty, reduced access to credit, weak economic activity and potentially impaired asset values, each of which gave rise to significant challenges in the context of financial reporting. In that context, the Authority offered commentary, by way of an observations document published in January, 2010 on selected financial reporting issues for Boards' and Audit Committees' benefit⁹⁰. Table 23 provides a brief summary of the matters addressed in the document.

Table 23: Summary of matters addressed in the Authority's observations document published in January, 2010**Impairment of goodwill**

The document drew attention to the requirement under accounting standards that goodwill be tested annually for impairment. It also noted the Authority's expectation that the allocation of goodwill to the lowest level within an entity at which goodwill is monitored for internal management purposes would be performed at a granular level and that, in most cases, this would be at a lower level than operating segments identified in accordance with IFRS 8.

Hedging instruments - recognition, measurement and disclosure

Paragraph 88 of IAS 39 specifies the conditions that must all be met in order for a hedging relationship to qualify for hedge accounting. Boards and Audit Committees were reminded of the five criteria to be met in order to apply hedge accounting and, in particular, that of hedge effectiveness, i.e. the degree to which changes in the fair value or cash flows of a hedged item are offset by changes in the fair value or cash flows of the hedging instrument.

The disclosure requirements in respect of hedges set out in IFRS 7 were set out.

Bank covenants

In the current economic climate, the risk of issuers breaching the terms of bank covenants, or having to renegotiate finance facilities with their banks, is heightened. In such circumstances, the presentation of liabilities as current or non-current on the face of the Statement of Financial Position is an area that will likely warrant careful consideration by Boards and Audit Committees. It is also likely that the necessity for additional disclosures under IFRS 7 addressing the risks and uncertainties facing the issuer and under IAS 10 *Events after the Reporting Period* will require careful consideration.

Related party transactions and balances

The Authority observed that the materiality threshold for the disclosure of transactions and balances with related parties is not determined by a simple quantitative comparison to primary statement totals, but, rather, is dependent on the size and nature of the transaction, judged in the particular circumstances of its omission or misstatement.

The Authority noted that instances of apparent non-compliance with disclosure requirements included:

- (a) the omission of disclosures required by IAS 24 regarding related party transactions and balances in respect of parties which the entity had identified as being related parties; and
- (b) the correction of errors in prior period related party amounts without disclosing the nature of the errors and the amounts of the corrections.

Amended legislation⁹¹ affecting directors' loan disclosures for banks was also highlighted in the document.

Accounting for Government grants and disclosure of Government assistance

The document outlined the general requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and drew attention to, in the case of financial institutions, the importance of transparency of disclosure in respect of transactions with NAMA and the implications of same for their financial position including accounting policy disclosures.

⁹¹ Companies (Amendment) Act 2009 which is available at www.iaasa.ie/legislation/index.htm

Table 23: Summary of matters addressed in the Authority's observations document published in January, 2010 (continued)

Materiality

Materiality judgements involve both quantitative and qualitative considerations, including assessments of size, nature and the surrounding circumstances.

Two features of materiality in particular were emphasised in the document, i.e.:

- (a) information provided for stewardship and accountability purposes, such as disclosures of directors' remuneration and other related party disclosures, may be relatively insignificant in comparison with the overall results of the entity, but are nonetheless highly qualitatively material; and
- (b) it is inappropriate to make, or leave uncorrected, immaterial departures from accounting standards in order to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

Financial instruments – risk disclosures

IFRS 7 requires that disclosures relating to an entity's exposure to risks arising from financial instruments be based on how the entity views and manages its risks. The Authority reminded issuers of the need to pay particular attention to disclosures provided in the following areas:

- (a) valuation techniques;
- (b) exposure to liquidity risk, credit risk and concentration risk;
- (c) carrying amount of financial assets pledged as collateral; and
- (d) quantitative disclosures.

The Authority pointed out that certain issuers (and, particularly, Fund and Debt issuers) had determined fair values using prices provided by brokers, third party arrangers or other pricing sources and that, in a number of cases, insufficient detail had been provided as to how fair value had been determined and/or, where relevant, the significant assumptions on which fair values had been based.

It was also necessary for the Authority to observe that the fact that debt issuers are structured as bankruptcy remote limited recourse entities does not exempt them from the requirement to comply in full with IFRS 7's risk disclosure requirements.

Operating profit

The Authority considered it necessary to enter into correspondence with a number of issuers where it appeared that items of an operating nature had been presented outside of '*operating profit*'. The Authority's clear expectation is that such issuers will provide a sufficiently detailed narrative explaining their analysis of what constitutes '*operating activity*' and the basis upon which amounts have been presented outside the results of operating activities.

Key performance indicators ('KPIs')

The Authority observed that, in instances where issuers use specific KPIs, it is important to ensure that such measures are clearly explained and where amounts used to calculate such KPIs have been adjusted from those shown in the financial statements, that any reconciliations necessary to aid users' understanding are provided.

Table 23: Summary of matters addressed in the Authority's observations document published in January, 2010 (continued)**Management Reports**

The document highlighted that issuers need to give a renewed focus to the ways in which they can effectively communicate how the business has performed during the year. In that context, Boards and Audit Committees were encouraged to carefully consider the content of their Management Reports with a view to ensuring that they are comprehensive, balanced, and specific to the business.

Additional disclosures

Boards and Audit Committees were reminded that notes to financial statements shall provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of those financial statements (paragraph 112(c) of IAS 1 refers).

Reliance on 'industry practice'

Boards and Audit Committees were reminded that, while '*accepted industry practice*' can be a relevant consideration in the selection of accounting policies, this applies only in the absence of an IFRS that specifically applies to a transaction, other event or condition.

New accounting pronouncements applicable for 2009 year end financial reports

The requirement to disclose that a new IFRS or IFRIC Interpretation, which is not yet effective, has been issued along with reasonably estimable information relevant to assessing the possible impact of the application of that pronouncement on the entity's financial statements was highlighted for stakeholders' benefit.

1.5 Provision of observations on materiality in financial reporting

In May, 2010 the Authority published a Paper entitled *Observations on Materiality in Financial Reporting*⁹², for the purposes of:

- (a) providing interested parties with an overview of the requirements of IFRS with respect to the assessment of the materiality of omissions or misstatements; and
- (b) outlining the Authority's observations arising from its engagement with issuers in respect of their materiality judgements.

Some of the Paper's main observations included:

- (a) in making a materiality assessment, IFRS requires consideration as to whether an omission or misstatement **could** [emphasis added] influence users' economic decisions. Thus, the information does not have to change a decision, but rather it must merely have the capacity to influence it;

- (b) issuers' assessments of materiality can be unduly focused on the needs of a limited range of users. Preparers must focus on all users of financial statements when making materiality determinations and not simply on investors/potential investors;
- (c) materiality assessments are not determined by a simple quantitative comparison to primary financial statement totals but, rather, encompass evaluation of a range of factors. For example, amounts which are relatively insignificant in comparison with the overall results of the entity may nonetheless be highly qualitatively material to a user; and
- (d) IFRS does not permit intentional errors, however immaterial, to remain uncorrected. Therefore, the circumstances surrounding a preparer's decision not to correct an identified and easily corrected error requires careful consideration in the context of a materiality judgement.

⁹² Available at www.iaasa.ie/publications/Obs_materiality2010.pdf

1.6 Provision of observations on year-end financial reporting issues for stakeholders' benefit – financial years ended 31 December, 2010

At year end, work on a similar document dealing with issuers' financial statements in respect of the year ended 31 December, 2010 was at an advanced stage⁹³. Topics addressed in that document include:

- (a) financial instruments – recognition and measurement, fair value disclosures and risk disclosures;
- (b) impairments;
- (c) pension accounting and discount rates;
- (d) bank covenants;
- (e) disclosure of KMP compensation;
- (f) revisions to IAS 1;
- (g) operating segments;
- (h) IAS 37 requirements regarding aggregation of classes of provisions;
- (i) restatement and reclassification of amounts;
- (j) limited recourse Debt issuers – risk disclosures;
- (k) changes to IAS 34 requirements regarding significant balance sheet movements; and
- (l) new legislation and accounting pronouncements applicable for 2010 year ends (i.e. IFRS 3 (revised), IAS 24 (revised), disclosure of auditors' remuneration⁹⁴, corporate governance disclosures⁹⁵, IFRIC 17 and IFRIC 18).

1.7 Guide to the Statutory Audit Directive Regulations

Following the transposition of the Transparency Directive Regulations, the Authority took the initiative of developing a Guide to those Regulations for stakeholders' benefit. Feedback received subsequent to the publication of that Guide strongly suggested that publications of this nature are considered to be very useful to a number of the Authority's principal stakeholder groupings.

For that reason, and in view of the complexity of the Statutory Audit Directive Regulations, the Authority devoted considerable resources during

the year towards developing a detailed Guide to these Regulations for stakeholders' benefit. Some of the principal topics covered in the Guide include:

- recognition of bodies of accountants;
- approval of Statutory Auditors and Statutory Audit Firms;
- withdrawal of the approval of Statutory Auditors and Statutory Audit Firms;
- standards and provisions applicable to Statutory Auditors and Statutory Audit Firms and related matters;
- auditing standards and audit reporting;
- quality assurance;
- recognised accountancy bodies' systems of investigations and penalties;
- regulatory arrangements between Member States;
- the Audit Register; and
- Audit Committees.

The guide, which was published in January 2011, can be accessed on the Authority's website⁹⁶.

1.8 Co-operation with interested parties in the development of accounting standards and practice notes

The background to the Authority's observer status at the Accounting Standards Board ('ASB') was set out in the Authority's 2006 Annual Report⁹⁷ and is not, therefore, reproduced in this Report. In summary, the Authority sought, and was granted, ASB observer status in the context of its statutory mandate (as provided for by section 9(2)(k) of the Act) to co-operate with interested parties in the development of accounting standards and practice notes.

As well as facilitating contribution to ASB discussions and outputs generally (which comprise mainly of revised Standards, Exposure Drafts and Discussion Papers), ASB observer status facilitates the early identification by the Authority of issues that are, or might be, of particular interest or relevance in an Irish context.

⁹³ This document was subsequently published on 24 January, 2011 and is available at www.iaasa.ie/publications/Obsdoc_Jan11.pdf

⁹⁴ The European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010 refer.

⁹⁵ The European Communities (Directive 2006/46/EC) Regulations 2009 as amended by the European Communities (Directive 2006/46/EC) (Amendment) Regulations 2010 refer.

⁹⁶ www.iaasa.ie/publications/Guide_8thDirective2011.pdf refers.

⁹⁷ Section 5 of Chapter 2 of the Authority's 2006 Annual Report refers (available at www.iaasa.ie/publications/Annual_Report_2006.pdf).

While the ASB published a number of documents during the year that were of interest in an Irish context, one issue of particular relevance to Irish preparers of financial statements was the publication, in October, 2010, of the ASB's Exposure Draft ('ED') entitled '*The Future of Financial Reporting in the United Kingdom and Republic of Ireland*'. This was a particularly important development in that, if implemented as proposed, this policy proposal would impact the vast majority of Irish (as well as UK) companies and would lead to major changes to the financial reporting regime currently operating in Ireland. In addition to actively participating in the consideration of issues discussed at ASB Board level, Authority staff also supplied the various Irish legal references and other such text appearing in the ED.

In summary, the ASB is proposing a three-tier approach to financial reporting in Ireland and the UK. Entities preparing group financial statements and listed on a regulated market of a stock exchange will continue to report under IFRS, as adopted by the EU. Under the proposals, they would be joined in Tier 1 by other companies that are deemed 'publicly accountable'. In an Irish context this would have consequences for Irish listed Debt and Fund entities, credit unions, building societies, and certain friendly societies. Some very small financial institutions would be exempt under the proposals and would instead be categorised as Tier 2 entities. The smallest companies would, under the proposals, continue to be permitted to use the simplified version of Irish/UK GAAP, known as the Financial Reporting Standard for Smaller Entities ('FRSSE') (Tier 3). It is of relevance in this regard however that the FRSSE is currently not widely used in Ireland. Those entities falling between Tiers 1 and 3 would, under the proposals, report under a new standard based on the IFRS for SMEs, which is considerably shorter and less complicated than current Irish/UK GAAP. The Financial Reporting Standard for Small and Medium Entities ('FRSSME'), as it would be called under the current proposals, would be modified to comply with Irish, UK and EU law and to ease tax reporting. It is also proposed to have a reduced disclosure regime for group subsidiaries under Tier 2.

1.9 Co-operation with interested parties in the development of auditing standards and practice notes

During the year the Authority continued to act as an observer at meetings of the Auditing Practices Board ('APB'), an activity that assists the Authority to discharge its role of co-operation in the development of auditing and ethical standards and to identify at an early stage developments that may have a particular relevance to, or bearing on, Ireland.

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

- revised Ethical Standards (ES) 1, 2, 4, 5 and Provisions Available for Smaller Entities;
- a Practice Note on the audit of Occupational Pension Schemes in Ireland (PN15(I)); and
- a Discussion Paper entitled '*Auditor Scepticism: Raising the Bar*'.

2. Acting as a specialist source of advice to the Minister on auditing and accounting matters

2.1 Transposition of the Statutory Audit Directive

During the year under review the Authority continued to devote considerable resources towards providing the Department of Jobs, Enterprise & Innovation with advice and assistance in the context of its responsibility to transpose the Directive into national law. As elaborated upon elsewhere in this Report, the Statutory Audit Directive was given effect to in Irish law by the Statutory Audit Directive Regulations. Further information regarding the Authority's activities in the context is set out in Chapter 3 of this Report.

2.2 European Commission Recommendation on External Quality Assurance of Auditors of Public Interest Entities⁹⁸

Following publication by the European Commission of the Recommendation in May, 2008, the, then, Department of Enterprise, Trade & Employment, with the Authority's assistance, issued a Consultation Paper in March, 2009 for the purpose of garnering stakeholders' views as to whether the Recommendation should be implemented in Ireland. In seeking stakeholders' views, the Consultation Paper set forth three principal options, namely:

⁹⁸ This document may be accessed at www.iaasa.ie/legislation/EU_QA_Recs080508.pdf

- i. retain the *status quo*, i.e. whereby responsibility for monitoring the quality of the audits of listed entities would remain the responsibility of the RABs;
- ii. move to a direct inspections model, i.e. whereby responsibility for monitoring the quality of the audits of listed entities would become the responsibility of the Authority; or
- iii. move to a delegation model, i.e. whereby responsibility for monitoring the quality of the audits of listed entities would become the responsibility of the Authority, which would, in turn, be permitted to delegate certain of these responsibilities to the RABs.

Following the completion of the consultation exercise and consideration of the responses received, subsequent to the enactment of the Statutory Audit Directive Regulations, the Department announced that the Minister for Trade & Commerce, Mr. Billy Kelleher, TD, had decided:

- that the Recommendation should be implemented in Ireland;
- that the model of implementation would be one of direct inspections, i.e. whereby the Authority would assume full responsibility for the external quality assurance of the audits of Public Interest Entities⁹⁹ ('PIEs') and the profession would cease to have a role in that regard; and
- the costs of implementing the Recommendation would be borne by the profession.

Subsequent to that announcement and pursuant to a request from the Minister, the Authority commenced work on the development of an implementation plan. At year end, work in this regard was in progress.

2.3 PCAOB proposals to conduct inspections of Irish audit firms

In the context of the PCAOB's proposals to perform inspections of Irish PCAOB-registered audit firms, the Authority continued to provide the Department with its perspective and advice on these matters during the year. Following the enactment of the Statutory Audit Directive Regulations, the Authority also liaised with the PCAOB with a view to putting in place a Statement of Protocol for working arrangements on the basis of reciprocity between the Authority and the PCAOB.

A previous constraint in establishing such working arrangements was that the European Commission had not taken an adequacy decision in respect of the United States. Under the Statutory Audit Directive this meant that Member States were not permitted to accept PCAOB inspections of EU audit firms and Member States' oversight bodies and audit firms could not transfer audit working papers to the PCAOB. On 1 September 2010, the Commission determined that the United States was adequate for the purposes of Article 47(1) of the Statutory Audit Directive. Accordingly, subject to bilateral working arrangements being concluded, this will permit the transfer of audit working papers or other documents held by statutory auditors or audit firms either by the Authority or with the Authority's prior approval. Such transfers will only be for the purpose of public oversight, external quality assurance or investigations of auditors and audit firms.

For the working arrangements to be concluded, the European Commission Recommendation on Quality Assurance will also need to be implemented, as this will facilitate the Authority's participation in joint inspections – the purpose of which would be to provide a basis upon which the PCAOB would be requested to place some degree of reliance on the Irish quality assurance system. At year end, the Authority was continuing with its interaction with the PCAOB in this regard.

2.4 Directive 2009/49/EC amending Council Directives 78/660/EEC and 83/349/EEC as regards certain disclosure requirements for medium-sized companies and the obligation to draw up consolidated accounts

In the context of proposals to amend certain disclosure requirements for medium-sized companies and the obligation to draw up consolidated financial statements, the Authority responded to the Department of Jobs, Enterprise & Innovation's invitation to provide observations on the matter.

Subsequently, the European Communities (Group Accounts) Regulations 2010 (S. I. No. 606 of 2010) were signed into law on 16 December, 2010. These Regulations give effect to Directive 2009/49/EC of the European Parliament and of the Council of 18 June, 2009 amending Council Directives 78/660/EEC and 83/349/EEC (i.e. the fourth and seventh company law Directives) as regards certain

⁹⁹ PIEs comprise of entities whose securities have been admitted to trading on certain regulated markets, credit institutions and insurance undertakings.

disclosure requirements for medium-sized companies and the obligation to draw up consolidated financial statements. The amendment provides that parent undertakings with only non-material subsidiaries should be exempted from the requirement (at Article 1 (1) of Directive 83/349/EEC) to draw up consolidated financial statements and a consolidated annual report.

3. Other advisory inputs

3.1 Company Law Review Group

The Company Law Review Group ('CLRG') is a statutory body established by the Company Law Enforcement Act 2001 ('CLEA') for the purpose of advising the Minister on company law related matters¹⁰⁰. The Authority is a body entitled to nominate a member to the CLRG and, through its nominee's membership¹⁰¹, the Authority contributed to the CLRG's ongoing provision of advice to the Minister during the year.

3.2 Suggestions that accounting standards contributed to the banking crisis

In response to suggestions that accounting standards may have been a contributory factor in the banking crisis, the Department of Finance sought the Authority's observations on the matter. In response to that request, the Authority provided its observations which included:

- i. an outline of the Authority's, and other parties', respective roles *vis-à-vis* financial reporting standards;
- ii. a brief overview of the legislative framework underpinning financial reporting;
- iii. the Authority's supervisory remit *vis-à-vis* financial institutions' statutory financial reporting and the financial reporting standards applied by financial institutions;
- iv. a summary of the approach to accounting for loan impairments adopted by IAS 39/FRS 26 *Financial Instruments: Recognition and Measurement*;
- v. the IASB's response to concerns; and
- vi. other matters, including the interaction between statutory financial statements and special purpose financial statements and the purpose, users and content of financial statements.

¹⁰⁰ Further information on the CLRG can be obtained at www.clrg.org

¹⁰¹ The Authority has nominated its Chief Executive as a member of the CLRG.

CHAPTER 6

Ensuring the Authority's Adherence to its Legal and Governance Obligations
as a Body Established Under Statute and Providing a High Quality Service
to Internal and External Stakeholders

Ensuring the Authority's Adherence to its Legal and Governance Obligations as a Body Established Under Statute and Providing a High Quality Service to Internal and External Stakeholders

1. Authority's adherence to its legal and governance obligations as a Body established under statute

1.1 Introduction

The Board is principally assisted in ensuring the Authority's 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 the Authority's ongoing compliance with its obligations.

1.2 Legal requirements under the Companies Acts

As a company limited by guarantee, the Authority and its directors have a range of legal obligations and responsibilities under the Companies Acts¹⁰². During the year, in compliance with the Authority's obligations as a company, the directors:

- held the Authority's fourth Annual General Meeting (on 13 July, 2010); and
- filed the company's Annual Return with the Registrar of Companies (on 14 July, 2010).

As detailed further in the Report of the Directors, the Authority has taken the steps necessary to ensure that, in compliance with section 202 of the 1990 Act, proper books and accounting records 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.

1.3 Principal legal requirements under other 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 (the Authority adopted a revised Safety Statement in January, 2010);
- employment and related legislation;
- tax law, including those provisions relating to the necessity for certain service providers to the Authority to furnish valid Tax Clearance Certificates in advance of payments being made;
- the Ethics in Public Office Acts; and
- the European Communities (Late Payments in Commercial Transactions) Regulations, 2002.

Certain other requirements typically applicable to statutory bodies such as the Freedom of Information Acts, the Disability Acts and the Official Languages Act do not currently apply to the Authority by virtue of it not having been designated for such purposes at this time.

1.4 Energy Consumption

Similarly, the provisions of Statutory Instrument 542 of 2009: European Communities (Energy End-use Efficiency and Energy Services) Regulations 2009 do not apply to the Authority by virtue of its not being a 'Public Body' as defined by the Statutory Instrument. Nevertheless, the Authority is committed to the aims and principles set out in the Regulations insofar as practicable.

1.4.1 Overview of Energy Consumption in 2010

The Authority is located in one office location, and has no motor vehicles or other area of energy usage. The Authority's consumption comprises of:

- space heating *via* natural-gas-fuelled radiators, which are controlled by the landlord on a shared services basis; and
- air conditioning, hot water, lighting and office equipment, which are electric and directly controlled by the Authority.

In 2010, the Authority consumed approximately 50,060 kwh of energy¹⁰³.

¹⁰² Those of the directors' responsibilities relating to the maintenance of proper books of account, preparation of financial statements and related obligations are dealt with in the Report of the Directors and the Statement of Directors' Responsibilities respectively (see the section of this Report entitled Financial and Related Statements).

¹⁰³ Source: the Authority's landlords.

1.5 Adherence to the Code of Practice for the Governance of State Bodies

As a body established under statute, the Authority is subject to the Code of Practice for the Governance of State Bodies ('the Code'), as issued by the Department of Finance¹⁰⁴. The Authority has, amongst others, taken the following steps to ensure its ongoing compliance with the Code:

- adopted a Schedule of Matters Reserved to the Board (which is reviewed by the Board from time to time);
- documented the Chief Executive's and Chairperson's respective roles;
- adopted formal and documented delegations of authority to Board Committees and to the Chief Executive (which are reviewed from time to time);
- put in place measures whereby directors have access to the advice and services of the Secretary;
- implemented measures whereby directors have access 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 director's orientation briefing and induction pack upon appointment to the Board;
- adopted Codes of Conduct for both directors and employees¹⁰⁵;
- appointed an Audit Committee comprising of non-executive directors, appointed an external provider of internal audit services and developed and approved Charters for both the Audit Committee and internal auditors which reflect both best practice and the Code's requirements;
- appointed a Remuneration Committee comprising of non-executive directors for the purposes of assessing the performance of the Chief Executive, making recommendations to the Board regarding the Chief Executive's and directors' remuneration and ensuring the Authority's compliance with the Code's provisions regarding the Chief Executive's and directors' remuneration;
- 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 addresses, amongst other things, the Authority's obligations under public sector procurement requirements;
- adopted a whistle blowing procedure, i.e. whereby employees of the Authority 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, the registering of such concerns and the bringing of such concerns to the Board's attention;
- effected certain amendments to the Authority's Codes of Conduct for directors and employees (to include references therein to the requirement for each member of the Board and each person holding a designated position of employment with the Authority to ensure his/her compliance with relevant provisions of the Ethics in Public Office Act 1995 and the Standards in Public Office Act 2001). The revised Codes are available on the Authority's website;

¹⁰⁴ A revised Code was published by the Department of Finance in 2009.

¹⁰⁵ A copy of the Authority's Codes of Business Conduct can be accessed on the Authority's website at www.iaasa.ie/about/business_codes.htm

- adopted procedures governing the disclosure of interests by directors;
- 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; and
- 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 the Authority's internal financial procedures and the adoption of the above policy was merely to reflect the Code's requirements).
- third party publications likely to be of interest to website users;
- details of employment opportunities with the Authority, as arising;
- a Frequently Asked Questions section, which includes details of how to lodge a complaint with the Authority (for example, relating to a PAB or to an issuer's periodic financial reporting);
- directors' and employees' Codes of Conduct, and the Authority's Customer Charter;
- links to other websites of relevance to the Authority's remit or otherwise likely to be of interest to website users, including links to the websites of:
 - the PABs;
 - member bodies of the Authority;
 - other EU audit oversight bodies;
 - other EU financial reporting enforcement bodies;
 - auditing, ethical and accounting standard setters, both UK/Irish and international;
 - EU and international representative bodies for the accountancy profession;
 - links to other relevant bodies/agencies; and

2. Provision of high quality services to internal and external stakeholders

2.1 Customer Charter

The Authority's Customer Charter¹⁰⁶ provides information on:

- the standards of service that stakeholders can expect from the Authority (relating to, amongst other things, timely responses, courtesy and respect) and to which the Authority is committed;
- how to make a complaint regarding the level of service received from the Authority;
- the applicability of the Charter to internal customers; and
- what the Authority expects in return from its stakeholders, for example, to be treated with courtesy and respect.

2.2 Website and regular updates to website registrants

The Authority maintains a website, www.iaasa.ie¹⁰⁷, on which members of the public can access:

- details of the Authority's statutory remit, including the Authority's principal statutory functions and powers;
- all primary and secondary legislation relating to the Authority, including relevant EU Directives, Regulations and Recommendations (as well as all of the Companies Acts);
- all of the Authority's publications, including reports, consultations and presentations made by Authority representatives;

- the PABs;
- member bodies of the Authority;
- other EU audit oversight bodies;
- other EU financial reporting enforcement bodies;
- auditing, ethical and accounting standard setters, both UK/Irish and international;
- EU and international representative bodies for the accountancy profession;
- links to other relevant bodies/agencies; and
- company particulars, as required by S.I. No. 49 of 2007 (European Communities (Companies) (Amendment) Regulations, 2007).

In addition to the foregoing, the Authority's website also provides regular news updates to users. This latter feature is accompanied by a service whereby website users can register for email updates, which are issued to accompany the uploading of news items to the website.

2.3 Queries received

The Authority welcomes queries from members of the public and, to the extent practicable, endeavours to assist querists to the fullest extent possible subject to the *caveat* that the Authority is unable to provide advice on specific issues to members of the public.

The Authority received a total of 251 queries from members of the public during the year, an increase of 35% on the previous year. The nature of queries received during the year, together with comparative figures for the previous year, is set out in Table 24.

¹⁰⁶ The Authority's Customer Charter can be accessed on the Authority's website at www.iaasa.ie/about/Customer_Charter.pdf

¹⁰⁷ The Authority's website is also accessible at www.iaasa.eu.

Table 24: Nature of queries received – 2010

	2010	2009
Queries relating to the auditing and accountancy profession		
Relating to PABs or individual accountants/auditors	23	28
Regarding the Authority's role or the Authority's and the PABs' respective roles	30	27
Regarding how to lodge a complaint with the Authority and/or a PAB	23	26
Regarding third country audit registration	38	14
Regarding the provisions of the Statutory Audit Directive	44	- ¹⁰⁸
Queries relating to financial reporting		
Relating to the provisions of the Transparency Regulations	8	14
Relating to the provisions of IFRS	11	18
Relating to other financial reporting issues	13	15
Queries of a general nature		
Regarding the Act and/or the Companies Acts generally	55	32
Miscellaneous	1	5
Relating to the functions of other regulatory bodies	5	7
Total	251	186

2.4 Consultation & feedback

In the case of major policy decisions or where the Authority otherwise wishes to obtain interested parties' views, the Authority generally communicates with relevant parties by means of Consultation Papers. The publication of Consultation Papers is generally advertised in the national press and placed on the Authority's website with a view to gaining maximum stakeholder interest and participation.

Following the completion of consultation processes, the Authority generally (particularly in respect of complex issues) publishes feedback for the purpose of providing summary details of respondents' views on certain key issues, together with details of whether the Authority has accepted comments/proposed amendments etc. and, where this is not the case, the Authority's reasons for not so doing.

2.5 Prescribed Accountancy Bodies' Contact Group

In addition to engaging with the PABs bilaterally on a regular and ongoing basis, the Authority has also established a standing Contact Group, which provides a forum for the Authority and the nine PABs to meet during the year to discuss matters of interest to all concerned and to share perspectives on topical issues.

2.6 Provision of responses to Parliamentary Questions

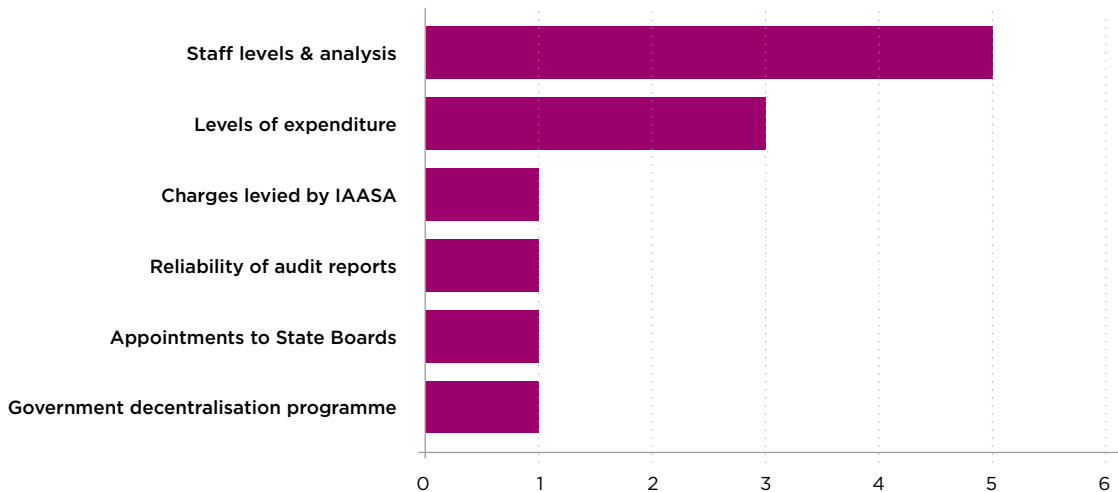
The Parliamentary procedure of tabling Parliamentary Questions (PQs) is one whereby Deputies¹⁰⁹ have an opportunity to table questions to Ministers on matters of relevance to Ministers' portfolios. PQs can be tabled for written or oral response by Ministers.

While the responsibility for answering PQs resides with the relevant Minister's Department, frequently Deputies' questions are constructed in a manner such that the required responses relate not only to the Minister's Department but also to Offices and/or Agencies coming within that Department's aegis. In that context, the Authority is regularly requested by the Department of Jobs, Enterprise & Innovation to provide material for inclusion in responses to be provided by the Minister.

During the year the Authority received 12 requests for PQ response material from the Department of Jobs, Enterprise & Innovation. Table 25 provides an analysis of those questions by subject matter.

¹⁰⁸ Prior to the transposition of the Statutory Audit Directive, such queries were categorised as 'Regarding the Act and/or the Companies Acts generally'.

¹⁰⁹ Deputies are Members of Dáil Éireann, which is the lower House of the Irish Parliament.

Table 25: Analysis of subject matter of Parliamentary Questions referred to the Authority – 2010

Staff levels & analysis	Questions under this heading included requests for information on topics such as staff contracts, staff numbers, remuneration etc., and on the effects of the Government's recruitment restrictions.
Levels of expenditure	Questions under this heading included requests for information relating to the Authority's overall budget levels and more detailed queries regarding expenditure under headings such as consultancy, advertising, etc.
Charges levied by IAASA	Questions under this category related to levies and/or charges imposed by the Authority in respect of services provided.
Reliability of audit reports	Questions related to statutory audit reports, their content, suitability, and proposals for amendment.
Appointments to State Boards	Questions in this category related to issues surrounding Ministerial appointments to State Boards.
Government decentralisation programme	Questions related to costs and movements of staff under the Government's decentralisation programme.

2.7 Staff training and development

The highly specialised nature of the Authority's remit is such that its success is in large measure dependent on a highly skilled and motivated team of staff that are supported in maintaining their professional competencies against the backdrop of a fast changing and highly technically demanding environment. In that context the Authority actively encourages and supports ongoing staff training and development. During the year the Authority supported staff in:

- undertaking continuing professional development; and
- undergoing training in other areas of relevance to the administration and management of the Authority, including in the areas of:
 - data protection;
 - information technology;
 - ethics and disciplinary legal updates;
 - personal development; and
 - statutory bodies' duties and obligations.

CHAPTER 7

Profile of the Prescribed Accountancy Bodies

Profile of the Prescribed Accountancy Bodies

1. Introduction

The purpose of this Chapter is to provide users of this Report with an insight into:

- the scale and composition of the Authority's supervisory remit as regards the PABs;
- the scale of the PABs, both individually and collectively;
- overall trends in the PABs' membership, student numbers and profiles; and
- the nature and scale of the PABs regulatory and monitoring activities.

To achieve this aim, this Chapter provides a statistical profile of the nine PABs coming within the Authority's supervisory remit in relation to their:

- respective memberships;
- investigation and disciplinary activities;
- respective student populations;
- practice authorisation;
- registration of members/member firms as auditors; and
- monitoring of registered auditor members/member firms.

The information set out in this Chapter relates to the year ended 31 December, 2010.

2. Provision of information by the Prescribed Accountancy Bodies

The Authority has relied on the PABs for the provision of this information, which was submitted as part of the PABs' annual return process. In the context of the foregoing, the Authority wishes to acknowledge the efforts made by the PABs in compiling their annual returns and their co-operation in responding to associated queries raised and clarifications requested by the Authority.

As described in Chapter 3 of this Report, the Authority's annual return process has a dual objective:

- firstly, to provide the Authority with the information necessary to:
 - facilitate the monitoring of the PABs' ongoing regulatory and monitoring activities; and
 - plan future reviews of the PABs by, for example, identifying key areas, issues or trends deserving of particular attention or resource allocation; and
- secondly, to provide relevant information to the Authority for publication purposes.

Given the dual purpose of the data sought, certain of same is of a confidential nature and, accordingly, while used for supervisory purposes, is not reproduced in this Chapter.

3. Considerations regarding the comparability of data presented

In studying and analysing the data presented in this Chapter, it is important to note the inherent limitations of the underlying data provided. Differences in the structure and operations of the nine PABs, as well as in the PABs' interpretations of the information requested may present some difficulties in making comparisons. Whilst the Authority has sought to minimise such differences through the design of its annual return templates, care is needed in interpreting the data presented herein and direct comparison may not be appropriate or meaningful in some cases.

4. Definitions used throughout this Chapter

Certain words have been defined for the purposes of this Chapter including:

'Ireland' means the Republic of Ireland;

'Irish Relevant' means complaints relating to members and students located in Ireland, firms based in Ireland and members/firms with clients based in Ireland;

'member' means an individual who has applied for, and been admitted to, membership of the relevant PAB;

'principal' means a partner in a member firm and includes a sole practitioner;

'registered auditor' means a firm or an individual that is registered to undertake statutory audits under the Irish Companies Acts;

'student' means an individual who is registered with the relevant PAB as a student and is actively pursuing the education process with a view to admission to full membership.

5. Further information regarding the Prescribed Accountancy Bodies

Further information regarding each of the nine PABs is available on their respective websites. Website addresses of each PAB are set out hereunder for readers' reference.

Association of Chartered Certified Accountants (ACCA)	www.accaglobal.com
Association of International Accountants (AIA)	www.aiaworldwide.com
Chartered Institute of Management Accountants (CIMA)	www.cimaglobal.com
Chartered Institute of Public Finance & Accountancy (CIPFA)	www.cipfa.org.uk
Institute of Chartered Accountants in England & Wales (ICAEW)	www.icaew.com
Institute of Chartered Accountants in Ireland (ICAI)	www.charteredaccountants.ie
Institute of Chartered Accountants of Scotland (ICAS)	www.icas.org.uk
Institute of Certified Public Accountants in Ireland (ICPAI)	www.cpaireland.ie
Institute of Incorporated Public Accountants (IIPA)	www.iipa.ie

6. Structure of the remainder of this Chapter

The remainder of this Chapter is divided into the following sections:

Part A	Membership
Part B	PABs' investigation and disciplinary activities
Part C	Student population
Part D	Practising authorisation
Part E	Registered auditors
Part F	Individually Authorised Auditors
Part G	Recognised Accountancy Bodies' monitoring of registered auditors

Part A: Membership

The Tables and Charts in this Part provide information regarding the membership profile of each of the nine PABs as well as the PABs in aggregate. Admission to membership involves applicants satisfactorily fulfilling various criteria, which typically include:

- completing a course of study and successfully completing the relevant PAB's professional examinations;
- obtaining a minimum period of relevant work experience; and
- undertaking to comply with the relevant PAB's constitution, bye-laws, rules, regulations, standards and codes of ethics and conduct, as applicable.

Once admitted to membership, members of the PABs are:

- entitled to use the designatory letters as provided for in the bodies' respective constitutional provisions; and
- required to fulfil certain obligations on an ongoing basis in order to retain that status, including maintaining up to date professional competence through undertaking Continuing Professional Development ('CPD') and ongoing compliance with the relevant PABs' various rules, regulations and standards etc. Failure to comply with same may render a member liable to disciplinary action.

It should be noted that the PABs impose additional requirements on those of their members wishing to engage in public practice (i.e. wishing to offer services to members of the public and in reserved areas such as audit or investment business). Part D of this Chapter provides further information regarding the requirements relating to practising authorisations.

Membership – Highlights 2010

- During 2010 there has been an increase of 5% in the membership of the nine PABs in Ireland and 4% in the worldwide membership (Tables A.1 and A.2), with ACCA having the largest worldwide membership of the PABs.

- ICAI, ICPAI and IIPA membership is predominantly based in Ireland, with the majority of the membership of CIMA, CIPFA, ICAEW and ICAS being based in the UK. 50% of ACCA members are located in the UK and Ireland. A majority (74%) of AIA members are located outside of the EU (Table A.1).
- Four bodies dominate PAB membership in Ireland – ICAI members comprise almost 45% of PAB membership, followed by ACCA at 27%, CIMA at 13% and ICPAI at 12% (Chart A.1).
- 39% of PAB members located in Ireland are female, compared with 38% in 2009 (Table A.4). Chart A.5 shows that males comprise the majority gender in all nine bodies. However, the numbers of female members has been rising over the past number of years and readers should refer to the statistics on student numbers (Part C of this Chapter refers) for an indication of likely future trends in membership gender profiles.
- The majority of members located in Ireland (62%) are employed in business, with a large minority (25%) employed in practice (Table A.5). On an individual basis, with the exception of the IIPA, a minority of Irish based members of each body are employed in practice.
- 70% of aggregate PAB membership in Ireland is comprised of individuals under 45 years of age (Table A.6). ACCA has the highest proportion of under 45s at 79%, followed by ICAI at 69%, CIMA and ICPAI at 65%.
- Increases in membership arise in the main through the admission of students to membership. Decreases in membership arise principally from member resignations or exclusions. Exclusions arise mainly as a result of members' failure to pay subscription fees or, alternatively, as a result of disciplinary action. In the case of non-payment of subscription fees, members are usually re-admitted once payment has been made. Table A.2 shows the movements in membership in Ireland during 2010.

Table A.1: Members worldwide – location

As at 31 December	2009 TOTAL	2010 TOTAL	Recognised Accountancy Bodies								
			ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Ireland	28,547	30,002	8,151	435	13,475	69	3,474	207	134	3,991	66
UK	270,126	278,057	64,414	115,555	4,670	16,201	91	4	1,540	62,351	13,231
Other EU Member States	12,532	15,037	7,859	4,995	382	392	38	1	171	1,120	79
Other locations	101,772	104,866	63,973	15,630	1,483	2,118	142	2	5,201	16,025	292
Total members worldwide	412,977	427,962	144,397	136,615	20,010	18,780	3,745	214	7,046	83,487	13,668

Chart A.1: % Share of PAB Members located in Ireland

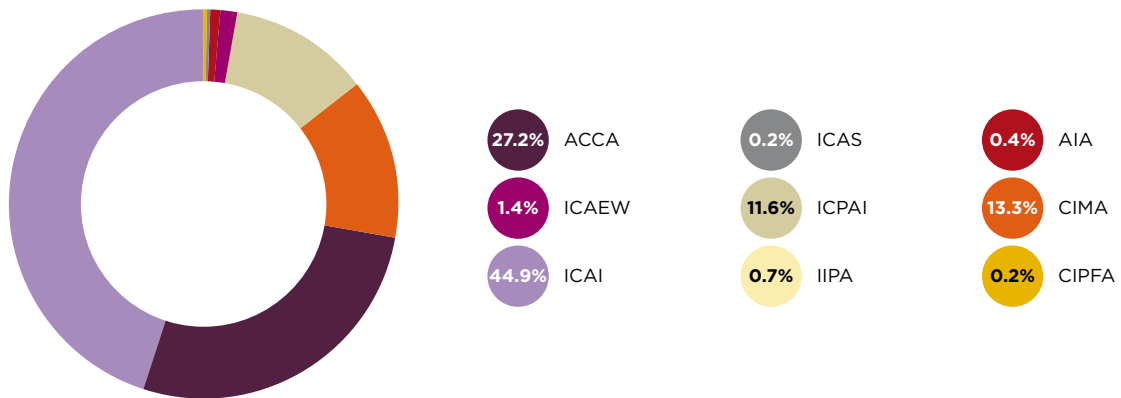


Chart A.2: Members worldwide – comparison of location

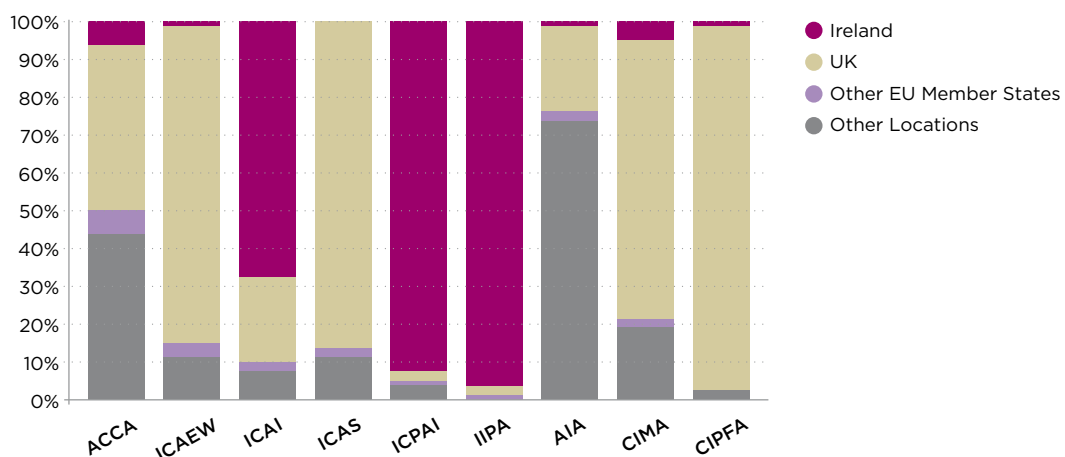


Table A.2: Members in Ireland - movement during the year

			Recognised Accountancy Bodies								
	2009 TOTAL	2010 TOTAL	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Members in Ireland at 1 January	27,395	28,547	7,722	434	12,694	65	3,363	219	138	3,846	66
During the Year:											
ADD: Students admitted as members	1,586	1,861	594	9	860	4	163	3	0	226	2
- Members of other bodies admitted as members	29	11	2	0	0	0	6	2	1	0	0
- Other Individuals admitted as members	0	5	0	0	0	0	0	5	0	0	0
- Former members re-admitted to membership	315	144	50	0	15	0	3	1	0	75	0
LESS: Members excluded from membership	(545)	(378)	(199)	(3)	(26)	0	0	0	(2)	(145)	(3)
- Members resigning from membership	(172)	(133)	(13)	(4)	(42)	0	(40)	(23)	(2)	(9)	0
- Members deceased	(49)	(34)	(5)	0	(26)	0	(1)	0	0	(2)	0
Other	(12)	(21)	0	(1)	0	0	(20)	0	(1)	0	1
Members in Ireland at 31 December	28,547	30,002	8,151	435	13,475	69	3,474	207	134	3,991	66

Table A.3: Members in Ireland - movement from 2008-2010

Membership In Ireland as at 31 December	2008	2009	2010
ACCA	7,437	7,722	8,151
ICAEW	429	434	435
ICAI	12,049	12,694	13,475
ICAS	64	65	69
ICPAI	3,281	3,363	3,474
IIPA	211	219	207
AIA	145	138	134
CIMA	3,708	3,846	3,991
CIPFA	71	66	66
Total	27,395	28,547	30,002

Note: ICAEW Figures for 'Students admitted as members' Table A.2. (9) differ to Table C2: (0) as individuals who are eligible for membership for more than 12 months are not included in Student figures.

Note: ICAI figures for Students admitted as full members in Table A.2 (860) & Table C.2 (1,162) do not cross check due to discrepancies in the movement of candidates between studentship & membership. Students may complete their term as a student in 'Ireland' & enter into membership while located outside of 'Ireland'.

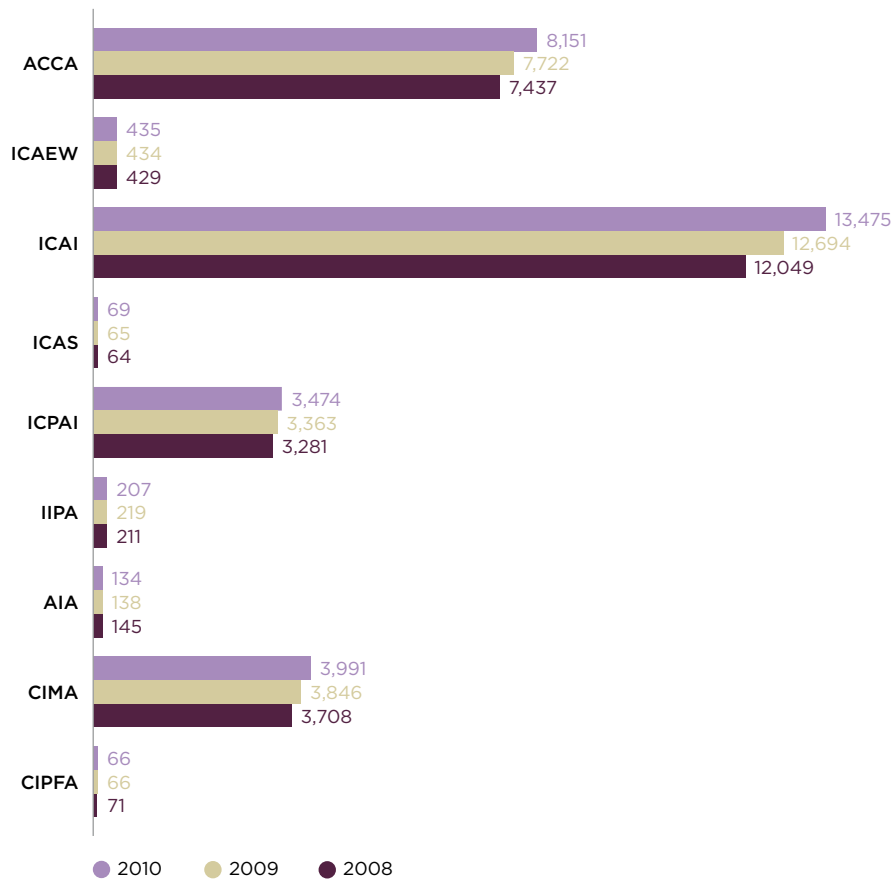
Chart A.3: Comparison of membership in Ireland

Table A.4: Members in Ireland – gender profile

As at 31 December	2009 TOTAL	2010 TOTAL	Recognised Accountancy Bodies								
			ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Male	17,675	18,289	4,586	334	8,481	53	1,794	193	124	2,683	41
Female	10,872	11,713	3,565	101	4,994	16	1,680	14	10	1,308	25
Total membership	28,547	30,002	8,151	435	13,475	69	3,474	207	134	3,991	66

Chart A.4: Members in Ireland – gender profile

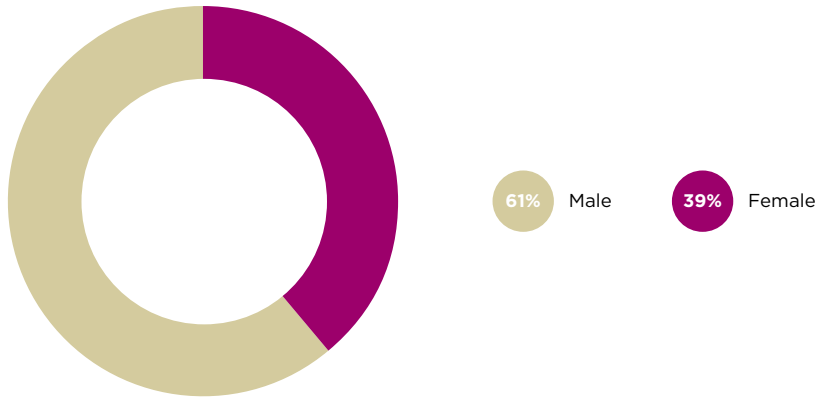


Chart A.5: Members in Ireland – comparison of gender profile

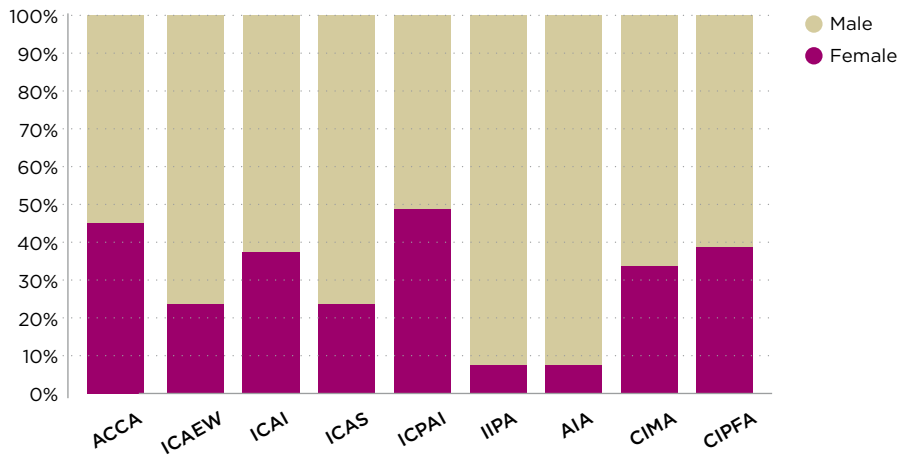


Table A.5: Members in Ireland – employment status

As at 31 December	2009 TOTAL	2010 TOTAL	Recognised Accountancy Bodies								
			ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Practice	7,640	7,648	1,919	99	4,175	11	1,197	171	16	59	1
Industry/Business	17,771	18,471	5,189	204	7,651	40	1,700	25	89	3,568	5
Public Sector	1,681	1,539	555	19	486	2	310	2	1	110	54
Retired	1,027	1,076	199	72	454	10	60	0	24	254	3
Other	428	1,268	289	41	709	6	207	9	4	0	3
Total	28,547	30,002	8,151	435	13,475	69	3,474	207	134	3,991	66

Chart A.6: Members in Ireland – employment status

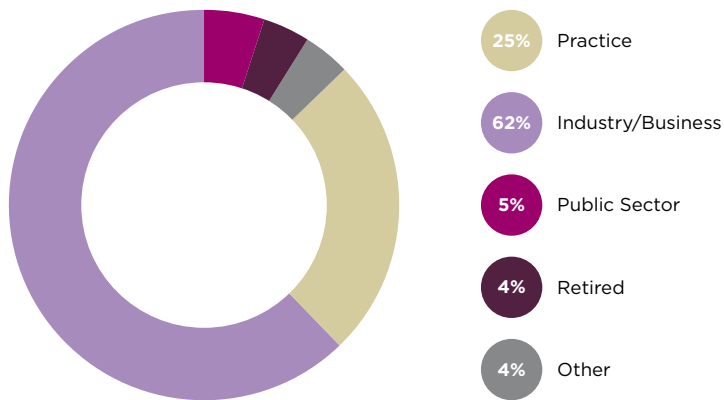


Chart A.7: Members in Ireland – comparison of employment status

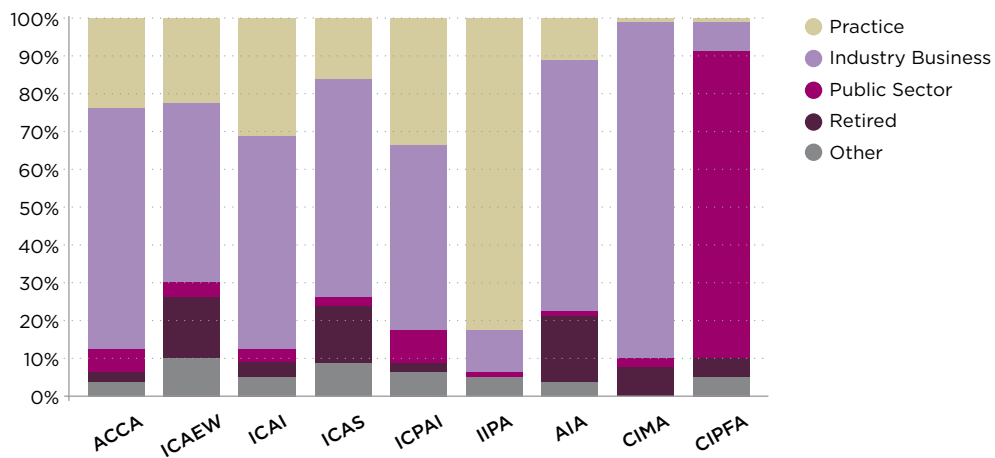


Table A.6: Members in Ireland – age profile

As at 31 December	2009 TOTAL	2010 TOTAL	Recognised Accountancy Bodies								
			ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
< 25	30	105	43	0	31	0	30	0	0	1	0
25-34	8,838	10,037	2,948	47	5,324	16	979	25	7	691	0
35-44	10,655	10,768	3,410	147	3,953	19	1,265	43	14	1,896	21
45-54	5,017	5,055	1,128	80	2,134	16	833	57	24	757	26
55-64	2,592	2,577	413	80	1,280	9	308	72	50	350	15
65+	1,414	1,459	209	81	753	9	59	10	39	296	3
Date of birth not available	1	1	-	-	-	-	-	-	-	-	1
Total	28,547	30,002	8,151	435	13,475	69	3,474	207	134	3,991	66

Chart A.8: Members in Ireland – age profile

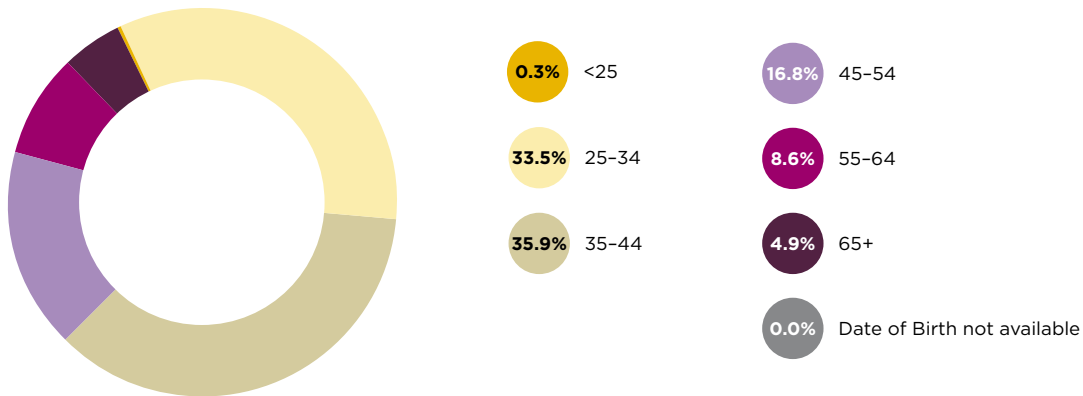
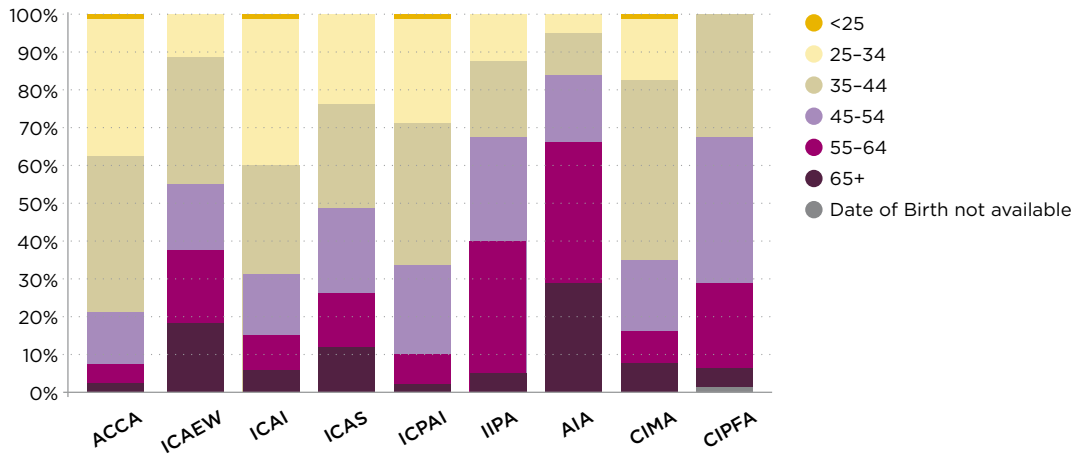


Chart A.9: Members in Ireland – comparison of gender profile (by body)



Part B: PABs' investigation and disciplinary activities

The Tables in this Part provide information regarding the PABs' investigation and disciplinary activities.

As outlined in previous Reports, under the model of supervised self regulation provided for by the Act, responsibility in the first instance for the investigation of complaints¹¹⁰ relating to the PABs' members and member firms resides with those bodies, which are required to process same in accordance with investigation and disciplinary procedures approved by the Authority. Rather than being to supplant the PABs' responsibility to investigate complaints received in respect of their members/member firms, the Authority's role is to supervise the manner in which the PABs' complaints, investigations, disciplinary and appeals processes operate. However, notwithstanding the foregoing, following the receipt of a complaint or otherwise on its own initiative, the Authority is empowered to initiate Enquiries into whether a PAB has complied with its approved procedures under section 23 of the Act. Further details concerning such Enquiries are provided in Chapter 3 of this Report.

Each PAB's established systems and procedures are tailored to its specific requirements. Accordingly, the manner in which complaints concerning members and member firms are processed varies across the PABs. However, notwithstanding the differences in these processes, due to the requirement that disciplinary processes respect the principles of natural justice as well as applicable human rights legislation, there are many similarities across the PABs, such as, for example, the organisation of investigation, disciplinary and appeals systems through Committee structures.

When a member of the public (complainant) makes a complaint to a PAB concerning the conduct or competence of a member/member firm or where relevant information comes to the attention of a PAB, the recipient body typically has a number of initial options available to it, including investigation by a Committee¹¹¹ (or regulatory assessor in the case of ACCA) or resolution by conciliation¹¹² or other means provided for under its approved investigation and

disciplinary procedures. In cases where a judgement is formed by either the Committee or the regulatory assessor that there is a *prima facie*¹¹³ case against the member, the member may either be referred to the formal disciplinary process (typically to a Disciplinary Committee/Tribunal) or be offered a Consent Order¹¹⁴.

The range of sanctions available to Investigation Committees and the Disciplinary Tribunals are outlined in Table B.5 and the nature of the sanction imposed on a member will depend on the particular facts of any case, including, for example, the seriousness of the wrongdoing found to have occurred. Where a Disciplinary Tribunal makes a finding against a member, the member typically has a right of appeal to an Appeal Committee/Tribunal. The tables and charts set out below provide the following information:

- Tables B.1 and B.2¹¹⁵ outline the number of complaints open at the end of 2009 and 2010 respectively, the number of new cases arising during 2010, the number of cases closed during 2010 and at what stage of the investigation and disciplinary process such complaints were closed by each PAB;
- Tables B.3 and B.4¹¹⁵ outline the nature of the complaints received by each PAB during 2010;
- Table B.5 outlines the sanctions that may be imposed by each PAB in the case of complaints found to have been proven. It should be noted that this Table refers only to sanctions available to Investigation Committees & Disciplinary Tribunals and does not take into account sanctions that may be imposed other than as part of the investigation & disciplinary process, e.g. by other Committees that operate outside the investigation & disciplinary process (e.g. Registration Committees and Quality Assurance Committees, howsoever called); and
- Tables B.6 and B.7¹¹⁵ provide an analysis of the sanctions actually imposed in the case of complaints found to have been proven. As can be seen from those tables, the sanctions most commonly imposed are reprimands, fines and the imposition of costs.

¹¹⁰ The term 'Complaint' includes any expression of dissatisfaction with accounting related services, whether communicated to a PAB by members of the public or otherwise.

¹¹¹ It should be noted that not all the PABs use the same terminology for their Investigation Committee. For example, the ICAI refers to this committee as the Complaints Committee while ICAS refers to it as the Investigations and Professional Conduct Enforcement Committee. For convenience, this Chapter refers generically to Investigation Committees.

¹¹² It is worth noting that conciliation processes typically require the complaint to be resolved to the mutual satisfaction of all parties and conciliation is usually not permitted other than relating to minor matters. Additionally, it should be noted that not all of the PABs' processes and procedures provide for a complaint conciliation process.

¹¹³ On the face of it.

¹¹⁴ A Consent Order is a process whereby a member admits to the findings of the Investigation Committee and consents to the sanctions imposed. Not all PABs' processes and procedures provide for a Consent Order process.

¹¹⁵ Tables B.1, B.3 and B.6 provide detail regarding complaints relevant to Ireland whereas Tables B.2, B.4 and B.7 provide detail regarding complaints relevant to Registered Auditors.

Table B.1: Summary of complaints – Ireland relevant

Year to 31 December, 2010	TOTAL	Recognised Accountancy Bodies							AIA	CIMA	CIPFA
		ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA				
Complaints outstanding at 1 Jan, 2010	246	140	0	89	0	11	5	0	1	0	
During the year:											
ADD: New cases arising during the year	184	101	0	66	0	11	5	0	1	0	
LESS: Cases closed during the year by:											
- Conciliation	(16)	(16)	0	-	0	0	0	0	0	0	
- Secretary/Staff	(45)	(37)	0	-	0	(3)	(4)	0	(1)	0	
- Assessor	(2)	(2)	0	-	0	0	0	0	0	0	
- Investigation/Complaints Committee	(69)	0	0	(65)	0	(4)	0	0	0	0	
- Disciplinary Committee	(16)	(6)	0	(7)	0	(3)	0	0	0	0	
- Appeal Committee	(1)	0	0	(1)	0	0	0	0	0	0	
- Other	0	0	0	0	0	0	0	0	0	0	
Complaints outstanding at 31 Dec, 2010	281	180	0	82	0	12	6	0	1	0	

Table B.2: Summary of complaints – Registered Auditors

Year to 31 December, 2010	TOTAL	Recognised Accountancy Bodies					
		ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Complaints outstanding at 1 Jan, 2010	256	102	72	67	0	10	5
During the year:							
ADD: New cases arising during the year	241	70	95	57	0	14	5
LESS: Cases closed during the year by:							
- Conciliation	(12)	(12)	0	-	0	0	0
- Secretary/Staff	(50)	(21)	(23)	-	0	(2)	(4)
- Assessor	(1)	(1)	0	-	0	0	0
- Investigation/Complaints Committee	(116)	0	(57)	(56)	0	(3)	0
- Disciplinary Committee	(18)	(2)	(9)	(5)	0	(2)	0
- Appeal Committee	0	0	0	0	0	0	0
- Other	0	0	0	0	0	0	0
Complaints outstanding at 31 Dec, 2010	300	136	78	63	0	17	6

Table B.3: Nature of complaints received – Irish relevant

Year to 31 December, 2010	Recognised Accountancy Bodies								
	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Poor work or unsatisfactory professional service or conduct	28	0	34	0	12	1	0	1	0
Loss/withholding of client records	11	0	0	0	0	1	0	0	0
Fee disputes	1	0	3	0	0	3	0	0	0
Delay/failure to respond and/or co-operate with the Institute/Association or an external party	3	0	5	0	1	0	0	0	0
Failure to report to a Regulator	0	0	0	0	0	0	0	0	0
Criminal conviction/Civil proceedings	1	0	0	0	0	0	0	0	0
Carrying on public practice or audit while not authorised	11	0	5	0	2	0	0	0	0
Execution of an audit report by non-RI (Responsible Individual)	0	0	0	0	0	0	0	0	0
Other breach of company law/restriction or disqualification as a director/failure to satisfy judgement debt	0	0	9	0	1	0	0	0	0
Other audit related matters	11	0	9	0	0	0	0	0	0
Professional appointment related	0	0	4	0	2	0	0	0	0
Breach of Code of Ethics	16	0	0	0	0	0	0	0	0
Breach of Institute/Association Rules or Regulations (such as in relation to client monies, professional indemnity insurance)	2	0	22	0	1	0	0	0	0
Matters relating to insolvency work or conduct of a liquidation	12	0	7	0	1	0	0	0	0
Matters relating to investment business	0	0	3	0	0	0	0	0	0
Tax work	0	0	2	0	0	0	0	0	0
Training/student related matters	5	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0

Note: Complaints are included in whichever category is relevant to the complaint, including more than one category where the complaint has a number of different elements.

Table B.4: Nature of complaints received – Registered Auditors

Year to 31 December, 2010	Recognised Accountancy Bodies					
	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Poor work or unsatisfactory professional service or conduct	18	8	30	0	11	1
Loss/withholding of client records	10	0	0	0	0	1
Fee disputes	1	0	4	0	0	3
Delay/failure to respond and/or co-operate with the Institute/Association or an external party	3	10	5	0	1	0
Failure to report to a Regulator	0	0	0	0	0	0
Criminal conviction/Civil Proceedings	0	0	0	0	0	0
Carrying on public practice or audit while not authorised	4	7	2	0	1	0
Other breach of company law/restriction or disqualification as a director/failure to satisfy judgement debt	0	6	0	0	0	0
Execution of an audit report by non-RI (Responsible Individual)	0	14	7	0	1	0
Other audit related matters	10	29	7	0	0	0
Professional appointment related	0	0	3	0	1	0
Breach of Code of Ethics	13	16	0	0	0	0
Breach of Institute/Association Rules or Regulations (such as in relation to client monies, professional indemnity insurance)	0	3	18	0	0	0
Matters relating to insolvency work or conduct of a liquidation	11	2	7	0	1	0
Matters relating to investment business	0	0	2	0	0	0
Tax work	0	0	2	0	0	0
Training/student related matters	0	0	0	0	0	0
Other	0	0	1	0	0	0

Note: Complaints are included in whichever category is relevant to the complaint, including more than one category where the complaint has a number of different elements.

Table B.5: Disciplinary sanctions available

Year to 31 December, 2010	Recognised Accountancy Bodies						AIA	CIMA	CIPFA
	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA			
Reprimand/severe reprimand	Y	Y	Y	Y	Y	Y	Y	Y	Y
Fine	Y	Y	Y	Y	Y	Y	Y	Y	Y
Costs	Y	Y	Y	Y	Y	Y	Y	Y	Y
Exclusion from membership	Y	Y	Y	Y	Y	Y	Y	Y	Y
Suspension from membership	N	N	Y	Y	Y	Y	Y	N	Y
Suspension of audit authorisation	Y	Y	N	Y	Y	Y	N/A	N/A	N/A
Withdrawal of audit authorisation	N	Y	Y	Y	Y	Y	N/A	N/A	N/A
Suspension of other authorisation	Y	Y	N	Y	Y	Y	Y	N/A	Y
Withdrawal of other authorisation	N	Y	Y	Y	Y	Y	Y	Y	Y
Attach conditions to an authorisation	Y	Y	N	Y	Y	Y	Y	Y	N/A
Ineligible for an authorisation for period of time	N	N	Y	Y	Y	Y	Y	N	N
Direct member to reimburse complainant for expenses incurred in connection with the complaint	Y	Y	N	N	N	Y	N	N	Y
Direct member to refund fees/commission to complainant	Y	Y	N	N	N	Y	N	N	Y
Direct member to pay compensation to complainant	Y	N	N	N	N	Y	N	N	N
Rest on file/similar sanction	Y	N	Y	N	Y	Y	Y	N	Y
Proven but no penalty/similar sanction	Y	Y	Y	Y	Y	Y	Y	Y	Y
Publication of findings, including member's name	Y	Y	Y	Y	Y	Y	Y	Y	Y
Other	Y	N	N	Y	N	Y	N/A	Y	N

Key: Y = Available as a sanction; N = not available as a sanction; N/A = Not applicable to that body in Ireland

Note: The sanction of 'Rest on file' is typically reserved for situations where it is concluded that the member is liable to disciplinary action but no immediate action is warranted. Details of the issue are placed on the member's file and may subsequently be taken into account should other issues come to the PAB's attention that would render that member liable to disciplinary actions.

Table B.6: Analysis of sanctions imposed – Ireland relevant

Year to 31 December, 2010	Recognised Accountancy Bodies								
	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Reprimands/severe reprimands imposed	2	-	14	-	5	-	-	-	-
Cases where fines were imposed	1	-	13	-	3	-	-	-	-
Aggregate value of fines imposed	£2,000	-	€51,500	-	€6,500	-	-	-	-
Maximum fine imposed in a single case	£2,000	-	€30,000	-	€6,000	-	-	-	-
Cases where costs were imposed	5	-	14	-	5	-	-	-	-
Aggregate value of costs imposed	£2,928	-	€79,042	-	€7,500	-	-	-	-
Maximum costs imposed in a single case	£820	-	€41,544	-	€5,000	-	-	-	-
Member exclusions applied	-	-	4	-	-	-	-	-	-
Member suspensions applied	-	-	2	-	-	-	-	-	-
Suspensions of audit authorisation applied	-	-	-	-	-	-	-	-	-
Suspensions of other authorisation applied	-	-	-	-	-	-	-	-	-
Withdrawals of audit authorisation applied	-	-	-	-	-	-	-	-	-
Cases where conditions were attached to authorisation	-	-	-	-	3	-	-	-	-
Refund of fees/commissions	-	-	-	-	-	-	-	-	-
Ineligible for an authorisation for period of time	-	-	-	-	1	-	-	-	-
Directions to pay compensation to complainant	-	-	-	-	-	-	-	-	-
Aggregate value of compensation awarded to complainants	-	-	-	-	-	-	-	-	-
Cases resting on file/similar	-	-	-	-	-	-	-	-	-
Cases proven but no penalty or similar	-	-	5	-	-	-	-	-	-
Student exclusions/suspensions applied	3	-	-	-	-	-	-	-	-
Other	-	-	1	-	-	-	-	-	-
Consent orders offered during the year	-	-	22	-	-	-	-	-	-
Consent orders accepted during the year	-	-	21	-	-	-	-	-	-
Cases where the Committee decision was published	5	-	23	-	3	-	-	-	-
Cases where the decision was published, and the member identified in the publication	5	-	12	-	1	-	-	-	-

Table B.7: Analysis of sanctions imposed – Registered Auditors

Year to 31 December, 2010	Recognised Accountancy Bodies					
	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Reprimands/severe reprimands imposed	1	45	15	-	4	-
Cases where fines were imposed	-	41	14	-	2	-
Aggregate value of fines imposed	-	€110,533	€67,750	-	€1,500	-
Maximum fine imposed in a single case	-	€30,000	€25,000	-	€1,000	-
Cases where costs were imposed	1	50	14	-	4	-
Aggregate value of costs imposed	€820	€95,282	€27,016	-	€3,500	-
Maximum costs imposed in a single case	€820	€14,895	€2,500	-	€5,000	-
Member exclusions applied	-	1	1	-	-	-
Member suspensions applied	-	-	1	-	-	-
Suspensions of audit authorisation applied	-	-	-	-	-	-
Withdrawals of audit authorisation applied	-	33	-	-	-	-
Cases where conditions were attached to authorisation	-	54	-	-	1	-
Ineligible for an authorisation for period of time	-	-	-	-	-	-
Refunds of fees/commissions applied	-	-	-	-	-	-
Directions to pay compensation to complainant	-	-	-	-	-	-
Aggregate value of compensation awarded to complainant	-	-	-	-	-	-
Cases resting on file/similar	-	-	-	-	-	-
Cases proven but no penalty or similar	-	-	4	-	-	-
Other	-	-	1	-	-	-
Consent orders offered during the year	-	37	22	-	-	-
Consent orders accepted during the year	-	31	21	-	-	-
Cases where the Committee decision was published	1	93	19	-	2	-
Cases where the decision was published, and the member identified in the publication	1	93	8	-	3	-

Part C: Student population & education

The Tables and Charts in this Part provide information regarding the student profile of each of the nine PABs as well as the PABs in aggregate. The education and training of students forms a significant part of the overall activities of the PABs. Whilst students are subject to the provisions of applicable bye-laws, rules and regulations of the relevant PAB, they:

- do not have the status of membership of that PAB;
- cannot hold themselves out to be members;
- cannot provide accounting services to the public; and
- are not entitled to use the designatory letters reserved for members of that PAB.

Student Population – Highlights 2010

- Taking the PABs in aggregate, there has been a decrease of 8% in total student numbers in Ireland in 2010, while there was a 7% increase in total worldwide student numbers during the year (Table C.1).
- As with membership, ICAI, ICPAI and IIPA students are predominantly based in Ireland, with the majority of the students of CIMA, CIPFA, ICAEW and ICAS being based in the UK. A majority of ACCA and AIA students (69% and 97% respectively) are located outside the EU.
- Four bodies dominate the student market in Ireland – ACCA students comprise almost 52% of all PAB students in Ireland, followed by ICAI with 27%, CIMA with 13% and ICPAI with 7% (Chart C.2). ICAEW, IIPA, AIA and CIPFA have very small student populations in Ireland, collectively comprising less than 1% of the market. ICAS do not currently have any students located in Ireland.
- In contrast to the membership statistics (Part A of this Chapter refers), the majority of PAB students are female (53%) (Table C.4). On an individual basis, Chart C.5 shows that ACCA, ICAI and ICPAI all have a majority female student populations.
- On an aggregate basis, employment in business is the largest employment sector for PAB students in Ireland at 44%, followed by practice at 35% (Chart C.6). On an individual basis, the statistics show that ICAI students are employed predominantly in practice, while business is the largest employer for students of ACCA, ICPAI and CIMA (Table C.5).
- The majority of PAB students (59%) are between 25 and 34 years of age (Chart C.8). A significant minority of the ICAI's student population (48%) are under 25 (Table C.6).
- During 2010, 71% of all students newly registered by the PABs held a degree or post-graduate qualification (Chart C.10). On an individual basis, the ICAI has the highest proportion of students with a relevant degree or post-qualification (85%).
- There has been a decrease of 15% in the number of students who registered for the first time in 2010 compared with the number in 2009 (Table C.8) and a 34% decrease during the 2008-2010 period.
- Of the 3,189 new students registered during the year, ACCA students comprise 49%, ICAI 30%, CIMA 13% and ICPAI 7%, with the other PABs accounting for the remaining 1%.

Table C.1: Students worldwide – location

As at 31 December			Recognised Accountancy Bodies								
	2009 TOTAL	2010 TOTAL	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Ireland	18,644	17,227	9,016	5	4,682	0	1,180	74	4	2,260	6
UK	151,884	156,274	82,674	14,505	1,084	2,962	10	1	147	52,210	2,681
Other EU Member States	21,855	23,655	20,155	827	2	42	0	0	84	2,542	3
Other locations	272,479	298,365	246,107	2,316	3	0	35	0	7,578	42,252	74
Total students worldwide	464,862	495,521	357,952	17,653	5,771	3,004	1,225	75	7,813	99,264	2,764

Chart C.1: Students worldwide – location

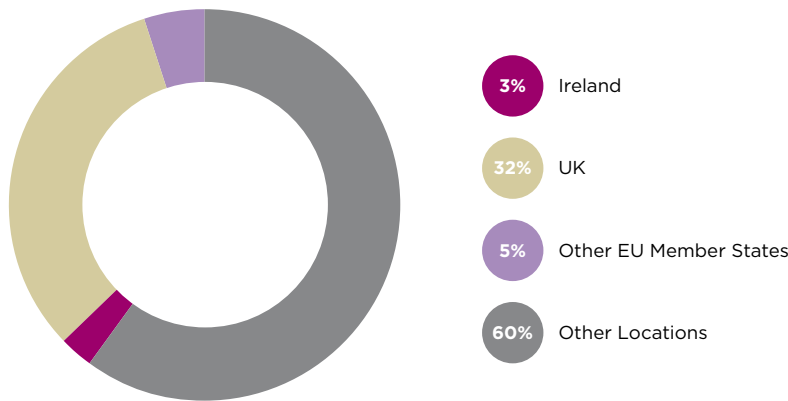


Chart C.2: Students worldwide – comparison of location

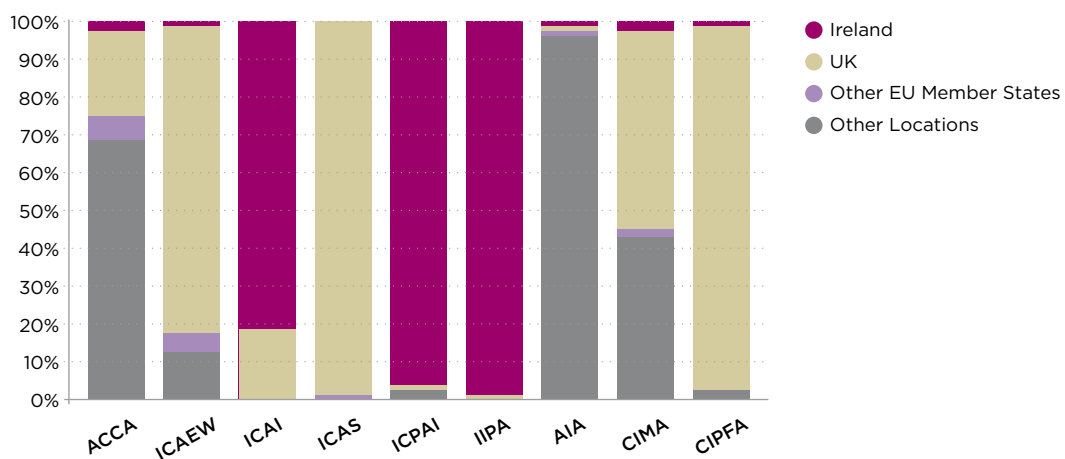


Table C.2: Students in Ireland – movement during the year

	Recognised Accountancy Bodies										
	2009 TOTAL	2010 TOTAL	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Students in Ireland at 1 January	18,805	18,644	9,580	5	5,098	0	1,385	164	4	2,397	11
During the year:											
ADD: New students registered	3,748	3,189	1,577	4	971	0	208	12	0	416	1
LESS: Lapsed student registrations	(2,073)	(2,303)	(1,518)	(2)	(78)	0	(250)	(98)	0	(353)	(4)
- Student registrations cancelled	(215)	(231)	(29)	(2)	(147)	0	0	(1)	0	(52)	0
- Students admitted as full members	(1,774)	(2,150)	(594)	0	(1,162)	0	(163)	(3)	0	(226)	(2)
Other	153	78	0	0	0	0	0	0	0	78	0
Students in Ireland at 31 December	18,644	17,227	9,016	5	4,682	0	1,180	74	4	2,260	6

Please refer to Table A.2 and the notes thereto regarding certain cross-referencing clarifications.

Table C.3: Students in Ireland – movement from 2008-2010

Student membership in Ireland as at 31 December	2008	2009	2010
ACCA	9,526	9,580	9,016
ICAEW	4	5	5
ICAI	4,920	5,098	4,682
ICAS	-	-	-
ICPAI	1,620	1,385	1,180
IIPA	121	164	74
AIA	8	4	4
CIMA	2,591	2,397	2,260
CIPFA	13	11	6
Total	18,803	18,644	17,227

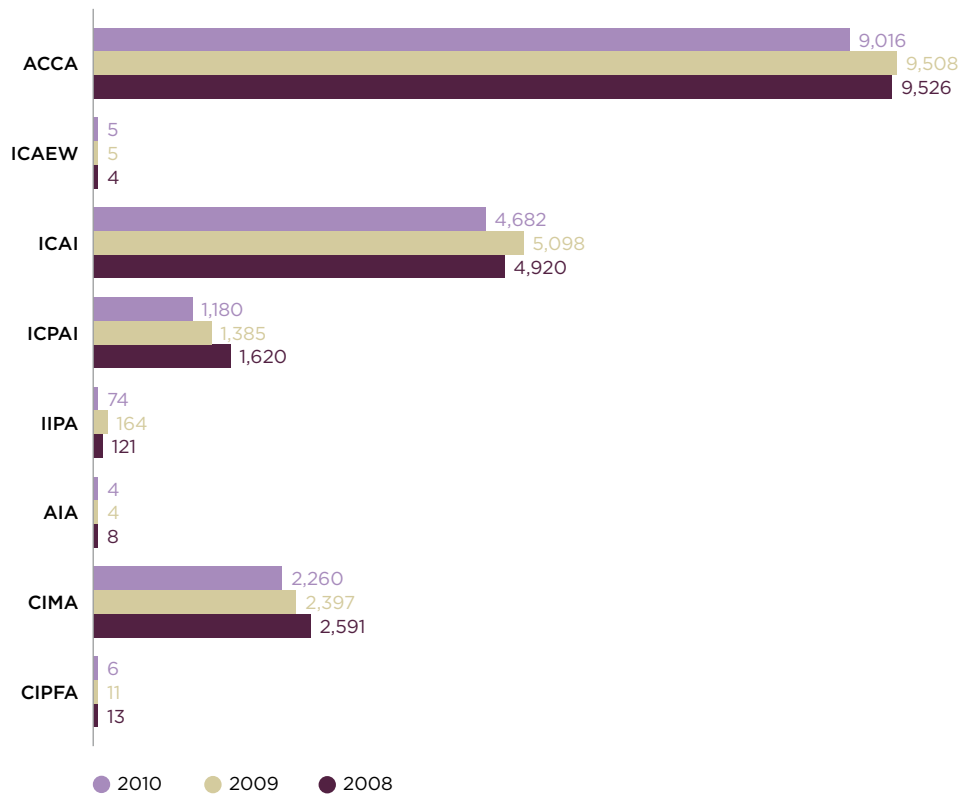
Chart C.3: Comparison of student membership in Ireland 2008–2010

Table C.4: Students in Ireland – gender profile

As at 31 December	Recognised Accountancy Bodies										
	2009 TOTAL	2010 TOTAL	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Female	9,860	9,134	5,017	1	2,388	0	767	31	1	926	3
Male	8,784	8,093	3,999	4	2,294	0	413	43	3	1,334	3
Total	18,644	17,227	9,016	5	4,682	0	1,180	74	4	2,260	6

Chart C.4: Students in Ireland – gender profile

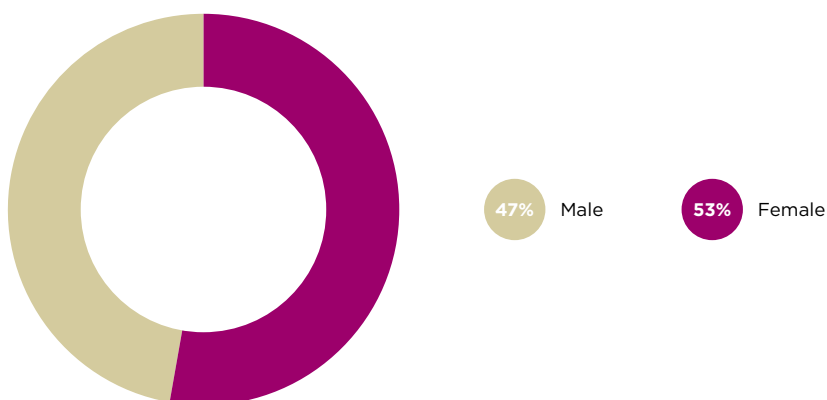


Chart C.5: Students in Ireland – comparison of gender profile

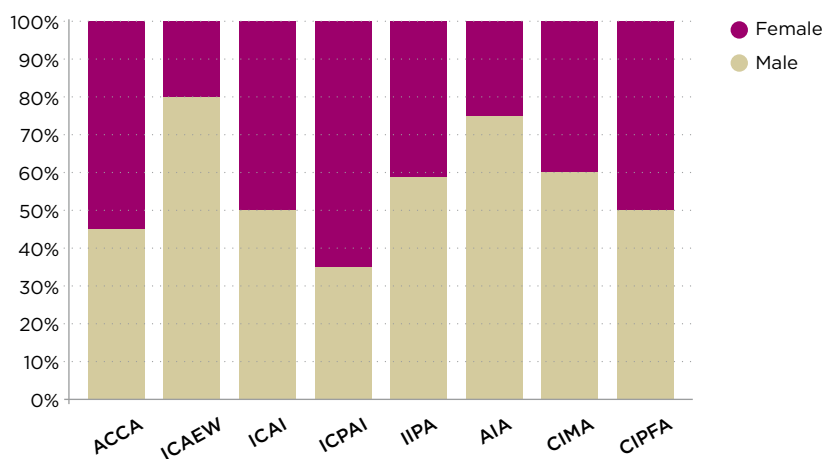


Table C.5: Students in Ireland – employment status

As at 31 December	2009 TOTAL	2010 TOTAL	Recognised Accountancy Bodies								
			ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Practice	7,104	6,070	1,814	1	4,012	0	220	21	2	0	0
Industry/Business	8,011	7,589	4,505	1	181	0	628	35	2	2,237	0
Public sector	793	766	606	0	13	0	103	15	0	23	6
In full-time education	762	625	622	0	0	0	3	0	0	0	0
Other	1,974	2,177	1,469	3	476	0	226	3	0	0	0
Total	18,644	17,227	9,016	5	4,682	0	1,180	74	4	2,260	6

Chart C.6: Students in Ireland – employment status

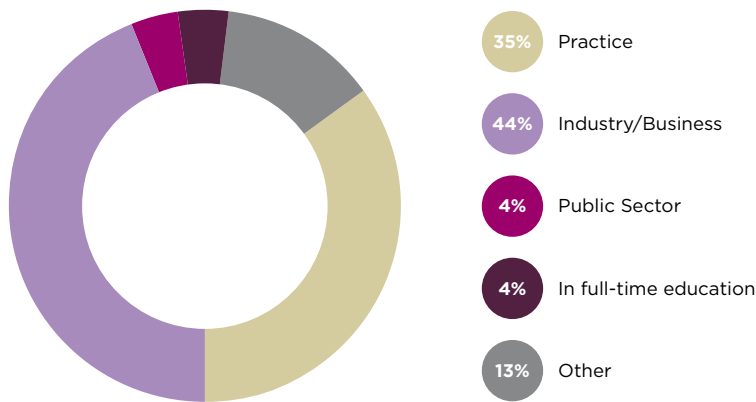


Chart C.7: Students in Ireland – comparison of employment status

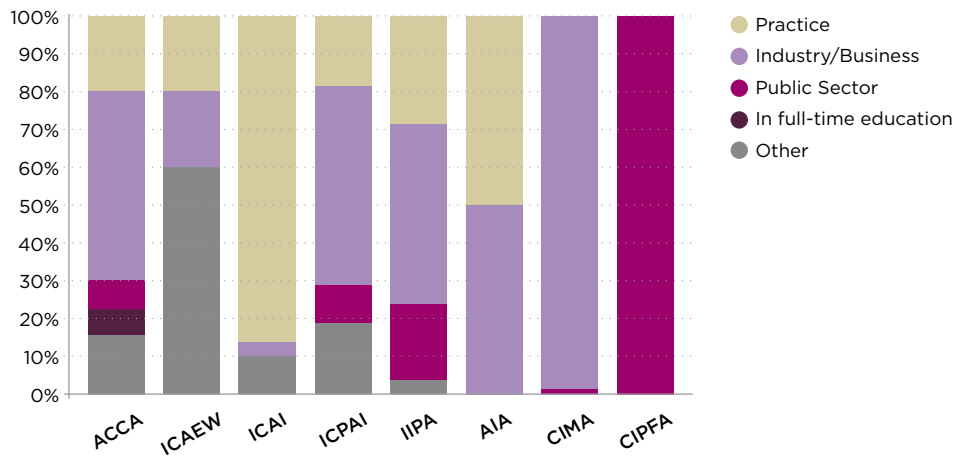


Table C.6: Students in Ireland – age profile

As at 31 December	2009 TOTAL	2010 TOTAL	Recognised Accountancy Bodies								
			ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
< 25	3,757	3,098	587	0	2,241	0	128	5	0	137	0
25-34	11,260	10,150	6,117	5	2,136	0	656	38	3	1,194	1
35-44	2,914	3,169	1,873	0	254	0	291	21	1	728	1
45-54	568	651	359	0	42	0	91	9	0	148	2
55-64	130	135	69	0	9	0	12	1	0	43	1
65+	15	24	11	0	0	0	2	0	0	10	1
Total	18,644	17,227	9,016	5	4,682	0	1,180	74	4	2,260	6

Chart C.8: Students in Ireland – age profile

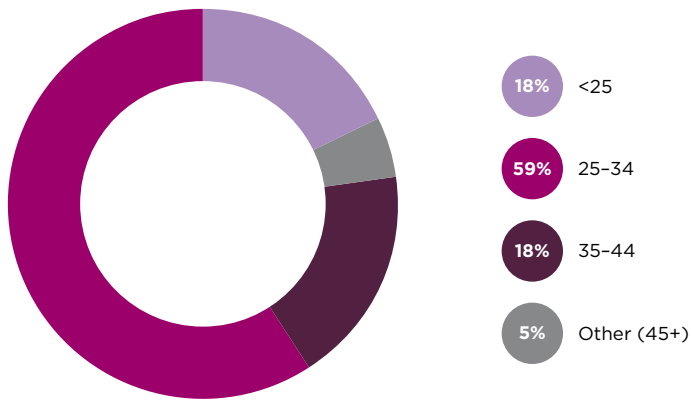


Chart C.9: Students in Ireland – comparison of age profile

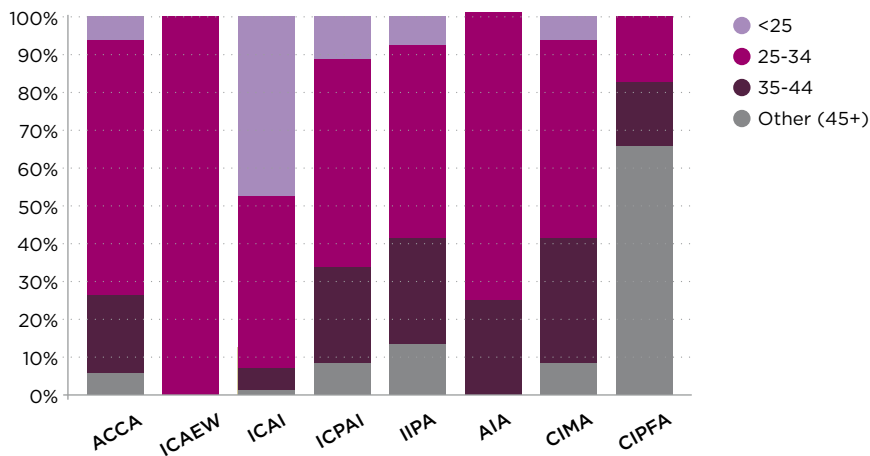


Table C.7: New students registered in Ireland – educational background

Students registered during the year	2009 TOTAL	2010 TOTAL	Recognised Accountancy Bodies								
			ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Non-relevant primary degree	830	726	579	1	103	0	8	0	0	34	1
Relevant primary degree	1,344	1,006	273	1	546	0	79	3	0	104	0
Non-relevant post-graduate qualification	123	157	113	0	0	0	4	1	0	39	0
Relevant post-graduate qualification	262	370	32	1	284	0	16	0	0	37	0
Without a degree	1,189	930	580	1	38	0	101	8	0	202	0
New students registered	3,748	3,189	1,577	4	971	0	208	12	0	416	1

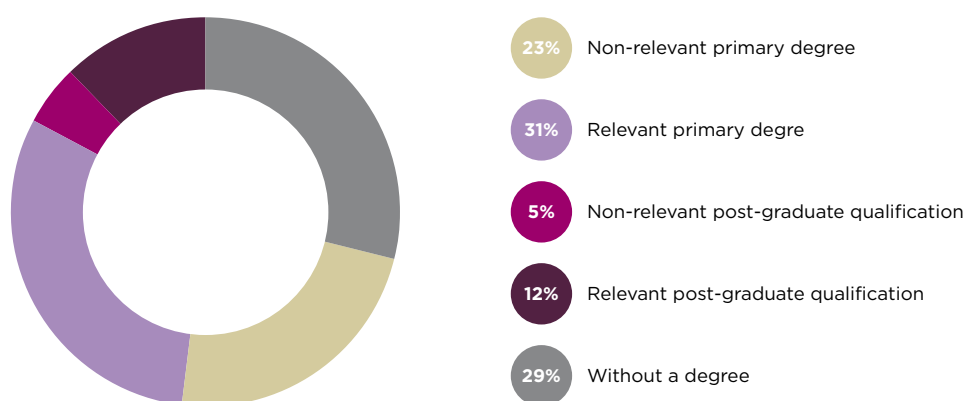
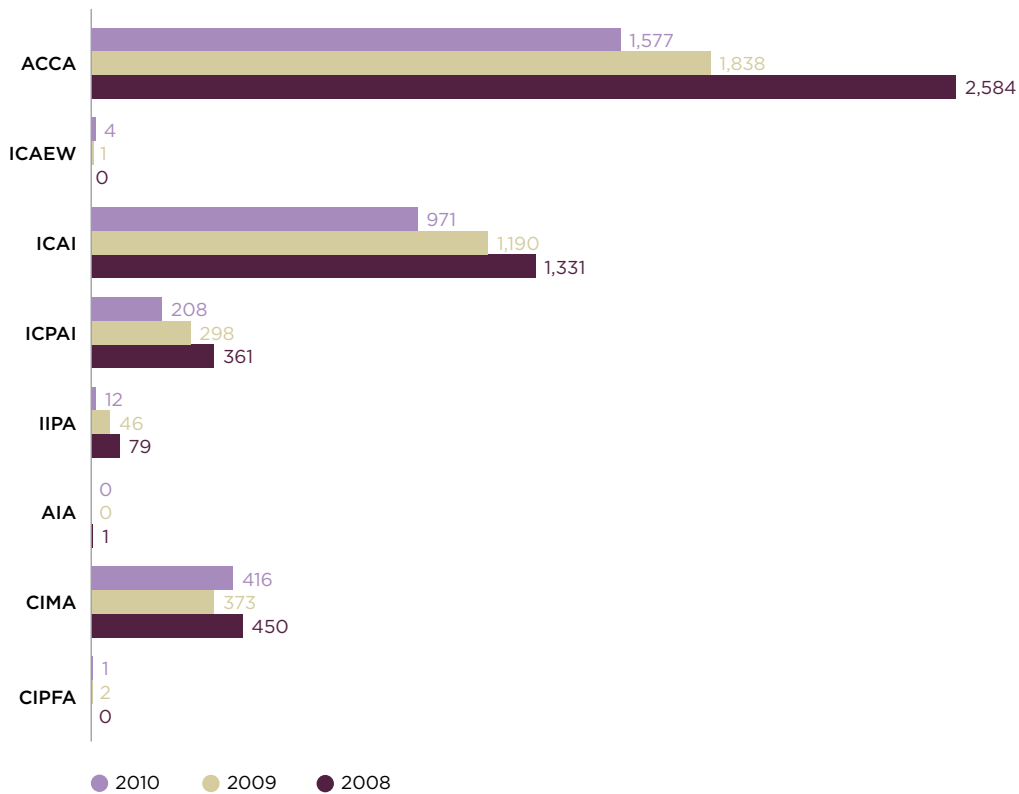
Chart C.10: New students in Ireland – educational background

Table C.8: New students registered in Ireland - movement from 2008-2010

New Students In Ireland as at 31 December	2008	2009	2010
ACCA	2,584	1,838	1,577
ICAEW	-	1	4
ICAI	1,331	1,190	971
ICAS	-	-	-
ICPAI	361	298	208
IIPA	79	46	12
AIA	1	-	-
CIMA	450	373	416
CIPFA	-	2	1
Total	4,806	3,748	3,189

Chart C.11: Comparison of new students registered in Ireland 2008-2010

Part D: Practising authorisation

As alluded to in Part A, the PABs impose additional requirements on those of their members wishing to engage in public practice (i.e. offering services to the public) before authorising them to do so. These additional requirements normally include:

- the necessity to arrange minimum levels of Professional Indemnity Insurance ('PII') cover;
- putting in place practice continuity arrangements whereby in the event of non-continuation of the practice (e.g. in the case of illness or death) clients' affairs will be afforded continuity of service;
- obtaining minimum levels of post admittance to membership experience; and
- undertaking CPD in areas of relevance to their practice.

Members or member firms who satisfy the specified criteria are granted a practising certificate, which authorises them to engage in public practice (but not to carry out work in reserved areas such as audit or investment business, for which additional authorisations are

required). Such members and member firms are generally required to renew this authorisation annually. Employees of a practising member or firm are not usually required to hold a practising certificate, unless they are holding themselves out to provide services to the public in their individual capacity as a member.

The following Tables detail how many of the PABs' members that are located in Ireland have satisfied the relevant requirements and have been authorised to engage in public practice. Some of the PABs also authorise members located outside of Ireland to practise and, accordingly, the Tables also show the number of such members that have been granted a practising certificate which includes the authorisation to engage in public practice in Ireland.

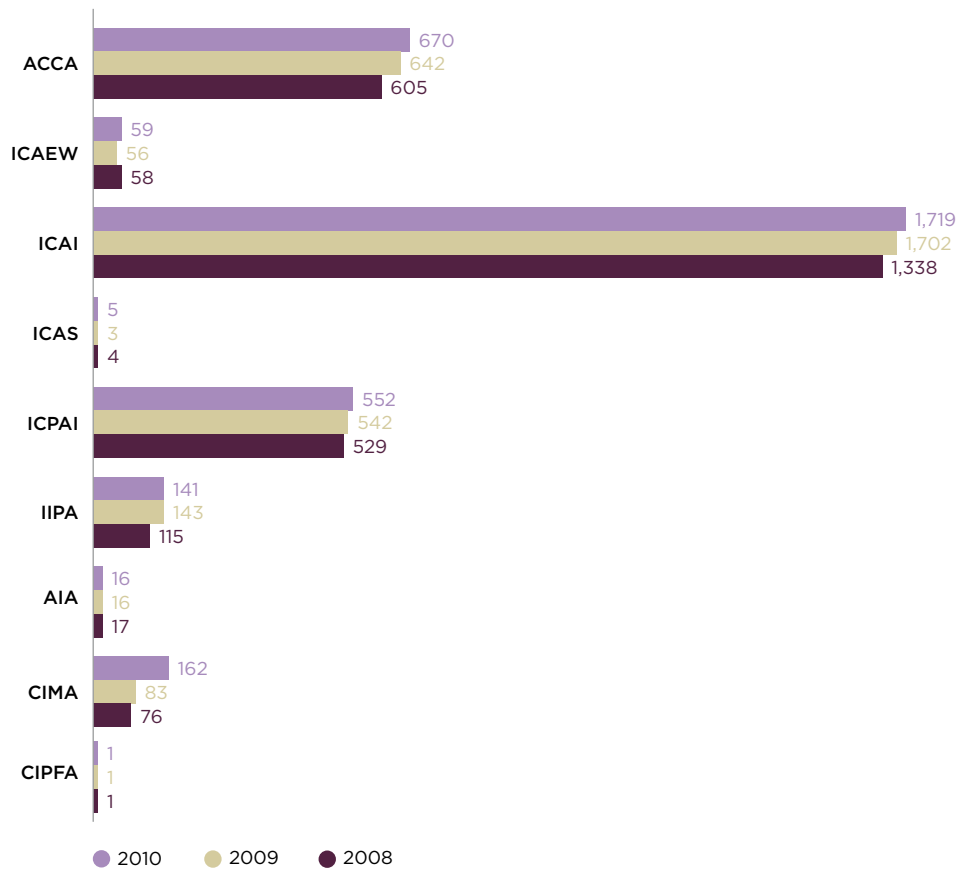
The Tables show that, while there were 30,834 PAB members authorised to engage in public practice as at 31 December, 2010, only 3,325 of those members were located in Ireland. Of those located in Ireland, three bodies dominate the population, with ICAI members accounting for 52%, ACCA members at 20% and ICPAI members making up 17%.

Table D.1: Members with Practising Certificates who are located in Ireland

As at 31 December, 2010	TOTAL	Recognised Accountancy Bodies								
		ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Whether the grant of a practising certificate is to an individual member or a firm		Member	Member	Member	Member	Member	Member	Member	Member	Member
Members with practising certificates at 1 January 2010	3,188	642	56	1,702	3	542	143	16	83	1
During the year:										
Add: Members who were granted a new certificate during the year	247	43	5	74	2	30	3	0	90	0
Less: Members who did not renew their practising certificate during the year	(93)	(15)	(2)	(49)	0	(19)	(5)	0	(3)	0
Less: Practising certificates withdrawn by the Institute/ Association during the year	(9)	0	0	(1)	0	0	0	0	(8)	0
Other	(8)	0	0	(7)	0	(1)	0	0	0	0
Practising certificates at 31 Dec, 2010 (For members located in Ireland)	3,325	670	59	1,719	5	552	141	16	162	1
Practising certificates at 31 Dec, 2010 to practice in Ireland (For members worldwide)	30,834	1,278	22,971	2,358	1,795	553	141	16	1,331	391

Table D.2: Members with Practising Certificates who are located in Ireland – movement from 2008–2010

Practising certificates at 31 December (For members located in Ireland)	2008	2009	2010
ACCA	605	642	670
ICAEW	58	56	59
ICAI	1,668	1,702	1,719
ICAS	4	3	5
ICPAI	529	542	552
IIPA	115	143	141
AIA	17	16	16
CIMA	76	83	162
CIPFA	1	1	1
Total	3,073	3,188	3,325

Chart D.1: Members with Practising Certificates located in Ireland 2008–2010

Part E: Registered Auditors

Previously, section 191 of the 1990 Act provided that the Authority could grant recognition to bodies of accountants for the purposes of section 187 of that Act¹¹⁶ (provided that those bodies satisfied certain criteria). Regulation 10 of the Statutory Audit Directive Regulations ('the Regulations') has replaced the previous Section 191 with a new section 191.

As a result, Section 191 now provides for two separate classes of recognition, *viz*:

- recognition for the purposes of section 187 of the 1990 Act (i.e. bodies entitled to grant approval to members to act solely as Public Auditors); and
- recognition for the purposes of Regulation 24 of the Regulations (i.e. bodies entitled to grant approval to members to act solely as Statutory Auditors).

A "public auditor" means a public auditor for the purposes of the Industrial and Provident Societies Acts 1893 to 1978, and the Friendly Societies Acts 1896 to 1977.

In accordance with the provisions of Regulations 10(3) and 10(4) of the Regulations, the six¹¹⁷ RABs that, prior to the enactment of the Regulations were RABs for the purpose of section 187:

- continue to stand recognised by the Authority under, or for the purpose of, section 187; and
- are deemed to have been granted recognition by the Authority under, or for the purposes of, the Regulations.

The Tables and Charts in this Part provide information in respect of the members/member firms authorised by the six RABs to perform both statutory audits under the Companies Acts and audits under the Industrial and Provident Societies Acts 1893 to 1978, and the Friendly Societies Acts 1896 to 1977.

Certain companies are obliged under company law to have their financial statements audited by a suitably qualified auditor or audit firm on an annual basis¹¹⁸. To be eligible to undertake statutory audits of a company, an individual or a firm must be:

- a member of the RAB holding appropriate qualifications as referred to in Regulation 26 of the Regulations;
- a Member State Auditor meeting certain requirements; or

- a Third Country Auditor meeting certain requirements.

To be eligible to undertake audits as a public auditor under the Industrial and Provident Societies Acts 1893 to 1978, and the Friendly Societies Acts 1896 to 1977, an individual or a firm must be:

- a member of a RAB; and
- hold a valid practising certificate (conferring the entitlement to audit) from that body.

Prior to the introduction of the Regulations, Section 187 of the 1990 Act provided that certain persons, while not necessarily being members of a RAB, were entitled to perform statutory audit work on foot of individual Ministerial authorisations granted prior to 3 February, 1983 and having been registered under the provisions of section 199(3) of the 1990 Act. Further details of these individuals are provided in Part F of this Chapter.

'Registered auditor', in the context of the following Tables, means a firm or an individual that is registered to undertake:

- statutory audits under the Companies Acts;
- audits under the Industrial and Provident Societies Acts 1893 to 1978, and the Friendly Societies Acts 1896 to 1977;

Membership of a RAB does not automatically entitle an individual or firm to provide audit services. Rather, to obtain audit registration, a member or firm must satisfy the relevant RAB's additional criteria (i.e. over and above those required for (i) membership; and (ii) practising authorisation) which normally include:

- an audit qualification for any individual who proposes to sign an audit report; and
- sufficient and appropriate post-membership audit experience.

While 6,171 members/member firms have been authorised by the RABs to offer auditing services in Ireland (Table E.1), the number of those with offices in Ireland is substantially smaller at 1,562 (Table E.3). This is attributable to the fact that, generally speaking, authorisation by UK based RABs of UK based members/member firms also constitutes authorisation to perform statutory audits in Ireland. The majority (71%) of auditors with offices in Ireland operate as one principal firms (Table E.3), meaning that there is one partner in the firm, who may or may not employ a number of staff.

¹¹⁶ i.e. for the purpose of entitling those bodies to authorise members to act as Auditors.

¹¹⁷ The other three PABs (i.e. AIA, CIMA and CIPFA) are not RABs and may not, therefore, confer audit authorisations in Ireland on their members/member firms.

¹¹⁸ Certain companies who meet defined criteria may avail of an exemption from the general requirement to have their financial statements audited.

Table E.1: Registered Auditors – analysis by principal and offices worldwide

As at 31 December, 2010	TOTAL	Recognised Accountancy Bodies					
		ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Whether audit registration is by member or by firm		Firm	Firm	Firm	Firm	Firm	Both
Total number of registered auditors at 31 December	6,171	540	3,958	986	232	348	107
Analysis of firms by number of principals:							
1 principal	3,257	402	1804	619	83	251	98
2-5 principals	2,491	134	1788	337	127	96	9
6-10 principals	290	4	253	19	13	1	0
11-25 principals	95	0	84	5	6	0	0
26-50 principals	17	0	12	4	1	0	0
50 + principals	21	0	17	2	2	0	0
Analysis of firms by number of offices							
1 office	4,519	481	2525	907	173	326	107
2 offices	1,199	48	1032	54	43	22	0
3 offices	262	10	233	19	0	0	0
4-5 offices	131	1	113	5	12	0	0
6-10 offices	42	0	38	1	3	0	0
11-20 offices	10	0	10	0	0	0	0
More than 20 offices	8	0	7	0	1	0	0

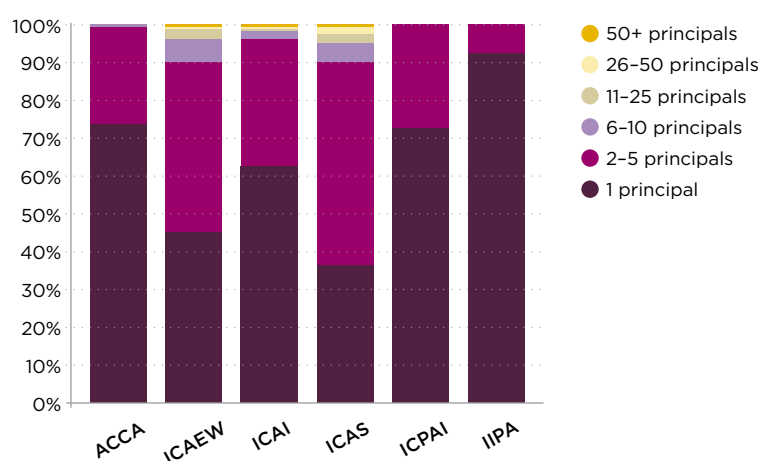
Chart E.1: Comparison of Registered Auditors worldwide by number of principals

Chart E.2: Comparison of Registered Auditors worldwide by number of offices

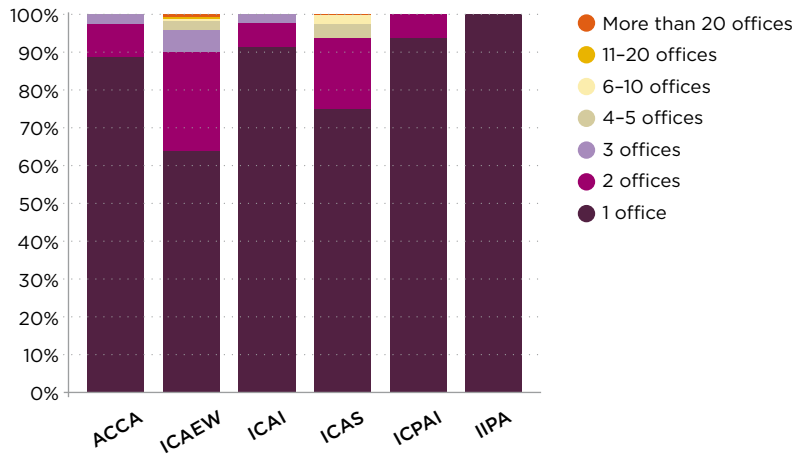


Table E.2: Registered Auditors worldwide - movement from 2008-2010

As at 31 December	2008	2009	2010
ACCA	531	540	540
ICAEW	2,805	2,545	3,958
ICAI	991	985	986
ICAS	205	191	232
ICPAI	339	343	348
IIPA	115	111	107
Total	4,986	4,715	6,171

Chart E.3: Registered Auditors worldwide 2008-2010

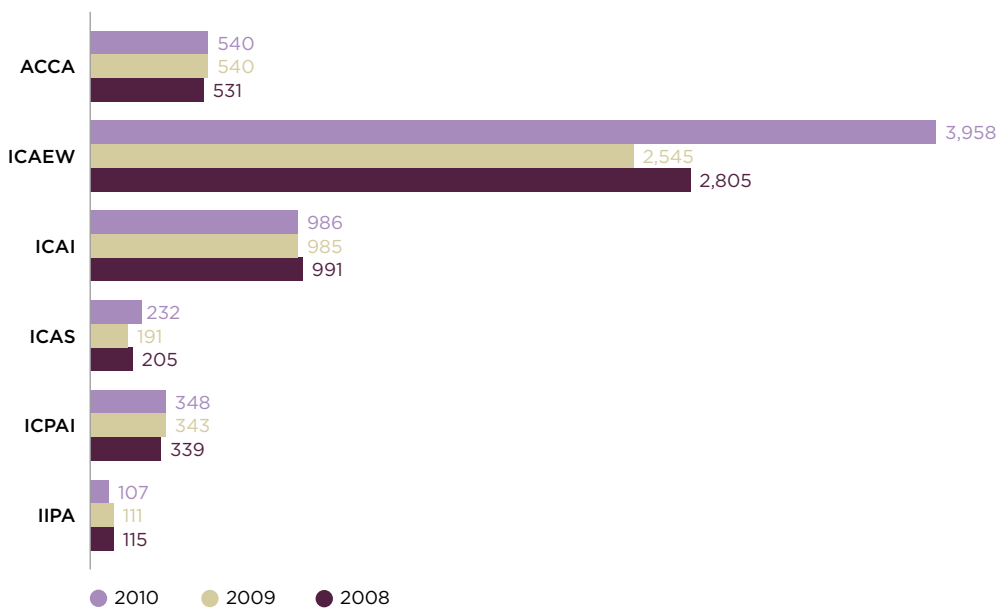
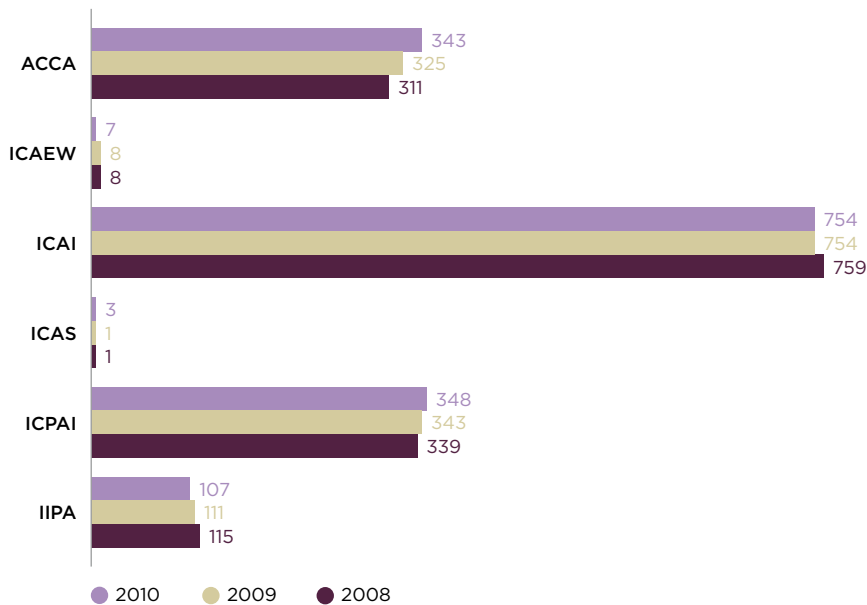


Table E.3: Registered Auditors with offices in Ireland – analysis by principal and offices

As at 31 December, 2010	TOTAL	Recognised Accountancy Bodies					
		ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Whether audit registration is by member or by firm		Firm	Firm	Firm	Firm	Firm	Both
Total number of registered auditors at 31 December	1,562	343	7	754	3	348	107
Analysis of firms by number of principals:							
1 principal	1,108	254	6	497	2	251	98
2-5 principals	429	85	1	237	1	96	9
6-10 principals	16	4	0	11	0	1	0
11-25 principals	3	0	0	3	0	0	0
26-50 principals	4	0	0	4	0	0	0
50 + principals	2	0	0	2	0	0	0
Analysis of firms by number of offices							
1 office	1,460	312	6	706	3	326	107
2 offices	81	25	1	33	0	22	0
3 offices	17	6	0	11	0	0	0
4-5 offices	3	0	0	3	0	0	0
6-10 offices	1	0	0	1	0	0	0
11-20 offices	0	0	0	0	0	0	0
More than 20 offices	0	0	0	0	0	0	0

Table E.4: Registered Auditors with offices in Ireland – movement from 2008-2010

As at 31 December	2008	2009	2010
ACCA	311	325	343
ICAEW	8	8	7
ICAI	759	754	754
ICAS	1	1	3
ICPAI	339	343	348
IIPA	115	111	107
Total	1,533	1,542	1,562

Chart E.4: Registered Auditors with offices in Ireland 2008-2010**Table E.5:** Registered Auditors – movement during the year

As at 31 December, 2010	TOTAL	Recognised Accountancy Bodies					
		ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Audit registrations at 1 January, 2010	4,715	540	2,545	985	191	343	111
During the year:							
ADD: New applications for audit registration accepted	440	52	270	49	42	22	5
LESS: Audit registrations withdrawn/not renewed following a request from the registered auditor	(524)	(51)	(400)	(47)	(1)	(16)	(9)
Audit registrations withdrawn /suspended as a result of disciplinary or other regulatory action taken by the Institute/Association	(27)	(1)	(25)	(1)	0	0	0
Other	1,567	0	1,568	0	0	(1)	0
Registered Auditors at 31 December, 2010	6,171	540	3,958	986	232	348	107

Table E.6: Registered Auditors with offices in Ireland – movement during the year

As at 31 December, 2010	TOTAL	Recognised Accountancy Bodies					
		ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Audit registrations at 1 January, 2010	1,542	325	8	754	1	343	111
During the year:							
ADD: New applications for audit registration accepted	96	34	1	32	2	22	5
LESS: Audit registrations withdrawn/not renewed following a request from the registered auditor	(73)	(15)	(2)	(31)	0	(16)	(9)
Audit registrations withdrawn/suspended as a result of disciplinary or other regulatory action taken by the Institute/Association	(2)	(1)	0	(1)	0	0	0
Other	(1)	0	0	0	0	(1)	0
Registered Auditors at 31 December, 2010	1,562	343	7	754	3	348	107

Part F: Individually Authorised Auditors

As alluded to in Part E of this Chapter, Individually Authorised Auditors ('IAAs') are individuals who were authorised to be qualified for appointment as an auditor of a company or as a Public Auditor by the Minister before the 3 February, 1983.

The Statutory Audit Directive Regulations contained important requirements for IAAs authorised as Company Auditors.

Regulation 25(1) provides that a person that was qualified for appointment as an auditor of a company pursuant to Part X of the 1990 Act is deemed to be approved as a statutory auditor in accordance with the Regulations. Additional requirements are imposed in Regulations 25(2) and 25(3) in relation to a person who is qualified for appointment as an auditor of a company pursuant to Part X of the 1990 Act by virtue of having been authorised by the Minister to be so appointed before 3 February 1983.

This requirement provides that an IAA's deemed approval to act as a Statutory Auditor shall cease to have effect unless, as soon as may be after the commencement of Regulation 25 (i.e. 20 May, 2010), the IAA becomes either:

- (a) a member; or
- (b) subject to the regulation

of a RAB.

Regulation 63 requires the CRO to maintain a register of statutory auditors and audit firms with effect from 20 August, 2010. Regulation 64 requires an IAA to provide the relevant information (i.e. information that is listed in Schedule 1 of the Regulations in relation to Statutory Auditors) to the CRO as soon as may be after 20 May, 2010.

Regulation 68(2) required that the information be provided to the CRO within one month of the commencement of the Regulations, i.e. by 20 June, 2010. Regulation 68(3) provides that a person who fails, without reasonable excuse, to register with the CRO is guilty of an offence and is liable, on summary conviction, to a fine not exceeding €5,000.

Regulation 65 prohibits a person from acting as, or representing himself as, a statutory auditor unless his name is entered in the Register of Auditors. This provision is effective from 20 August, 2010 and anyone contravening this Regulation is guilty of an offence and is liable:

- on summary conviction, to a fine not exceeding €5,000; or
- on conviction on indictment, to a fine not exceeding €50,000.

An IAA whose sole authorisation is to act as a Public Auditor is not subject to the requirements to become regulated as outlined in the Regulations and is not authorised to act as a Statutory Auditor. Public Auditors are, however, required to be included on the Register of Auditors maintained by the CRO under section 198 of the 1990 Act.

Part G: Recognised Accountancy Bodies' Monitoring of Registered Auditors

Responsibility for the monitoring (i.e. quality assurance processes and monitoring of compliance with professional standards etc.) of members and member firms resides with the RABs. The Authority's role is to supervise the manner in which the RABs discharge their monitoring responsibilities and the Authority's activities in this regard are discussed in Chapter 3 of this Report.

At this time, all of the RABs have arrangements in place for monitoring their members/member firms. In the case of several of the RABs, this regime extends beyond audit into other areas of members' or member firms' activities such as, for example, investment business activities. As this Part is concerned with the quality assurance system employed to assess those members who are registered auditors, information on other areas of members' activities such as investment business activity is not discussed here.

Each RAB's quality assurance process is tailored to its specific requirements and elements thereof may include, for example, desk-top reviews of members' annual returns, desk-top reviews of members' individual client engagement files and/or periodic quality assurance visits to registered auditors' offices by quality assurance reviewers (who are, generally, employees of the RABs).

The scope of quality assurance visits to members or member firms typically includes:

- an assessment of the member's or member firm's compliance with the relevant RAB's bye-laws, regulations, professional standards and applicable law;
- an assessment of the member's or member firm's internal quality control procedures; and
- a substantive review of individual client engagement files for the purpose of assessing, amongst other things, the level of adherence to auditing standards.

Each of the RABs seeks to perform quality assurance reviews of members or member firms by reference to pre-set cycles. The length of cycles varies between the RABs and within the RABs depending on the nature of members' or member firms' client bases (e.g. firms auditing listed clients or clients otherwise regulated would generally tend to be reviewed more frequently than members/member firms not having such clients). In addition it should be noted that:

- the information and statistics provided in this Part may relate to the RABs' total activities in respect of quality assurance and not solely to their activities in respect of Registered Auditors; and
- variations may occur in the statistics provided in Table G.1 (relating to the number of reviews completed) and Table G.3 (regarding the number of grades awarded) due to timing differences arising from the date of the completion of the review and the date of the awarding of the grade.

Table G.1: Registered Auditors – quality assurance reviews – summary of activities

As at 31 December, 2010	Recognised Accountancy Bodies					
	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Number of quality assurance reviews open at 1 January, 2010	10	80	36	1	1	4
Add: Quality assurance on-site visits carried out during 2010	56	751	87	50	93	10
Less: Quality assurance reviews concluded during 2010	(59)	(755)	(102)	(50)	(94)	(12)
Quality assurance reviews open at 31 December, 2010	7	76	21	1	0	2

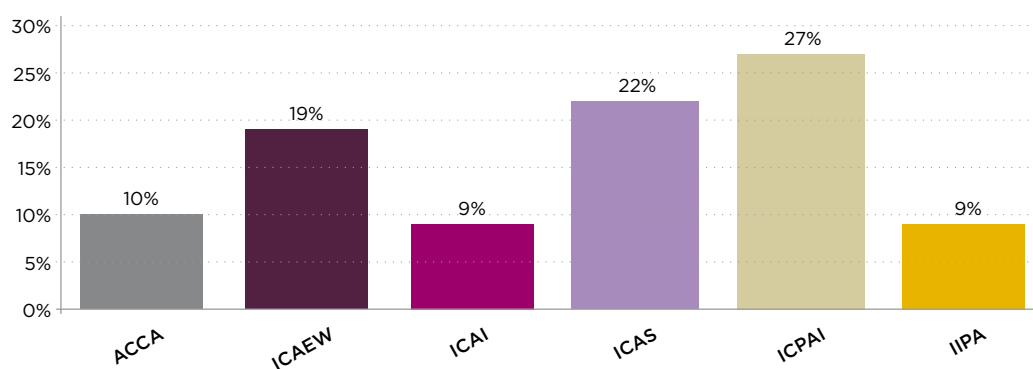
Chart G.1: % of on-site visits (Table G.1) by total number of Registered Auditors (Table E.1)

Table G.2: Quality assurance on-site visits during 2010

As at 31 December, 2010	Recognised Accountancy Bodies					
	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Number of expected quality assurance on-site visits to be undertaken in 2010	115	750	139	50	0	10
Number of visits actually undertaken in 2010	56	755	87	50	93	10
Analysis of the reasons for each visit:						
Number of members/firms selected for a visit as part of normal cycle (randomly/routinely)	31	676	0	0	81	7
Number of members/firms specifically selected and visited due to heightened risk (excluding early follow-ups)	0	68	77	48	0	1
Number of members/firms that were visited following a referral from a Committee	4	11	3	0	4	0
Number visited as re-review/early follow-up	21	0	2	2	8	2
Other reason	0	0	5	0	0	0
Analysis of members/firms visited by size						
1 principal	46	334	57	14	64	10
2-5 principals	10	337	26	30	28	0
6-10 principals	0	38	0	4	1	0
11-25 principals	0	22	0	1	0	0
26-50 principals	0	10	2	0	0	0
More than 50 principals	0	14	2	1	0	0

Table G.3: Registered Auditors – Outcome of Quality Assurance Visits – Grades

As at 31 December, 2010	Recognised Accountancy Bodies					
	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Grades awarded	Note 1	Note 2	Note 3	Note 4	Note 5	Note 6

Note 1: ACCA grades awarded

This Table shows the reasons for, and outcomes of, quality assurance visits carried out by ACCA to firms holding a firm's auditing certificate valid in Ireland during 2010.

Visit reason	A/B	C+	C-	D	Total
New/Routine	17	8	-	8	33
Early follow-up (4 years)	11	1	1	4	17
Early follow-up (2 years)	3	-	-	3	6
Investigative	-	-	-	-	-
Committee ordered visit	2	-	-	1	3
Total	33*	9	1	16	59*

* Nine of these firms had no audit clients.

Key to grades awarded:

- A/B: Good/Satisfactory;
- C+: Unsatisfactory & improvements required;
- C-: Unsatisfactory & significant improvements required;
- D: Regulatory action required (regulatory/disciplinary action).

Note 2: ICAEW grades awarded

Grade	No.
A: No instances of non-compliance or other matters requiring follow-up action.	89
B: Some instances of non-compliance or other matters but the firm's responses adequately address the matters raised and no follow-up action required.	397
C: Some instances of non-compliance or other significant issues and additional detail or evidence of the firm's actions as agreed in its closing meeting required.	132
D4: No conditions or restrictions are proposed but the Committee may wish to impose regulatory penalties or refer to investigations.	22
D3: The Quality Assurance Directorate is recommending conditions be imposed, for which the firm has not volunteered, but are likely to lead to the necessary improvements once imposed.	16
D2: Serious or extensive non-compliance and the firm's responses inadequate. Stringent conditions and restrictions likely to be recommended, to provide a strong framework to monitor the firm's actions. The Committee may warn that it considered withdrawing the firm's audit registration.	25
D1: The Quality Assurance Directorate recommends that the firm's audit registration should be withdrawn.	17
N: Situations where specific Committee requirements cannot be rated in accordance with the specified criteria e.g. where a firm wishes to continue with audit registration but does not have any audit clients.	57
Total	755

Note 3: ICAI grades awarded

Grade	No.
A: No breaches recorded and no regulatory action required	1
B: Instances of non-compliance noted but firm has undertaken to address all issues arising and no follow-up action is required.	20
C: Instances of non-compliance noted and the firm has undertaken to take actions that address the issues raised, and follow-up is required.	40
D3: Conditions or restrictions to be imposed, but loss of registration or authorisation not being proposed	22
D2: Serious integrity concerns, flagrant breaches, lack of commitment, progress, competence or failure to comply with previous conditions/restrictions. The Quality Review Committee will be 'minded to withdraw' authorisation or registration. However, it may be possible for the problems to be corrected.	14
D1: Serious integrity concerns, flagrant breaches, lack of commitment, progress, competence or failure to comply with previous conditions/restrictions. Loss of registration or authorisation is proposed.	5
Total	102

Note 4: ICAS grades awarded

Grade	No.
A: No instance of non-compliance with the Institute's Audit Regulations	0
B: Some areas of non-compliance, but they have been adequately addressed by the firm's closing meeting responses	29
C2: Some instances of non-compliance in relation to one area and follow up action is required	16
C1: Some instances of non-compliance in relation to more than one area and follow up actions required	1
D3: Findings requiring follow-up actions such as imposition of conditions and restrictions	2
D2: Committee to consider withdrawing audit registration or to impose serious conditions and restrictions.	0
D1: Proposing withdrawal of audit registration	1
Total	49

Note 5: ICPAI grades awarded

Type of review	A	B	C	D	No Grade	Total
Normal review	34	35	9	3	-	81
Re-review	3	4	0	-	1	8
Committee referral	1	1	-	-	2	4
Total	38	40	9	3	3	93

Explanation of Grades

A: No follow up action necessary

B: Some follow up required to address particular area of weakness

C: Full re-review required, significant areas of weakness or problems

D: Immediate referral to Director of Professional Standards or Investigation Committee

Note 6: IIPA grades awarded

Grade	No.
1: No further action or follow up required	0
2: The firm has a small number of minor issues and will be required to address and report back to the Monitoring Committee within an eight week period.	2
3: The firm has a moderate number of minor issues and will be required to address and report back to the Monitoring Committee within an eight week period. They will be subject to a revisit within six months.	3
4: The firm has a large number of minor issues or a small number of significant issues and will be required to address and report back to the Monitoring Committee within a four week period. In addition they will be required to immediately engage appropriate professional guidance from an appropriate source.	1
5: The firm has a large number of significant issues. Prompt action will be taken by the Monitoring Committee; this will include suspension of the member's Practising Certificate and referral of the matter to the Director of Professional Conduct as a Complaint.	1
No Grade Given: The review of the firm has not been completed due to time constraints experienced by the Monitor.	3
Total	10

Table G.4: Registered Auditors – Outcome of Quality Assurance Visits – RABs' actions

As at 31 December, 2010	Recognised Accountancy Bodies					
	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Number who have had their audit registration withdrawn as a result of the findings of a quality assurance review	0	13	1	0	0	0
Number who have had their audit registration suspended as a result of the findings of a quality assurance review	0	0	10	0	0	0
Number referred to an investigations & disciplinary process	0	36	2	0	0	0
Number who have had a follow up on site visit imposed	14	6	1	1	8	1
Number who have had cold file reviews imposed	0	15	29	11	0	0
Number who have had monetary penalties imposed	0	34	21	1	0	0
Number who have had a desk-top review of client files imposed	0	0	0	0	38	0
Number directed to address CPD/training matters	0	19	27	3	3	0
Number directed not to accept further audit appointments	0	33	14	0	0	0
Number directed to resign from a client	0	0	0	0	0	0
Number of other conditions/restrictions	16	169	45	8	0	0

FINANCIAL & RELATED
STATEMENTS

Report of the Directors

Introduction

The directors are pleased to submit to the fifth Annual General Meeting of the Irish Auditing and Accounting Supervisory Authority ('IAASA') the Authority's financial statements for the year ended 31 December, 2010, 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 retained surplus for the year was nil.

Directors and Secretary

The Directors and Secretary of the Authority, as at 31 December, 2010, were:

Ms. Karen Erwin	Chairperson, Ministerial nominee
Mr. Ian Drennan	Chief Executive, IAASA
Mr. Paul Appleby	Director of Corporate Enforcement
Ms. Helene Coffey	Nominated by the Law Society
Ms. Marie Daly	Nominated by the Irish Business and Employers' Confederation
Mr. Michael Deasy	Nominated by the Central Bank
Mr. Sean Hawkshaw	Nominated by the Irish Association of Investment Managers
Mr. Tony Kelly	Nominated by the Prescribed Accountancy Bodies
Mr. Brendan Kennedy	Nominated by the Pensions Board
Mr. Tadhg O'Connell	Nominated by the Revenue Commissioners
Senator Joe O'Toole	Nominated by the Irish Congress of Trade Unions
Mr. Gerard Scully	Nominated by the Irish Stock Exchange
Mr. Brian Shiels	Ministerial nominee
Secretary	Mr John G O'Malley, Head of Legal Services, IAASA

Principal activities

IAASA was incorporated as a company limited by guarantee¹¹⁹ on 20 December, 2005 for the purpose of discharging the functions and exercising the powers of the Irish Auditing and Accounting Supervisory Authority 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, 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 are listed on a regulated market in the EU and for taking appropriate enforcement action in cases of infringement.

IAASA has also been designated as competent authority pursuant to the European Communities (Transitional Period Measures in Respect of Third Country Auditors) Regulations 2009¹²⁰. Under the 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.

With the enactment of the European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010¹²¹, IAASA has been designated at 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 (as amended), IAASA is responsible for, *inter alia*, supervising the

Recognised Accountancy Bodies' regulation, monitoring and disciplining 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 policy and procedures have been developed for the purpose of facilitating the identification, quantification and management of the key business risks facing the Authority 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 and accounting records are maintained in accordance with the requirements of section 202 of the Companies Act 1990, the Authority has employed an appropriately qualified Head of Finance and utilises appropriate computer software. The books of account are located at the Authority'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 require disclosure in the financial statements.

Auditor

The Authority's auditor, the Comptroller & Auditor General, remains in office in accordance with the provisions of section 21(2) of the Companies (Auditing and Accounting) Act 2003.

Approved and authorised for issue by the Board of Directors on 23 June, 2011 and signed on its behalf:

Karen Erwin
Chairperson

Ian Drennan
Chief Executive

Michael Deasy
Chairperson, Audit Committee

¹¹⁹ The membership of the company and the extent of the guarantee are detailed in Section 2 of Chapter 1 of the Authority's 2010 Annual Report.

¹²⁰ Statutory Instrument No 229 of 2009, which is available for download from www.iaasa.ie

¹²¹ Statutory Instrument No 220 of 2010, which is available for download from www.iaasa.ie

Statement on Internal Financial Control

Responsibility for system of internal financial control

On behalf of the Board of Directors of the Irish Auditing & Accounting Supervisory Authority 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 the Authority 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 the Authority;
- publishing Codes of Conduct for both directors and employees of the Authority; and
- seeking to maintain a strong culture of accountability across the organisation.

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

- identifying the nature, extent and possible implications of the risks facing the Authority, 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 the Authority, 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.

The Authority has appointed Crowleys DFK 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 of Practice for the Governance of State Bodies. 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 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 period ended 31 December, 2010, 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 the Authority's Executive who have responsibility for the development and maintenance of the financial control framework.

Signed on behalf of the Board:

Karen Erwin
Chairperson

Statement of Directors' Responsibilities

Pursuant to the provisions of section 5 of the Companies (Auditing and Accounting) Act 2003, the Irish Auditing and Accounting Supervisory Authority 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 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 and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Authority 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 the Authority and to enable them to ensure that the financial statements comply with the Companies Acts 1963 to 2009. The Directors are also responsible for safeguarding the assets of the Authority and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Section 21(1) of the Companies (Auditing and Accounting) Act 2003 further provides that the Authority '*...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 23 June, 2011 and signed on its behalf:

Karen Erwin
Chairperson

Ian Drennan
Chief Executive

Michael Deasy
Chairperson, Audit Committee

Comptroller and Auditor General Report for presentation to the Houses of the Oireachtas

Irish Auditing and Accounting Supervisory Authority

I have audited the financial statements of the Irish Auditing and Accounting Supervisory Authority for the year ended 31 December 2010 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 Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and Generally Accepted Accounting Practice in Ireland.

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 all the financial and non-financial information in the 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 2010 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Companies Acts 1963 to 2009.

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 Annual Report for the year ended 31 December 2010 is not consistent with the 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.

Andrew Harkness

For and on behalf of the Comptroller and Auditor General.

24 JUNE, 2011

Statement of Accounting Policies for the year ended 31 December, 2010

The significant accounting policies adopted by the Authority, which have been applied consistently in dealing with items considered material, are as set out hereunder.

1. Basis of Preparation

The financial statements are prepared in accordance with generally accepted accounting principles under the historical cost convention. Accounting Standards issued by the Accounting Standards Board 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. Recurrent Income

3.1 Approved Programme of Expenditure for the year

Details of the Authority's approved Programme of Expenditure for the period are set out in Note 4.

3.2 Excess Income

In accordance with the provisions of section 16 of the Companies (Auditing and Accounting) Act 2003 ('the Act'), any excess of income over expenditure in any financial period shall be applied towards meeting the Authority's Programme of Expenditure in the following period and any amounts payable from the Exchequer and Prescribed Accountancy Bodies respectively shall be appropriately reduced. In accordance with section 16 of the Act, income set aside for Reserve Fund¹²² purposes is not, however, considered to be income for this purpose.

3.3 Exchequer Grant Income

Section 14(1) of the Act provides that a grant not exceeding 40% of the Authority'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 the Authority out of monies provided by the Oireachtas.

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

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

3.4 Prescribed Accountancy Bodies' (PABs) Levies

Sections 14(2) and (4) of the Act provide that, in any given period and with the consent of the Minister, the Authority may impose one or more levies on the PABs for the purpose of meeting up to 60% of the Authority'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 the Authority's expenditure in the period, PAB levy income recognised in the Income & Expenditure Account represents the amount necessary to meet 60% of the Authority's net recurrent expenditure in the period. Accordingly, any differences arising at the balance sheet date between 60% of the Authority'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 the provisions of section 16 of the Act, as appropriate.

¹²² As detailed in accounting policy 4.

4. Reserve Fund Income

4.1 Reserve Fund – Purpose and method of funding

Section 15(1) of the Act provides that the Authority 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, the Authority has built a Reserve Fund of €250,000 collected and set aside for Reserve Fund purposes during periods ending 31 December, 2007. No such income was collectable in the year ended 31 December, 2010. Pursuant to the provisions of section 15(1)(b) of the Act, 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 fine income (as detailed in 4.4 below) have been added to the Reserve Fund. The balance of the fund is laid out in Note 16.

4.2 Exchequer Grant Income – Reserve Fund

The Department has stipulated that the Exchequer grant that will be paid to the Authority in any given financial period will be such as to meet 40% of the amount to be set aside for Reserve Fund purposes in that period, as approved by the Minister.

Exchequer Reserve Fund income is accounted for in the financial statements on a receivable basis.

4.3 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 on a receivable basis.

4.4 Fine Income – Reserve Fund

Pursuant to the provisions of Section 23 of the Act, fines may be levied on PABs in circumstances where adverse findings are made by IAASA following investigation under the relevant Regulations¹²³. Such income is required to be credited to the Reserve Fund¹²⁴. Once approved by the High Court, as is

required by section 29 of the Act, fine income is accounted for on a receivable basis.

5. Income relating to the Authority's role as a Competent Authority for the purpose of Article 24(4)(h) of the EU Transparency Directive

5.1 Transparency Directive – Purpose and method of funding

The Transparency Directive ((EC) 2004/109) 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. The Directive has been implemented in Ireland through a combination of primary¹²⁵ and secondary¹²⁶ legislation. IAASA has been designated by the Minister as a competent authority for the purposes of Article 24(4)(h) of the Directive, which concerns monitoring the compliance of issuers' periodic financial reports.

5.2 Exchequer Grant Income – Transparency Directive

As is the case with the Authority's other sources of Exchequer income, the amount provided by the Exchequer is such as to meet the amount expended in the period. Transparency Directive income is accounted for in the financial statements on a receivable basis.

6. Lease on Authority premises

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

7. Superannuation

The arrangements that the Authority has in place with regard to employees' superannuation benefits are described in Note 21. On foot of those arrangements, the Authority charges employer superannuation contributions payable to the Department to the Income & Expenditure Account in the period to which they relate.

¹²³ Statutory Instrument 667 of 2007 – Companies (Auditing and Accounting) Act 2003 (Procedures Governing the Conduct of Section 23 Enquiries) Regulations 2007.

¹²⁴ Section 15 of the Act requires, *inter alia*, that any amounts paid to the Authority under section 23(5)(c) be credited to the Reserve Fund.

¹²⁵ The Investment Funds, Companies and Miscellaneous Provisions Act 2006.

¹²⁶ Statutory Instrument 277 of 2007 – Transparency (Directive 2004/109/EC) Regulations 2007.

8. Tangible Fixed Assets

Tangible Fixed Assets are carried 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	33 ⅓ %
Office Equipment	20%
Furniture & Fittings	12½ %

9. Stocks

Stocks on hand at period end represent stocks of Information & Communications Technology and office consumables and are valued at cost.

10. 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, 2010

	Note	2010 €	2009 €
Income	4	1,964,744	2,123,172
Administrative Expenses			
Staff Costs	5	1,208,018	1,268,505
Directors' Fees	5(a)	81,225	89,185
Accommodation	6	166,622	169,721
Travel & Subsistence		42,916	44,215
Consultancy	7	268,403	385,240
Office Expenditure	8	71,633	70,383
Official Entertainment		326	1,963
Information Technology	9	14,464	18,468
HR & Professional Development	10	40,254	42,575
Insurance		25,534	26,134
Auditors' Remuneration		11,280	11,280
Depreciation	11	6,261	6,279
Surplus/(Deficit) of income over administrative expenses		27,808	(10,776)
Interest Receivable		17,949	10,860
Surplus for the year before Deposit Interest Retention Tax		45,757	84
Deposit Interest Retention Tax	12	(4,559)	(2,835)
Surplus/(Deficit) for the year after Deposit Interest Retention Tax		41,198	(2,751)
Transferred (to)/from Capital Account	15	(12,131)	4,557
Transferred (to) Reserve Fund	16	(29,067)	(1,806)
Surplus for the year after Transfers		-	-

The results for the year relate to continuing operations.

The Statement of Accounting Policies, Cash Flow Statement and Notes 1 to 24 form part of these financial statements.

The Authority had no gains or losses in the year other than those dealt with in the Income & Expenditure Account.

Approved and authorised for issue by the Board of Directors on 23 June, 2011 and signed on its behalf:

Karen Erwin
Chairperson

Ian Drennan
Chief Executive

Michael Deasy
Chairperson, Audit Committee

Irish Auditing & Accounting Supervisory Authority
Balance Sheet as at 31 December, 2010

	Note	2010 €	2009 €
Fixed Assets			
Tangible Fixed Assets	11	16,391	4,260
Current Assets			
Stock on Hand		3,107	1,693
Debtors & Prepayments		19,859	18,412
Bank & Cash	13	753,685	719,255
		<u>776,651</u>	<u>739,360</u>
Creditors: Amounts falling due within 1 year			
Creditors & Accruals		151,423	128,084
Deferred Rent Incentive	14	1,452	1,452
PAB Levy Income Carried Forward	4.5	283,597	314,011
Exchequer Grant Income Carried forward	4.5	25,042	8,291
		<u>461,514</u>	<u>451,838</u>
Net Current Assets		315,137	287,522
Amounts falling due after 1 year			
Deferred Rent Incentive	14	20,392	21,844
Net Assets		<u>311,136</u>	<u>269,938</u>
Reserves			
Income & Expenditure Account		-	-
Capital Account	15	16,391	4,260
Reserve Fund	16	294,745	265,678
		<u>311,136</u>	<u>269,938</u>

The Statement of Accounting Policies, Cash Flow Statement and Notes 1 to 24 form part of these financial statements.

Approved and authorised for issue by the Board of Directors on 23 June, 2011 and signed on its behalf:

Karen Erwin
Chairperson

Ian Drennan
Chief Executive

Michael Deasy
Chairperson, Audit Committee

Irish Auditing & Accounting Supervisory Authority
Cash Flow Statement for the year ended 31 December, 2010

	Note	2010 €	2009 €
Net Cash Inflow/(Outflow) from Operating Activities	17	39,247	(27,532)
Return on Investments & Servicing of Finance			
Interest Received		18,100	9,483
Capital Expenditure			
Payments to Acquire Tangible Fixed Assets		(18,392)	(1,722)
Taxation			
Deposit Interest Retention Tax (DIRT) Paid		(4,525)	(2,370)
Management of Liquid Resources			
Amounts Transferred (to)/from Fixed Term Deposits (non-Reserve)		(50,000)	100,000
Amounts Transferred (to) Fixed Term Deposits (Reserve)		(24,392)	-
Interest Reinvested in Fixed Term Deposits (Net of DIRT)		(13,575)	(7,113)
(Decrease)/Increase in Cash in Year		(53,537)	70,746
Reconciliation of Net Cash Flow to Movement in Net Funds			
Net cash & liquid resources at 1 January		(719,255)	(741,396)
Net cash & liquid resources at 31 December		753,685	719,255
(Increase)/Decrease in Liquid Resources in Year		(87,967)	92,887
(Decrease)/Increase in Cash in Year	18	(53,537)	70,746

The Statement of Accounting Policies and Notes 1 to 24 form part of these financial statements.

Approved and authorised for issue by the Board of Directors on 23 June, 2011 and signed on its behalf:

Karen Erwin
Chairperson

Ian Drennan
Chief Executive

Michael Deasy
Chairperson, Audit Committee

Irish Auditing & Accounting Supervisory Authority

Notes to Financial Statements

Note 1 - Accounting period

Pursuant to the provisions of section 5 of the Companies (Auditing and Accounting) Act 2003 ('the Act'), the functions and powers of the Authority are performed and exercised respectively through a company limited by guarantee and designated by the Minister for Jobs, Enterprise & Innovation ('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, 2010.

Note 2 - Comparatives

The comparative figures refer to the year ended 31 December, 2009.

Note 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 as regards, *inter alia*, required formats for financial statements do not apply to the company. Notwithstanding the foregoing, the Authority's Balance Sheet is presented in accordance with Format 1 as set out in the Schedule to the Act and the Income & Expenditure Account is presented, to the extent practicable having regard to the non-commercial nature of the Authority's activities, in accordance with Format 1 as set out in the Schedule to the Act.

Note 4 - Income

4.1 Approved Programme of Expenditure

The Authority's Programme of Expenditure for the year, as approved by the Minister under section 13(4) of the Act was €2,116,000 [2009: €2,259,000] as laid out below. In addition, Exchequer funding to a maximum of €425,000 [2009: €440,000] was made available during the year in respect of the Authority's functions under Article 24(4)(h) of the EU Directive 2004/109/EC ('Transparency Directive').

	Exchequer (40%)	Prescribed Accountancy Bodies (60%)	Total
	€	€	€
Recurrent Expenditure (as approved under S. 13(4) of the Act)	846,000	1,270,000	2,116,000
Reserve Fund	-	-	-
Sub-total	846,000	1,270,000	2,116,000
Approved allocation in respect of Transparency Directive	425,000	-	425,000
Total	1,271,000	1,270,000	2,541,000

4.2 Income (Accounting Policies 3, 4 and 5 refer)

	2010 €	2009 €
Recurrent Income under the Act (Note 4.4)		
Exchequer Grant Income	657,602	694,557
Prescribed Accountancy Bodies' Levies	986,404	1,041,837
	1,644,006	1,736,394
Reserve Fund Income		
Exchequer Grant Income	-	-
Prescribed Accountancy Bodies' Levies	-	-
Fines receivable (Section 23)	21,325	-
-Compensatory interest payment	3,067	-
	24,392	-
Income in respect of Transparency Directive Activity (Note 4.4)		
Exchequer Grant Income	293,904	386,778
Prescribed Accountancy Bodies' Levies	-	-
	293,904	386,778
Income in respect of Third Country Audit Entity Registration		
Transitional registration fees received from Third Country Audit Entities	1,988	-
	1,988	-
Miscellaneous Income		
EU Refunds in respect of travel expenses	454	-
	454	-
	1,964,744	2,123,172

-Compensatory interest payment

The Authority maintains a separate investment account for Reserve Fund monies. It came to light in late 2009 that the account had been opened as a demand account rather than a fixed term account and that, consequently, interest was credited at a lower rate. Following discussions, the Authority's bankers acknowledged that the account opened was not that requested by the directors, and agreed a once-off compensatory payment to the account to reflect the interest foregone by this error.

4.3 Stipulations regarding the use of income

In accordance with section 14(3) of the Act, recurrent income received by the Authority 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 the Authority in performing its functions and exercising its powers under sections 24 and 26. The Authority did not have cause to call upon the monies set aside for Reserve Fund purposes during the year.

In accordance with Department of Jobs, Enterprise & Innovation sanction (under Vote Subhead S02), monies received in respect of the Transparency Directive may only be used towards the performance of the Authority's responsibilities in that regard.

In accordance with Department of Jobs, Enterprise & Innovation sanction, monies received in respect of the Third Country Audit Entity Registration may be retained and used towards the performance of the Authority's responsibilities in that regard to a maximum of €40,000. No additional Exchequer or PAB income was approved in this regard in 2010.

4.4 Calculation of Net Expenditure

	2010 €	2009 €
Gross Expenditure <i>per Income & Expenditure Account</i>	1,936,936	2,133,949
Add: Unamortised value of income used for capital acquisitions	12,131	(4,557)
	<u>1,949,067</u>	<u>2,129,392</u>
Less:		
Miscellaneous income	454	-
Non-reserve fund interest (net of DIRT)	8,715	6,220
Income from third country audit entity registration	1,988	-
Net Expenditure for the year	<u>1,937,910</u>	<u>2,123,172</u>
Net Expenditure related to Transparency Directive obligations	293,904	386,778
Net Expenditure related to Activities under the 2003 Act (Note 4.2)	1,644,006	1,736,394
	<u>1,937,910</u>	<u>2,123,172</u>
Net expenditure attributable to the Exchequer		
i. Transparency Directive (100%)	293,904	386,778
ii. Obligations under the Act (40%)	657,602	694,557
Net expenditure attributable to the Prescribed Accountancy Bodies	986,404	1,041,837
	<u>1,937,910</u>	<u>2,123,172</u>

4.5 - Calculation of Grant Debtor / Levy Carry Forward

	Exchequer €	Prescribed Accountancy Bodies €	TOTAL €
Balance at 1 January, 2010	(8,291)	(314,011)	(322,302)
Attributable net expenditure (Note 4.4 refers)	951,506	986,404	1,937,910
Grants/Levies received in the year	(968,257)	(955,990)	(1,924,247)
(Levy Carry Forward) at 31 December, 2010	<u>(25,042)</u>	<u>(283,597)</u>	<u>(308,639)</u>

Note 5 – Staff Costs

	2010 €	2009 €
Salaries	931,210	976,588
Employer PRSI Contributions	78,089	82,310
Employer Pension Contributions (Note 21)	198,719	209,607
	1,208,018	1,268,505

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 €73,395 [2009: €60,950]

The average number of employees during the year was 12 [2009: 12]. The Authority's complement of full time staff at 31 December, 2010 was 13 [2009: 12].

Note 5(a) – Board Fees

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

	2010 €	2009 €
Karen Erwin	11,970	13,067
Helene Coffey	7,695	8,400
Marie Daly	7,695	8,400
Ian Drennan	7,695	8,400
Sean Hawkshaw	7,695	8,400
Tony Kelly	7,695	8,400
Brendan Kennedy	7,695	8,400
Donal O'Connor (resigned 21 January, 2009)	-	518
Senator Joe O'Toole	7,695	8,400
Gerard Scully	7,695	8,400
Brian Shiels	7,695	8,400
	81,225	89,185

In addition, a total of €1,902 [2009: €232] was paid to Board members during the year in respect of expenditure incurred in the course of their duties.

Note 6 - Accommodation

	2010 €	2009 €
Rent (Note 14)	117,711	117,711
Building Service Charges	16,853	16,684
Millennium Park Service Charges	7,517	8,739
Insurance	660	914
Rates	18,917	19,014
Rent - temporary offices	-	(1,907)
Other Room Hire	4,964	8,566
	166,622	169,721

Note 7 - Consultancy

	2010 €	2009 €
Financial Statement Review (Transparency Directive)	95,885	179,371
Committees of Enquiry - Section 23	115,537	84,895
Legal Advice	42,867	75,513
Internal Audit & Actuarial Services	12,550	35,511
PR Consultancy	1,564	2,533
Other Consultancy	-	7,417
	268,403	385,240

Note 8 - Office Expenses

	2010 €	2009 €
Post & Telecommunications	14,333	14,694
Printing & Stationery	9,958	20,017
Office Supplies (see note)	3,055	note
Repairs & Maintenance	3,777	6,965
Advertising & Publicity	18,926	7,104
Periodicals & Newspapers	5,235	5,613
Cleaning & Hygiene Services	7,737	7,072
Light & Heat	8,157	8,090
Bank Charges (see note)	216	note
Sundries	239	829
	71,633	70,383

Note:

Expenditure on Office Supplies in 2009 was categorised as Printing & Stationery.

Expenditure on Bank Charges in 2009 was categorised as Sundries.

Note 9 – Information Technology

	2010 €	2009 €
Software & Licences	4,793	2,741
Peripherals & Consumables	1,459	3,530
Maintenance Contracts	5,845	7,584
Internet Services	1,850	3,076
Website Development	517	1,537
	14,464	18,468

Note 10 – HR & Professional Development

	2010 €	2009 €
Continuing Professional Development & Other Professional Training	10,780	14,472
Reference Materials & Subscriptions	4,649	5,376
Educational Support	-	7,000
Professional Membership Subscriptions – Individual	10,235	15,727
Professional Membership Subscriptions – Fora	14,590	note
	40,254	42,575

Expenditure on Professional Membership Subscriptions – Fora in 2009 was included in the Professional Membership Subscriptions – Individual amount.

Note 11 – Tangible Fixed Assets

	IT Equipment 33.33% €	Office Equipment 20.00% €	Furniture & Fittings 12.50% €	Total €
Cost				
At 1 January, 2010	16,168	5,070	248	21,486
Additions	4,603	2,220	11,569	18,392
Disposals	-	-	-	-
At 31 December, 2010	20,771	7,290	11,817	39,878
Accumulated Depreciation				
At 1 January, 2010	14,020	3,113	93	17,226
Charge for year	3,326	1,458	1,477	6,261
At 31 December, 2010	17,346	4,571	1,570	23,487
NET BOOK VALUE				
At 1 January, 2010	2,148	1,957	155	4,260
At 31 December, 2010	3,425	2,719	10,247	16,391

Note 12 – 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), the Authority is a non-commercial state-sponsored body for tax purposes and, accordingly, income arising is not liable to income tax. The Authority is not, however, exempt from Deposit Interest Retention Tax (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 the Authority are not chargeable gains for the purposes of Capital Gains Tax.

Note 13 – Bank & Cash

	2010	2009
	€	€
Bank – current	108,080	161,534
Bank – notice deposit	645,488	557,521
Cash on Hand	117	200
	753,685	719,255

€292,331 [2009: €263,610] of the funds held in the Authority's bank accounts at 31 December, 2010 relate to the Reserve Fund and can only be used for the purposes as set out in Note 4.3.

Note 14 – Lease of Accommodation, Deferred Rent Incentive & Establishment Costs

The Authority occupies office premises located at Willow House, Millennium Park, Naas, Co. Kildare. At the date that the lease agreement was executed the Authority had not been incorporated as a legal entity and, accordingly, did not have the capacity to enter into a legal agreement. In that context, the lease was entered into on behalf of the State by the Office of Public Works (OPW). Consequently, the Authority is not a party to the lease agreement, which commenced on 19 September, 2005 and which has a term of 20 years.

Under the lease agreement, the first six months of the lease period were rent free and the Authority benefited from a portion of the rent free period i.e., the period between the date of incorporation (20 December, 2005) and the date on which the rent incentive ceased to apply (18 March, 2006). In accordance with the provisions of UITF Abstract No. 28 'Operating Lease Incentives', the value of the incentive (i.e. the rent free period) enjoyed by the Authority 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 Prescribed Accountancy Bodies by the Minister with the consent of the Minister for Finance prior to the Authority's incorporation, the Exchequer funded the Authority's establishment costs in full. This expenditure was incurred by the Department of Jobs, Enterprise & Innovation.

FINANCIAL & RELATED STATEMENTS

As a consequence, in addition to tangible fixed assets acquired by the Authority subsequent to its incorporation, and to which the Authority has legal title, the Authority also has the use of certain assets that were acquired by the Department of Jobs, Enterprise & Innovation 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 depreciated in accordance with IAASA policies, would be €157,462 [2009: €236,470].

Note 15 - Capital Account

	2010 €	2009 €
Opening Balance - 1 January,	4,260	8,817
Transfer from Income & Expenditure Account:		
Income applied to capitalised asset acquisitions	18,392	1,722
Less: Amortisation in line with asset depreciation	(6,261)	(6,279)
Closing Balance - 31 December,	16,391	4,260

Note 16 - Reserve Fund Reserve

	€	2010 €	2009 €
Opening Balance - 1 January,		265,678	263,872
Transferred from Income & Expenditure Account:			
Exchequer Grant Income		-	-
Prescribed Accountancy Bodies' Levies		-	-
Interest Receivable on Reserve Fund Monies (net of DIRT)	4,675		1,806
Fines receivable	21,325		-
Compensatory interest payment	3,067	29,067	-
Closing Balance - 31 December,		294,745	265,678

Note 17 – Reconciliation of Surplus for the year to Net Cash from Operating Activities

	2010 €	2009 €
Surplus/(Deficit) for the year after Deposit Interest Retention Tax	41,198	(2,751)
Non Operating Items:		
Less: Interest Received (Net of DIRT)	(13,575)	(7,113)
	27,623	(9,864)
Add:		
Increase in Creditors & Accruals	23,339	6,910
(Decrease) in Prescribed Accountancy Bodies' Levies carry forward	(30,414)	(46,837)
Increase in Exchequer Grant Income carry forward	16,751	8,292
(Increase)/Decrease in Debtors & Prepayments	(1,447)	8,046
(Increase)/Decrease in Stock	(1,414)	1,094
(Decrease) in Deferred Rent Incentive	(1,452)	(1,452)
Depreciation	6,261	6,279
	11,624	(17,668)
Net Cash Inflow/(Outflow) from Operating Activities	39,247	(27,532)

Note 18 – Analysis of changes in net funds

	Cash at Bank & on Hand	Cash on Fixed Term Deposit	TOTAL
Balance at 1 January, 2010	161,734	557,521	719,255
Cash flow for year	(53,537)	87,967	34,430
Balance at 31 December, 2010	108,197	645,488	753,685

Note 19 – Financial Commitments*19.1 Capital Commitments*

There are no capital commitments as at 31 December, 2010.

19.2 Rental commitments

Given that the Authority is not a party to the lease of the Millennium Park premises, the Authority 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 20 – Chief Executive's Salary

The remuneration paid to the Chief Executive in the year amounted to €125,526 [2009: €138,262], comprising basic pay of €125,526 [2009: €129,304]. The Chief Executive's Performance Related Bonus Scheme was not in operation in 2010 [2009: €8,958, representing 50% of the amount awarded, the balance having been voluntarily forgone]. In addition, and in accordance with the provisions of the Code of Practice for the Governance of State Bodies, the Chief Executive received Board fees as detailed in Note 5(a) above. The foregoing represents the total remuneration package of the Chief Executive. The Chief Executive is a member of the civil service superannuation scheme and, consequently, in the context of the superannuation arrangements detailed in Note 21, the Authority bears no liability in this regard.

Note 21 – Accounting Treatment for Retirement Benefits*21.1 Overview*

In accordance with section 20 of the Act, the Authority may only establish a superannuation scheme with the approval of the Minister, given with the consent of the Minister for Finance. The Authority has prepared and submitted proposals to the aforementioned Ministers in respect of employees and employees' spouses and children (which are based upon the civil service defined benefit 'Model Scheme'). The employees' scheme was approved by the Ministers on 29 November, 2010. The employees' spouses and children's scheme had not been approved at the balance sheet date (or by the date on which these financial statements were approved by the directors).

21.2 Position up to 28 November, 2010

As completion of the necessary reviews of proposals for superannuation schemes can be a lengthy process, the Authority has agreed certain interim measures with the Department of Jobs, Enterprise & Innovation. In that context, approval has been granted by the Department of Finance to operate superannuation arrangements on an administrative basis. These interim arrangements have the following characteristics:

- i. Authority employees' pension contributions are paid to the Department of Jobs, Enterprise & Innovation;
- ii. the Authority pays an employer contribution to the Department, the rate of which is set by the Minister for Finance. In the year, the employer contribution was set at 25% [2009: 25%] of employees' salaries;
- iii. in return for the payment to it of the employees' and employer's superannuation contributions, the Department has agreed that any superannuation benefits due to Authority employees, and/or their spouses and children will be met in full by the Exchequer as they fall due; and
- iv. this agreement is an interim arrangement until the Authority's own superannuation scheme is approved and is intended to apply to benefits earned by employees only during the period prior to approval.

Financial Reporting Standard 17 '*Retirement Benefits*' (FRS 17) defines a Defined Contribution Scheme as '*A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior years*'.

As the arrangements currently in place are such that (i) the Authority pays regular contributions fixed as a percentage of pay; and (ii) the Authority, by virtue of the Exchequer undertaking, has no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current or prior years, the directors consider that the foregoing arrangements come within the definition of a defined contribution scheme as defined by FRS 17. Accordingly, the Authority accounts for its employer contributions in accordance with the provisions of paragraph 7 of the Standard, i.e. by charging the cost of contributions payable to the scheme in the year to the Income & Expenditure Account.

21.3 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, ultimate liability for payments made under the scheme remains unchanged. Accordingly, the Authority continues to account for its employer contributions in accordance with the provisions of paragraph 7 of the Standard, i.e. by charging the cost of contributions payable to the scheme in the year to the Income & Expenditure Account.

21.4 Actuarial valuation

Notwithstanding the foregoing, in the interest of transparency and disclosure, the directors have 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 is based on the Projected Unit method, is premised on the following assumptions:

	At 31-12-2010	At 31-12-2009
Rate of increase in salaries	3.50%	4.00%
Rate of increase in pensions in payment	3.00%	3.50%
Discount rate	5.00%	5.50%
Inflation assumption	2.00%	2.25%
Life expectancy at age 70: male	17.4 years	17.4 years
Life expectancy at age 70: female	20.3 years	20.3 years

Based on the above, the present value of liabilities at the balance sheet date is €434,000 [2009: €354,000], and the service cost (calculated on the foregoing assumptions) for the year is €105,000 [2009: €91,100]. Certain of the Authority's staff, who have accumulated service elsewhere in the public service, have not to date exercised the option to transfer said service to the Authority.

Note 22 – Authority Board Members – Disclosure of Transactions

In accordance with the Code of Practice for the Governance of State Bodies, the Authority has in place Codes of Business Conduct for Board members and employees. These codes include 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.

Note 23 – Related Party Transactions

There were no related party transactions during the year [2009: NIL]. No amounts were outstanding at year end.

Note 24 – Approval of the Financial Statements

The Financial Statements were approved and authorised for issue by the Board of Directors on 23 June, 2011.

APPENDIX

Presentations and Articles

Presentations and Articles

Presentations

Date	Topic	Audience	Presenter
11 January	IAASA's financial reporting supervision role and findings to date	Deloitte partners and staff	Michael Kavanagh, Head of Financial Reporting Supervision
29 January	IAASA's financial reporting supervision role and findings to date	KPMG partners and staff	Michael Kavanagh, Head of Financial Reporting Supervision
16 February	IAASA's financial reporting supervision role and findings to date (with particular emphasis on findings relevant to debt issuers)	Deloitte debt issuer clients	Michael Kavanagh, Head of Financial Reporting Supervision
8 March	Financial reporting enforcement in Ireland	M. Acc. Students, NUIG	Eileen Townsend, Project Manager, Financial Reporting Supervision Unit
13 April	IAASA's financial reporting supervision role	Technical Committee, Irish Funds Industry Association	Michael Kavanagh, Head of Financial Reporting Supervision and Garrett Ryan, Project Manager, Financial Reporting Supervision Unit
26 June	Future of Statutory Audit	Institute of Chartered Accountants in Ireland Forum on the Future of Audit	Ian Drennan, Chief Executive
26 October	Financial reporting enforcement in Ireland	M. Acc. Students, DCU	Eileen Townsend, Project Manager, Financial Reporting Supervision Unit
29 November	The Future of Irish GAAP	Institute of Certified Public Accountants CPD seminar, Dundalk, Co Louth	Michael Kavanagh, Head of Financial Reporting Supervision
2 December	Restoring Confidence	Institute of Chartered Accountants in Ireland 'Meet the Regulators' conference	Michael Kavanagh, Head of Financial Reporting Supervision
6 December	The Future of Irish GAAP	Institute of Certified Public Accountants CPD seminar, Dublin.	Michael Kavanagh, Head of Financial Reporting Supervision

Contributions to the professional press

Title/Publication	Author
Accounting Enforcement in Europe – Activity Report Published Accountancy Ireland, Dec. 2010, vol. 42, no. 6	Michael Kavanagh, Head of Financial Reporting Supervision
Materiality in Financial reporting IAASA Observations, Accountancy Ireland, August 2010, vol. 42, no. 4	Michael Kavanagh, Head of Financial Reporting Supervision

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GLOSSARY OF TERMS

ACCA	Association of Chartered Certified Accountants
Act, the	Companies (Auditing and Accounting) Act 2003
AIA	Association of International Accountants
AIB	Allied Irish Banks plc
Anglo	Anglo Irish Bank Corporation Limited / Anglo Irish Bank Corporation plc
APB	Auditing Practices Board
ASB	Accounting Standards Board
ASB Statement	ASB Statement entitled ' <i>Half-Yearly Financial Reports</i> '
Authority, the / IAASA	Irish Auditing & Accounting Supervisory Authority
BoI	The Governor and Company of the Bank of Ireland
CCAB-I	Consultative Committee of Accountancy Bodies – Ireland
CESR	Committee of European Securities Regulators
CIMA	Chartered Institute of Management Accountants
CIPFA	Chartered Institute of Public Finance & Accountancy
CLEA	Company Law Enforcement Act 2001
CLRG	Company Law Review Group
Code, the	Code of Practice for the Governance of State Bodies
Complaint	As used in Chapter 3 – includes any expression of dissatisfaction with accounting related services and/or the regulation of members/member firms by the PABs, whether communicated to the Authority 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	Allied Irish Banks, plc. and its subsidiaries AIB Mortgage Bank, AIB Bank (CI) Limited, AIB Group (UK) plc and Allied Irish Banks North America Inc.; Anglo Irish Bank plc and its subsidiary Anglo Irish Bank (International) plc; The Governor and Company of the Bank of Ireland and its subsidiaries Bank of Ireland Mortgage Bank, ICS Building Society and Bank of Ireland (I.O.M.) Limited; EBS Building Society and its subsidiary EBS Mortgage Finance; Irish Life & Permanent and its subsidiary Irish Permanent (IOM) Limited; Nationwide Building Society and its subsidiary Irish Nationwide (I.O.M.) Limited; and Postbank Ireland Limited.
CRO	Companies Registration office
EC	Enquiry Committee (Section 23)
ED	Exposure Draft
EEA	European Economic Area
EECS	European Enforcers' Co-ordination Sessions
EGAOB	European Group of Auditors' Oversight Bodies
ES	Ethical Standard
ESMA	European Securities & Markets Authority
EU	European Union

FRS	Financial Reporting Standard(s)
FRSSE	Financial Reporting Standard for Smaller Entities
FY	Annual Financial Report
GAAP	Generally Accepted Accounting Principles
HY	Half-year Financial Report
IAS	International Accounting Standard(s)
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
IFIAR	International Forum of Independent Audit Regulators
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IIA	Individually Authorised Auditor
IIPA	Institute of Incorporated Public Accountants
ILA	Irish Life Assurance plc
IL&P	Irish Life & Permanent plc
ISE	Irish Stock Exchange
Issuer	An entity coming within the Authority's remit under the Transparency Regulations
KMP	Key Management Personnel
Member State	A member state of the European Union (EU) or European Economic Area (EEA)
Minister	Minister for Jobs, Enterprise & Innovation
NAMA	National Asset Management Agency
ODCE	Office of the Director of Corporate Enforcement
Oireachtas	Parliament
PAB	Prescribed Accountancy Body
PCAOB	Public Company Accounting Oversight Board (US)
PEC	Preliminary Enquiry Committee (Section 23)
Periodic Financial Reports	Refers collectively to annual and half-yearly financial reports published pursuant to the Transparency Regulations
PQ	Parliamentary Question
RAB	Recognised Accountancy Body
Regulator, the	Financial Regulator
Section 23 Regulations	Companies (Auditing and Accounting) Act 2003 (Procedures Governing The Conduct of Section 23 Enquiries) Regulations 2007 (S.I. No. 667 of 2007)

GLOSSARY OF TERMS

Settlement	Settlement between the Authority and the Institute of Chartered Accountants in Ireland pursuant a Full Enquiry under section 23 of the Act
S.I.	Statutory Instrument
SMEs	Small & medium-sized entities
Statutory Audit Directive	Directive 2006/43/EC
Statutory Audit Directive Regulations	European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010 (S.I. No. 220 of 2010)
Third country	Non-EU
Transitional Regulations	European Communities (Transitional Period Measures in Respect of Third Country Auditors) Regulations 2009 (Statutory Instrument 229 of 2009).
Transparency Regulations, the	Transparency (Directive 2004/109/EC) Regulations 2007
Transparency Directive	Directive 2004/109/EC
Transparency Rules	Interim Transparency Rules, as issued by the Financial Regulator
1990 Act, the	Companies Act 1990



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