IAASA

Irish Auditing & Accounting Supervisory Authority

ANNUAL REPORT - 2009

MISSION

**TO SUPPORT AND ENHANCE PUBLIC CONFIDENCE
IN THE ACCOUNTANCY PROFESSION AND IN FINANCIAL REPORTING
THROUGH THE EXERCISE OF EFFECTIVE, INDEPENDENT OVERSIGHT
AND THE PROMOTION OF ADHERENCE TO HIGH STANDARDS**

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CHAPTER 1 - GOVERNANCE

1. Legal structure

Pursuant to the provisions of section 5 of the Companies (Auditing and Accounting) Act, 2003 ('the Act')[1], 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')[2].

2. Company membership

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

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

* Denotes a Prescribed Accountancy Body

3. Governance

3.1 Board of Directors – method of appoinment

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 the Table below. The remaining director is the Chief Executive, who is appointed by the aforementioned fourteen directors.

Table 1
Board of Directors – Nominating Bodies

Nominating body	Nominees
Minister	2[3]
Prescribed Accountancy Bodies ('PABs') (jointly by agreement)	3
Director of Corporate Enforcement	1
Financial Regulator	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 five directors, including the Chief Executive, may be members of the PABs.

[1] A copy of the Act can be accessed on the Authority's website at http://www.iaasa.ie/legislation/index.htm
[2] While the Act refers to the Minister for Enterprise, Trade & Employment, for the entirety of the year under review the Government had delegated all Ministerial functions provided for by the Act to the Minister. This delegation was effected by the Enterprise, Trade and Employment (Delegation of Ministerial Functions) (No.2) Order, 2007 (S. I. No. 560 of 2007), the text of which can be accessed at www.irishstatutebook.ie.
[3] The Minister's nominees include the Chairperson of the Authority

3.2 Appointment/reappointment of Board members during the year

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

Director	Date appointed	Nominating body	Reason for vacancy	Term
Marie Daly	3 January, 2009	Irish Business & Employers' Confederation	Expiration of Ms. Daly's previous term of office	3 years
Sean Hawkshaw	3 January, 2009	Irish Association of Investment Managers	Expiration of Mr. Hawkshaw's previous term of office	3 years
Brendan Kennedy	3 January, 2009	Pensions Board	Expiration of Mr. Kennedy's previous term of office	3 years
Tadhg O'Connell	3 January, 2009	Revenue Commissioners	Expiration of Mr. Jim Kelly's previous term of office	3 years
Brian Shiels	3 January, 2009	n/a – Ministerial nominee	Expiration of Mr. Pat Houlihan's term of office	3 years

3.3 Board of directors as at 31 December, 2009

As at 31 December, 2009 the composition of the Authority's Board of directors was as follows:

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*	Temporary Senior Advisor, Financial Regulator	Financial Regulator
Mr. Sean Hawkshaw	Managing Director, KBC Asset Management Limited	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	n/a	Prescribed Accountancy Bodies
Vacant	n/a	Prescribed Accountancy Bodies

* Denotes membership of a Prescribed Accountancy Body

3.3 Board procedures

The Board holds regular meetings (typically monthly) 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 of the directors 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.

3.4 Board meetings

During the year, the Board held 10 scheduled meetings and one unscheduled meeting. The membership of the Authority's Board of Directors during the year, together with details of the number of meetings attended by each director, is set out in Table 2.

Table 2
Directors' attendance at Board meetings

Director	Meetings attended/ Meetings eligible to attend
Ms. Karen Erwin (Chairperson)	11/11
Mr. Ian Drennan	11/11
Mr. Paul Appleby	10/11
Ms. Helene Coffey	8/11
Ms. Marie Daly	10/11
Mr. Michael Deasy	10/11
Mr. Sean Hawkshaw	8/11
Mr. Brendan Kennedy	8/11
Mr. Tony Kelly	8/11
Mr. Tadhg O'Connell	9/11
Senator Joe O'Toole	8/11
Mr. Gerard Scully	8/11
Mr. Brian Shiels	9/11

4. Committees

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

Table 3
Authority Committees – Mandates and Memberships

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)[4] Helene Coffey Tadhg O'Connell[5]
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)[6] 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 Regulations'), the Authority from time establishes Preliminary Enquiry Committees and Enquiry Committees (Section 23 Committees') for the purpose of determining whether a Prescribed Accountancy Body has failed to comply with its approved investigation and disciplinary procedures.	See Chapter XX for further detail on the Authority's section 23 enquiry activities during the year.

5. Public sector governance obligations

The directors are committed to maintaining the highest standards of corporate governance and to ensuring compliance with the Authority's various legal and other obligations. As a body established under statute, the Authority is subject to the provisions of the Code of Practice for the Governance of State Bodies ('the Code'), as issued by the Department of Finance and revised during 2009. 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.

[4] Following Mr. Donal O'Connor's resignation from the Board in January, 2009, Mr. Michael Deasy was appointed as Chair of the Committee (in March 2009).
[5] Following the expiration of Mr. Jim Kelly's term of office as a member of the Board in January, 2009, Mr. Tadhg O'Connell was appointed to the Committee (in March 2009).
[6] Following the expiration of Senator Joe O'Toole's term of office as a Committee member, Mr. Mr. Brendan Kennedy was appointed as Chair of the Committee. Further, Mr. Brian Shiels was appointed to the Committee (in March 2009).

CHAPTER 2 - PRINCIPAL GOALS & ORGANISATIONAL STRUCTURE

1. Principal goals

1.1 Work Programme 2009-11

In accordance with section 13 of the Act, the Authority developed a draft Work Programme covering the three year period 2009-11 and issued same for public consultation in November 2008.

The draft 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 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 draft Work Programme set out the following as being the Authority's key strategic goals:

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 designated as the competent authority for the purposes of the European Communities (Transitional period measures in respect of third country auditors) Regulations 2009[1]; and
- the extent of the additional functions and responsibilities to be conferred on the Authority upon transposition of the revised European 8th Company Law Directive[2] became somewhat clearer.

The significance of the latter is such that the Authority considered it appropriate to defer finalisation of the Work Programme pending transposition of the Directive. At year end, the Department of Enterprise, Trade & Employment was continuing its work on the transposition process.

[1] SI 229 of 2009, which gave effect to European Commission Decision 2008/627/EC
[2] Directive 2006/43/EC

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 PABs 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, given with the consent of the Minister for Finance. Accordingly, any amendments to the Authority's approved staff complement require both Ministers' prior approval. Details of the Authority's approved and actual staff complements are set out in Table X below.

The difference between approved and actual staff complements since the Authority's establishment had been attributable to a combination of (i) the difficulties that the Authority had encountered in recruiting suitably experienced professional staff at the salary levels approved for those posts; and (ii) the Authority's policy of recruiting administrative support staff in line with the increase in its workload. While current economic conditions are such that, were the Authority in a position to recruit professional staff, the recruitment of such staff would be expected to considerably less problematic than has previously been experienced as being the case, the Authority is currently precluded from all recruitment by Government Decision[3].

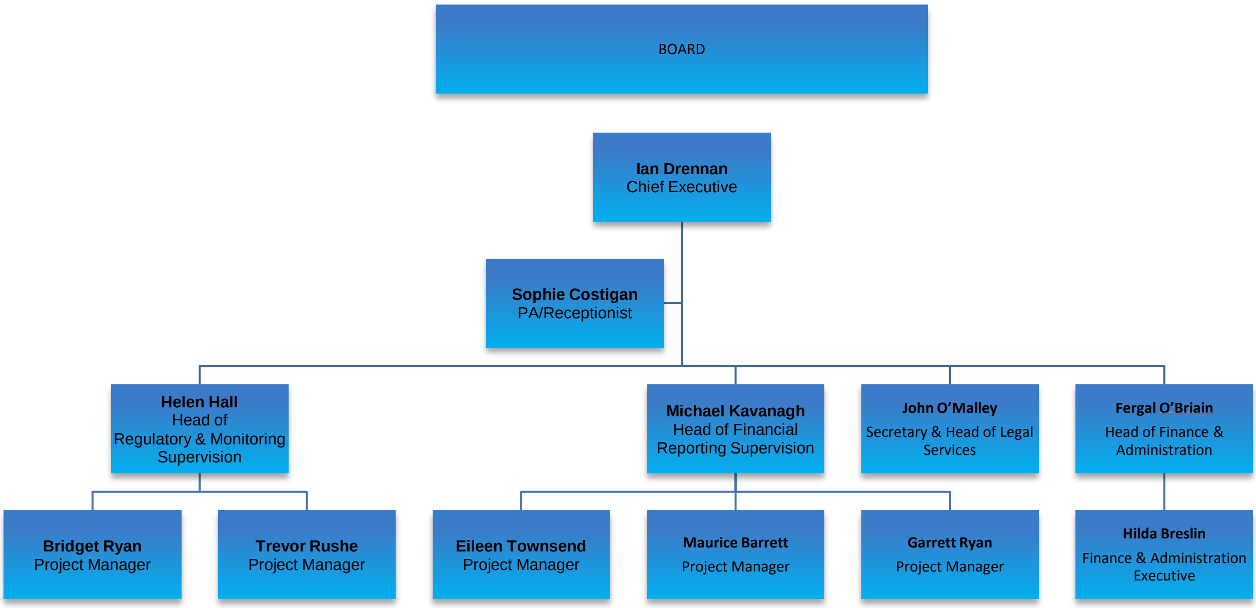
Table X
Approved and Actual Staff Complements

	Approved	Actual[4]
Chief Executive	1	1
Heads of Function	3	3
Project Managers - Professional Staff (Accountants)	6	5
Head of Finance & Administration	1	1
Administrative Executive	2	1
Clerical Support Staff	2	1
Total	**15**	**12**

[3] Government decision S180/20/10/0964B of 8 July, 2008 on public service expenditure.
[4] At 31 December, 2009

2.3 Organisational structure

The Authority's organisational structure as at 31 December, 2009 was as set out in the organisation chart below.



CHAPTER 3 - SUPERVISION OF HOW THE PRESCRIBED ACCOUNTANCY BODIES REGULATE AND MONITOR THEIR MEMBERS

CHAPTER 4
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 the year 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 IFRS[1] and Irish GAAP[2]) and 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 following sections discuss 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 Report[3], it is not reproduced in this Report. In summary, the Transparency (Directive 2004/109/EC) Regulations, 2007 ('the 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*'[4]. Throughout the remainder of this Chapter, those entities coming within the Authority's remit under the Regulations are referred to as 'issuers'.

2.2 The Authority's remit

Table XX sets out, in approximate terms, as at 31 December, 2009 the scale of the review constituency as notified to the Authority by the Irish Stock Exchange ('ISE') on behalf of the Financial Regulator[5]. 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.

Comment [ET1]: Insert once finalised

[1] International Financial Reporting Standards.
[2] 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').
[3] Available at http://www.iaasa.eu/publications/Annual_Report2007.pdf
[4] Regulation 42(2) refers.
[5] The Financial Regulator has chosen to delegate certain of its functions under the Regulations to the Irish Stock Exchange.

Table XX
Authority's financial reporting review constituency as at 31 December, 2009

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	31	31	30	61
Fund	45	45	39	84
Debt	92	67	92	159
Total	**168**	**143**	**161**	**304**

Comment [ET2]: Insert once finalised

2.3 Purpose and objective of review activity

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

i. monitoring the compliance of issuers' periodic financial reporting with relevant reporting frameworks; and

ii. 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 listed 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 of a detailed 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 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*'[6].

[6] Available at http://www.iaasa.ie/publications/IAASA_TD_Guide.pdf. In summary, IAASA'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 the potential impact of such a misstatement on the users of financial reports. Risk factors considered in assessing the relative risk of an incidence of material misstatement in an issuers' financial report include (i) financial structure and business/economic trends, (ii) financial position and ratios, (iii) industry specific issues, (iv) audit qualifications and related issues, (v) corporate governance and control environment issues, (vi) incidence of related party transactions, (vii) incidence of business combinations and/or disposals, (viii) administrative, court and/or regulatory actions, and (ix) third party signals (e.g. complaints received by IAASA, press reportage etc.). Where previous instances of non-compliance have been identified the potential for an issuer's future periodic financial reports to be reviewed increases.

The Authority has entered into Memoranda of Understanding with the Financial Regulator 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:

- Full scope reviews – these reviews comprise an examination of all aspects of the selected report for compliance with the recognition, measurement, classification, presentation and disclosure requirements of relevant Standards, legislation and regulations;

- Focussed reviews – this type of review involves the examination of a particular aspect (or aspects) of the selected report (e.g. where the selected issuer has undergone a business combination during the period under review); and

  Follow-up reviews – these are reviews which examine a previously reviewed issuer for the purpose of assessing the issuer's responses to previously raised matters (e.g. with a view to determining whether 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 or the basis for their judgements in certain respects).

Where directors' responses do not fully address the issues raised or, as is frequently the case, directors' responses require further elaboration 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. 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.

2.7 Periodic financial reports received during the year

Set out in Table XX are details of the number of periodic financial reports received by the Authority from the ISE during the year ended 31 December, 2009, together with comparative data in respect of the previous year.

Comment [ET3]: Insert once finalised

Table XX
Periodic financial reports received from the ISE

Issuer category	2009 Annual reports	2009 Half-yearly reports	2009 Total	2008 Annual reports	2008 Half-yearly reports	2008 Total
Equity	30	31	61	6[7]	36	42
Fund	39	45	84	22	61	83
Debt[8]	92	67	159	28	87	115
Total	**161**	**143**	**304**	**56**	**184**	**240**

Comment [ET4]: Insert once finalised

As can be seen from the above Table, the volume of reports received during 2009 represented an increase of 27% on the previous year.

2.8 Overview of review activity during the year

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

Table XX
Summary of review activity – 2009

Comment [ET5]: Insert once finalised

Half-yearly reports	Equity	Fund	Debt	Total
Reviews ongoing at 1 January, 2009	1	3	0	4
Reviews commenced during 2009	11	6	8	25
Reviews ongoing at 31 December, 2009	(2)	(3)	0	(5)
Total number of half-yearly reviews completed during the year	**10**	**6**	**8**	**24**
Annual reports	**Equity**	**Fund**	**Debt**	**Total**
Reviews ongoing at 1 January, 2009	0	2	0	2
Reviews commenced during 2009	10	5	9	24
Reviews ongoing at 31 December, 2009	(2)	0	0	(2)
Total number of annual reviews completed during the year	**8**	**7**	**9**	**24**
Total number of reviews completed during 2009	**18**	**13**	**17**	**48**

2.9 Issuers reviewed

Set out in Table XX below is a list of issuers whose periodic financial reports were reviewed during the year and whose reviews had, by year end, been completed.

Comment [ET6]: Insert once finalised

In respect of the reviews completed during 2009, a total of 229 matters were raised with issuers' directors. The average number of matters raised with issuers in respect of full scope reviews was 8, with the number of matters being raised with several issuers exceeding this average – for example, in the case of one equity issuer, the Authority had cause to raise queries in respect of 17 separate matters pertaining to its annual financial statements.

When reading the '*Correspondence issued*' column in the following table, it is important to note that the fact that issues have been raised with an issuer's directors does not necessarily indicate non-compliance on the part of that issuer with the relevant reporting framework. Rather, as considered

[7] Due to the timing of the implementation of the Regulations, issuers' financial statements came within the Authority's remit on a phased basis.
[8] Debt issuers admitted to trading on a regulated market in a member state before 1 January, 2005 are exempt from the requirements to produce half-yearly financial reports with effect for 10 years from 1 January, 2005.

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 the directors' accounting judgements in preparing periodic financial reports, including judgements relating to recognition, measurement, classification, presentation and disclosure.

Table XX
List of issuers reviewed – 2009

Comment [ET7]: Insert once finalised

Issuer	Financial report type	Issuer type	Review type	Period end	Correspondence issued
Aer Lingus Group plc	Half-yearly	Equity	Full	30/06/2009	Yes
Allied Irish Banks plc	Annual	Equity	Full	31/12/2008	Yes
	Half-yearly		Focussed	30/06/2009	Yes
Anglo Irish Bank Corporation plc	Half-yearly	Equity	Follow-up	31/03/2008	Yes
Anglo Irish Bank Corporation Limited	Annual	Debt[9]	Full	30/09/2008	Yes
Anglo Irish Bank Corporation Limited	Half-yearly	Debt	Follow-up	31/03/2009	No
C& C Group plc	Annual	Equity	Focussed	28/02/2009	Yes
CRH plc	Annual	Equity	Full	31/12/2008	Yes
	Half-yearly		Follow-up	30/06/2009	No
FBD Holdings plc	Annual	Equity	Full	31/12/2008	Yes
	Half-yearly		Follow-up	30/06/2009	Yes
Glanbia plc	Annual	Equity	Full	03/01/2009	Yes
Grafton Group plc	Annual	Equity	Full	31/12/2008	Yes
Greencore Group plc	Annual	Equity	Full	30/09/2008	Yes
Irish Life & Permanent plc	Annual	Equity	Full	31/12/2008	Yes
	Half-yearly		Focussed	30/06/2008	Yes
	Half-yearly		Focussed	30/06/2009	Yes
Kingspan Group plc	Half-yearly	Equity	Follow-up	30/06/2009	No
Ryanair Holdings plc	Half-yearly	Equity	Follow-up	31/03/2009	Yes
Waterford Wedgwood plc	Half-yearly	Equity	Focussed	04/10/2008	Yes
Argon Capital plc	Annual	Debt	Full	31/12/2008	Yes

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

Issuer	Financial report type	Issuer type	Review type	Period end	Correspondence issued
Banesto Financial Products plc	Half-yearly	Debt	Full	30/06/2009	Yes
Cloverie plc	Half-yearly	Debt	Full	30/06/2009	Yes
Green Island Capital Securities plc	Half-yearly	Debt	Full	30/06/2009	Yes
IBond Securities plc	Half-yearly	Debt	Full	30/06/2009	Yes
Kalvebod plc	Annual	Debt	Full	31/07/2009	Yes
	Half-yearly		Follow-up	31/01/2009	No
Land Securities Capital Markets plc	Annual	Debt	Full	31/03/2009	No
Mermaid Repackaging plc	Annual	Debt	Full	31/05/2008	Yes
Porsche International Financing Group plc	Annual	Debt	Full	31/07/2008	Yes
	Half-yearly		Follow up	31/01/2009	No
Profile Finance plc	Annual	Debt	Full	30/04/2009	Yes
Signum Finance II plc	Annual	Debt	Full	31/12/2008	Yes
Tube Lines (Finance) plc	Half-yearly	Debt	Full	30/06/2009	No
Xenon Capital plc	Annual	Debt	Full	31/12/2008	Yes
Aldermanbury Structured Returns plc	Annual	Fund	Full	31/03/2008	Yes
	Half-yearly		Follow up	30/09/2008	Yes
Carador plc	Annual	Fund	Full	31/03/2008	Yes
	Half-yearly		Full	30/09/2008	Yes
	Annual		Follow up	31/12/2008	No
Faraday Investments 21 plc	Annual	Fund	Follow up	07/11/2008	No
Great Lakes II LLC (Delisted March 2009)	Half-yearly	Fund	Full	30/06/2008	Yes
PXP Vietnam Fund Ltd	Half-yearly	Fund	Follow up	31/03/2009	No
Raffles-Asia Investment Company (Delisted 5 May 2009)	Annual	Fund	Full	30/06/2008	Yes
	Half-yearly		Follow up	31/12/2008	Yes
Special Value Opportunities Feeder Fund	Annual	Fund	Full	31/12/2008	Yes
SWIP Private Equity Fund of Funds II plc	Annual	Fund	Full	31/12/2008	Yes

Issuer	Financial report type	Issuer type	Review type	Period end	Correspondence issued
York Enhanced Strategies Feeder Fund (Cayman)	Half-yearly	Fund	Full	30/06/2008	Yes

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:

- applied prospectively – amendments are made prospectively without the requirement to restate any previously reported amounts; or
- applied retrospectively – amendments are required to previously reported amounts in the comparatives in the next financial statements and resultant disclosures are required in accordance with IAS 8[10] or FRS 3[11] and FRS 18[12].

(b) agreeing to the voluntary issuing of revised financial information by an issuer's directors e.g. via the publication of revised financial statements; and

(c) invoking the Authority's statutory powers as provided for by the Regulations and under which the Authority can:

- certify to the High Court an issuer's (or certain other relevant parties') failure to provide requested information and/or explanations; and
- 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.

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 their potential impact on the users of the relevant financial report. Accordingly, the Authority will only consider the provision of directors' undertakings in respect of future periodic financial reports to be a proportionate response in certain instances. In cases of more significant non-compliance or other deficiency, the Authority will encourage the directors to voluntarily publish an amended report (i.e. including amended financial statements) in the interests of the users of that report. Clearly, 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 will give consideration to taking formal enforcement action under the Regulations.

During the year the Authority continued to secure outcomes that were proportionate to users' interests. As a result, the Authority completed another year's review activity without having to resort to the exercise of its considerable statutory powers. Whilst 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. The extent to which this approach will continue to be practicable over the coming

[10] IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*
[11] FRS 3 *Reporting financial performance.*
[12] FRS 18 *Accounting policies.*

years will, however, be largely contingent upon issuers' continued willingness to engage positively with the Authority and to take the necessary steps to adequately address issues arising.

Set out in Table XX is a summary of the Authority's responses to issues arising from reviews completed during the year.

Comment [ET8]: Insert once finalised

Table XX

Comment [ET9]: Insert once finalised

Authority responses to matters arising from reviews completed during 2009

Issuer category	**No. of issuers whose directors provided undertakings in respect of future periodic financial reports**	**No. of issuers whose directors agreed to voluntary publication of amended half-yearly financial reports**	**No. of issuers whose directors agreed to voluntary publication of amended annual financial reports**	**No. of issuers Who published non-voluntary amended financial reports**
Equity	13	n/a	n/a	n/a
Fund	10	3	n/a	n/a
Debt	10	3	2	n/a
Total	**33**	**6**	**2**	**n/a**

Details of some of the items in respect of which issuers' directors provided undertakings in respect of future periodic financial reports, together with details of other matters raised with issuers' directors, can be found in section XX of this Chapter. Readers should also note that the above table reflects the number of issuers who took remedial action on the basis of Authority activities, rather than the number of individual financial reporting matters arising. For example, in the case of one [equity?] issuer included in the above table, the directors provided undertakings to effect improvements in future reports in respect of 15 separate matters.

Comment [ET10]: Insert once finalised

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

- matters arising from the Authority's 2009 reviews (including selected Case Studies) (Section X);
- review activity in respect of the financial reporting of financial institutions and other issuers primarily engaging in financial services (Section X); and
- activities relating to the enforcement of IFRS across the European Union (Section X).

Comment [ET11]: Insert once finalised

Comment [ET12]: Insert once finalised

Comment [ET13]: Insert once finalised

3. Matters arising from the Authority's 2009 reviews

3.1 Preface

With a view to providing readers with a flavour of the types of issues that arose during the course of examinations of periodic financial reports during the year, and of the Authority's responses to those issues, the following section sets out a number of Case Studies.

Some of the issues highlighted in the Case Studies that follow arose in the case of specific issuers while others were found to be a feature of two or more issuers' periodic financial reports. Whilst the identities of issuers that were reviewed during the year have been provided earlier in this Chapter, it is not considered necessary for the promotion of public confidence in statutory financial reporting to link these Case Studies to named issuers. However, as indicated in previous reports, the Authority will continue to assess the level of disclosure necessary to achieve its aim of promoting public confidence in statutory financial reporting. Moreover, it should be noted that the following Case Studies are, for the purposes of concise reporting, highly summarised and simplified versions of what were, in some cases, protracted engagements with issuers on, often, quite complex issues.

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3.2 Selected Case Studies

Case Study 1
Failure to prepare consolidated financial statements

Background
The issuer, a parent company, owning 100% of the share capital of a subsidiary, did not prepare a set of consolidated financial statements for the group. The Authority considered the argument that the issuer was exempt from publishing consolidated financial statements on the basis that:

- the impact of not consolidating the only subsidiary was not material, based on the percentage of the investment in the subsidiary over total assets; and

- it disclosed within the financial statements its ultimate parent company and the smallest/largest group in which it was consolidated.

Required accounting treatment
IAS 27 '*Consolidated and Separate Financial Statements'* requires, subject to certain exemptions, a parent company to prepare consolidated financial statements in which all subsidiaries are consolidated.

Outcome
Based on information provided by the issuer, the investment in the subsidiary represented a much higher proportion of total equity and profit before tax if it had been accounted for as part of the group. Moreover, materiality requires an assessment of both the qualitative and quantitative aspects of the item, including consideration of both the size and nature of an item, judged in the surrounding circumstances.

The Authority did not accept the issuer's rationale that the impact on the financial statements (of not consolidating) was not material. Also, given that the issuer had securities traded in a public market, the issuer did not meet the criteria necessary to avail of the exemption to prepare consolidated annual financial statements. Following correspondence with the issuer, the directors agreed with the Authority's assessment and voluntarily prepared and published consolidated annual financial statements in accordance with the requirements of IAS 27. The directors also undertook to prepare consolidated financial statements for future reporting periods.

Case Study 2
Failure to provide various disclosures (including disclosures relating to financial instruments)

Background
The issuer presented its financial statements in accordance with Irish GAAP. Upon examination, several apparent instances of non-compliance with applicable accounting standards were identified in the issuer's financial statements, involving varying degrees of non-compliance. The principal accounting issues upon which the Authority corresponded with the issuer included, but were not limited to:

- the apparent omission of disclosures required by FRS 29 *Financial Instruments: disclosures*;

- the apparent omission of selected accounting policy disclosures;

- clarification being considered necessary following an examination of the classification and presentation of selected items within the primary statements (Balance Sheet and Cash Flow Statement); and

- apparent omission of disclosures required following reclassifications of selected comparative amounts.

Required accounting treatment
The objective of FRS 29 is to require disclosures in financial statements that enable users to evaluate the significance of financial instruments in the context of the entity's financial position and performance; and the nature and extent of risks arising from financial instruments to which the entity is exposed, including how the entity manages those risks.

Outcome
An examination of the financial statements identified that a number of disclosures required by FRS 29 had been omitted including, but not limited to, details of the following:

- the methods applied in determining fair values;
- the amount best representing the issuer's maximum exposure to credit risk; and
- details of the issuer's concentration risk, i.e. the extent to which an entity is reliant on a particular class of investment for returns or liquidity, or reliant on a single source of finance/counterparty for funding.

Furthermore, in response to other matters identified in correspondence with the Authority, the issuer acknowledged that several errors had occurred in the preparation of the financial statements.

Based on the findings of the review, the Authority concluded that the issuer had failed to comply in full with the requirements of FRS 29 as well as a number of other accounting standards. As a consequence of the Authority's correspondence with the issuer, the directors voluntarily prepared and published revised annual financial statements.

Case Study 3
Failure to properly account for gains and losses on foreign currency translation

Background
The issuer, a closed ended fund, included a note in its financial statements to the effect that the presentation currency of the financial statements was Sterling, while the functional currency was Euro. Foreign exchange gains and losses arising on translation from Euro to Sterling for the purposes of the compilation of the financial statements were recognised in the Income Statement.

Required accounting treatment
IAS 21 '*The Effects of Changes in Foreign Exchange Rates'* provides that an issuer may present its financial statements in any currency ('presentation currency'). However, if the presentation currency differs from the functional currency (i.e. the currency of the primary economic environment in which it operates), the Standard requires that the financial statements as prepared in the functional currency must be translated into the presentation currency in accordance with the following procedure:

- assets and liabilities shall be translated at the closing rate of exchange (i.e. at the reporting date);
- income and expenses shall be translated at exchange rates at the dates of the transactions (i.e. at exchange rates throughout the year); and
- any resulting exchange differences shall be recognised as a separate component of equity (i.e. they shall not be recognised in the Income Statement).

Outcome
Having queried the issuer's accounting treatment of foreign currency exchange, the Authority concluded that the treatment did not comply with the requirements of IAS 21 in that the foreign exchange difference should not have been recognised in the Income Statement. Following correspondence on the matter, the issuer amended its treatment of this item in its financial statements, resulting in a material increase in the reported loss for the period.

Case Study 4
Presentation of items outside of ‘operating profit’

Background
The issuer presented, on the face of its Income Statement, a subtotal entitled ‘*Operating profit*’, below which an item relating to the write-down of certain assets was presented, followed by finance income and expenses and the issuer’s share of associates’ profits. The sum of the above figures reconciled to ‘Profit or loss for the period’.

The Authority queried the nature of the write-down, and specifically whether it was appropriate to classify it outside of ‘operating profit’.

Required accounting treatment
While IFRS neither requires nor precludes the disclosure of a subtotal of the results of operating activities on the face of the Income Statement (such as, for example, ‘*Operating profit*’), IAS 1 ‘*Presentation of Financial Statements’* states that, where an issuer discloses such an amount, any such amount be representative of activities that would normally be considered to be ‘*operating*’ in nature. The Standard further states that it would be misleading and would impair comparability if items of an operating nature were excluded from the results of operating activities, even if that had been industry practice.

Outcome
Given the prominence of a line item entitled ‘*Operating profit*’ on the face of an issuer’s Income Statement and the focus placed on such a measure of performance by users of financial statements, the Authority queried the presentation of these items outside of ‘*Operating profit*’. Specifically, the nature of the abovementioned income and expenses were queried, i.e. with a view to ascertaining whether they were operating in nature.

Having considered the rationale put forward by the issuer for the accounting treatment set out above, it was concluded that the accounting treatment adopted was not in compliance with the requirements of IAS 1. This conclusion was based on the assessment that the costs concerned, while exceptional in nature and therefore meriting separate disclosure, arose from the issuer’s operating activities

Following correspondence with the issuer, the directors undertook to amend the classification and presentation of the item concerned in future financial reports and in the comparative amounts in respect of the period reviewed.

Case Study 5
Related party transactions – failure to provide required information in respect of the compensation of key management personnel

Background
The notes to the issuer’s financial statements stated that key management personnel comprised of the executive team reporting to the Board and disclosed a single aggregated remuneration amount. It was further stated that the majority of this amount comprised short term employee benefits. No further analysis was provided.

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

The materiality threshold for related party disclosures is not determined solely by 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. In particular, information provided for stewardship and accountability purposes, such as disclosures of directors' remuneration and other related party disclosures are usually assessed primarily on the basis of qualitative considerations. Thus, while such amounts may be relatively insignificant in comparison with the overall results of the entity, they will, nonetheless, be highly qualitatively material to a user seeking to assess the performance of management and the appropriateness of their continued stewardship of the issuer.

Outcome
Following correspondence with the issuer, the directors undertook to provide the required information in subsequent reports. As a result, the issuer's report in respect of the subsequent provided details of:

- both executive and non-executive directors' remuneration; and
- share-based payments to key management personnel.

Total remuneration was further analysed between basic salary and bonus, pension contributions, share-based compensation expenses and executive directors' fees and expenses. The comparative amounts for the prior year were restated accordingly.

As a consequence, disclosed total remuneration of key management personnel was restated to include remuneration to all members of key management personnel, including executive directors, and the reported remuneration increased by approximately 200%.

Case Study 6
Omission of segment disclosures in half-yearly financial reports

Background
The issuer, a closed-ended fund, invested directly and indirectly through other Funds in emerging markets. The interim financial statements provided none of the disclosures required by IFRS 8 *Operating Segments* and it was not apparent as to whether or not the issuer had adopted IFRS 8 for the period.

Required accounting treatment
IFRS 8 specifies how an entity should report information about its operating segments in annual financial statements and IAS 34 outlines the consequential information required for half-yearly financial reports. Furthermore, entity-wide disclosures concerning revenue derived from product and services, geographical information and selected information about major customers is required to be reported by all entities subject to IFRS 8 including those entities that have a single reportable segment.

The Authority considered the following circumstances:

- the issuer's Board of Directors is charged with the overall governance of the issuer in accordance with the issuer's bye laws and the prospectus, and changes to the investment strategy outside the prospectus must be approved by the Board of Directors and by the shareholders;
- the fund manager is responsible for decisions in relation to both resource allocation, asset allocation and the delegation of any investment decisions to any sub-fund managers; and
- the issuer operates a single operating segment, being the investing of resources – directly or indirectly – in entities exposed to emerging markets, with all investment resources being managed at issuer level.

Outcome
The issuer accepted the Authority's assessment that IFRS 8 applied and provided undertakings to the Authority to comply in full with IFRS 8 in future periodic financial statements, including providing the

minimum entity-wide disclosures applicable to an entity subject to IFRS 8, i.e. those entities that have a single reportable segment would be provided in future financial reports.

Furthermore, on the basis of the specific circumstances of the issuer, it was accepted by the Authority that:

- the Board of Directors and the Fund Manager, as a single body, constituted the issuer's chief operating decision maker; and
- the issuer operated a single operating segment with all investment resources being managed at issuer level.

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

In addition to the matters detailed in the preceding Case Studies, the following are some of the matters in respect of which issuers' directors provided undertakings in respect of future periodic financial reports.

Summary of matters	Outcomes
Financial instruments disclosures *Requirements* IFRS 7[13] requires issuers' financial reports to include disclosures of the categories of assets and liabilities held (as defined by IAS 32) and disclosure of an entity's objectives, policies and procedures for the measurement and management of risks (in qualitative and quantitative terms), and such disclosures should be based on information provided to key management personnel. It should also be user-specific and should not obscure important information. *Findings* The Authority's examinations to-date have identified varying degrees of non-compliance with these requirements. The Authority has noted that instances of non-compliance have been observed more frequently among Fund and Debt issuers as compared to Equity issuers.	The nature of undertakings provided by directors of issuers to improve disclosures of financial instruments and risks in future periodic financial reports include enhanced disclosure of: • exposure to concentration risk (both assets and funding); • counterparty risk; • credit risk and credit quality; • collateral received and pledged as security; • liquidity risk; and • sensitivity analysis.
Fair value of financial instruments (including the use of valuation techniques)[14] *Requirements* IAS 39 sets out how issuers should determine the 'fair value' of financial instruments (i.e. financial assets and liabilities) and IFRS 7 sets out information issuers are required to disclose in their periodic financial reports. *Findings* The Authority has noted an increase in the use of valuation techniques applied in determining the fair value of financial instruments recognised in issuers' periodic financial reports. In addition, issuers (and, in particular, Debt issuers) have assigned a range of descriptions to describe the valuation of financial instruments, such as 'arranger prices', 'third party prices' and 'broker prices'. The illiquidity in markets for financial instruments has focussed attention on the source of fair values and, in particular, the basis for the determination of fair values which may include the use of valuation techniques (based wholly or partly on unobservable inputs).	As a consequence, the nature of undertakings obtained from issuers included improvements in the following areas: • a description as to how issuers determined fair value, e.g. quoted bid/ask price, recent transactions in the same instrument, transactions in a similar instrument (adjusted price), prices based on discounted cash flows, or other valuation techniques; • a description of the principal valuation techniques used; and • the significant assumptions underlying each valuation technique. Where considered relevant and significant to the valuation technique being applied, issuers, and, in particular, Debt issuers, were requested to include the following disclosures in future periodic financial statements: interest rates, credit spreads, cash flow estimates, discount rates, probability of default, and volatility rates.

[13] FRS 29 is the equivalent Irish GAAP pronouncement.
[14] IAS 32/FRS 25 and IFRS 7/FRS 29 refer.

The determination of fair values, in particular, those based on valuation techniques, are impacted by directors' judgement as to the assumptions and techniques used, which are specific to the circumstances of the individual issuer and specific to a point in time.	
Related party disclosures *Requirements* IAS 24/FRS 8, company law and the Transparency Rules require disclosure of related party information. *Findings* The Authority's review revealed the following examples of non-compliance with the relevant requirements: • omission of related party note entirely from financial reports. In particular, the interim financial reports of Fund and Debt issuers omitted such detail; • failure to comprehensively identify related parties, including directors, service providers, material shareholders, and individuals connected with affiliated companies with whom the issuer had transactions; and • instances where, although related parties were identified, the nature of the related party relationship, the amount of transactions with those related parties, or the amounts outstanding at the reporting date were not disclosed.	Undertakings were provided by a range of issuers as a consequence of interactions with the Authority to remedy deficiencies identified. These undertakings included the restatement of previously reported amounts for key management personnel remuneration in future financial statements.
Explanatory notes Requirements IAS 1, IAS 34 and the ASB's '*Statement on Half-yearly Financial Reports*' ('ASB Statement') require that issuers' financial reports include information that is relevant to an understanding of the entity's financial position and financial performance. *Findings* Significant deficiencies in the level of disclosure of explanatory notes were identified as a consequence of the Authority's reviews.	As a consequence of the Authority's examination of issuers' half-yearly financial reports during the year, the following are areas of non-compliance with accounting standards where issuers undertook to improve future half-yearly reports: • omission of relevant explanatory notes and disclosures expected where significant movements on items presented on the balance sheet occurred during the six-month period; • absence of reference to the fact that a significant amount of an issuer's liabilities/funding fell due to be repaid during the next 12 months despite the issuer's stated ability to maintain a similar level of activity as reported in the directors' report accompanying the half-yearly financial report; • failure to disclose an accounting policy regarding financial instruments recognised in the half-yearly report, e.g. derivatives, hedging policy; • the half-yearly financial report of selected Debt issuers noted 'credit events' both in prior period financial reports and during the current half-yearly period; however, notwithstanding that the issuers had written credit protection potentially exposing the issuers to defined loss events, it was not readily apparent that the half-yearly financial reports complied in full with the requirements of IAS 10 '*Events after the Reporting Period*'; • in many instances it was not apparent as to whether selected issuers' half-yearly reports were intended to be a full set of financial statements and thereby subject to compliance with full IFRS/FRS or, alternatively, whether the report constituted a condensed report and was, therefore, prepared in compliance with

	IAS 34/ASB Statement. Furthermore, it was not apparent as to whether: – the same accounting policies had been applied in half-yearly financial reports as were applied in the last annual financial statements; – there were new accounting policies applied during the six month period; – a description of the changes in accounting policies was required to be disclosed; – the reasons for a change in accounting policy were disclosed; and – when new accounting standards had been issued, but were not yet effective, a description of the impact on future financial reports had been provided; – the comparative data presented in the Income Statement, Statement of Changes in Equity and the Cash Flow Statement had been presented for the incorrect comparative period. This was more prevalent in the case of Fund and Debt issuers.
Offsetting of assets and liabilities *Requirements* A financial asset and financial liability, or income and expenses should not be offset unless required or permitted by IFRS[15], except in circumstances where offsetting reflects the substance of the transaction. Offsetting detracts from the ability of users of financial reports to understand transactions and to assess future cash flows. *Findings* The Authority identified an issuer which had disclosed within the explanatory notes, financial assets and financial liabilities 'gross'; however, on the face of the Balance Sheet (both current and comparative amounts) were presented 'net'.	The Authority obtained an undertaking from the issuer to present financial instruments in future financial reports 'gross' on the Balance Sheet and to disclose the reason for the change in the presentation in future financial reports.
Hedge accounting *Requirements* IAS 39/FRS 26 specify the accounting treatment to be applied in respect of cash flow hedges and fair value hedges in financial statements. IAS 39 *Financial Instruments: Recognition and Measurement*[16] specifies the conditions that must all be met in order for a hedging relationship to qualify for hedge accounting. Failure to meet these conditions could potentially have a major impact on the timing of the recognition of gains and losses and thus on the reported profit or loss of an issuer. IFRS 7 *Financial Instruments: Disclosure*[17] requires a company disclose information on the impact of certain hedging transactions. *Findings* Instances of non-compliance with the accounting treatment and, particularly, related disclosures were indentified in a number of cases subject to review by the Authority.	As part of its review activity, the Authority sought additional explanations of directors regarding the use of hedge accounting – up to and including having requested hedge documentation for more detailed examination. A number of issuers' undertook to improve compliance with the disclosure requirements of paragraphs 22 to 24 of IFRS 7/FRS 29 that related to hedge accounting in issuers' financial reports. In particular, for cash flow hedges, an issuer undertook to disclose in future financial reports the periods when cash flows are expected to occur and when they are expected to affect profit or loss. Another issuer undertook to disclose separately the ineffectiveness recognised in the profit or loss that arises from cash flow hedges.

[15] Paragraph 32 of IAS 1 and paragraph 42 of IAS 32/FRS 25 refer.
[16] Irish GAP equivalent FRS 26 (IAS 39) *Financial instruments: recognition and measurement*.
[17] Irish GAAP equivalent FRS 29 *(IFRS 7) Financial instruments: Disclosures*.

Events after the reporting period *Requirements* IAS 10/FRS 21 require the disclosure of the nature of non-adjusting events after the reporting period and their potential impact on the financial reports. *Findings* Examination of issuers' financial reports revealed that it was not readily apparent that the disclosure of material non-adjusting events included all the disclosures required by IAS 10/FRS 21.	Undertakings obtained from issuers related to the disclosure in future financial reports of the nature of non-adjusting events after the reporting period and their potential impact on the financial reports (e.g. in the case of Debt issuers credit events impacting debt issued by the issuer and indicators of impairment on assets arising after the reporting date).
Reclassifications *Requirements* IAS 1 provides that specified information shall be provided in instances where comparative amounts are reclassified. *Findings* During the year, the Authority noted that a number of issuers' financial reports indicated that certain comparative data presented in either the primary statements and/or in the explanatory notes had been restated without providing an explanation of the particular circumstances that in the directors' judgement necessitated the restatement and/or lacked details of the amounts or class of line items affected.	The Authority received undertakings from issuers to enhance the disclosures in future financial reports related to changes in the presentation or classification of items in the financial reports.
Statements of cash flows *Requirements* IAS 7/FRS 1 set out the requirements for the presentation of cash flow statements. *Findings* Instances of non-compliance with the requirements of the accounting standard were identified from the Authority reviews.	Undertakings were obtained from issuers' directors relating to: • the presentation of comparative information in future cash flow statements; • the reporting of the impact of unrealised gains/losses arising from changes in exchange rates; and • the basis for the aggregation or 'netting' of cash flows within cash flow statements.
Classification and presentation of assets and liabilities (as either current or non-current) *Requirements* In determining whether to classify financial instruments (assets and liabilities) as current or non-current, issuers' should have regard to the criteria described in paragraphs 66 to 76 of IAS 1. Assets that are expected to be realised within twelve months after the reporting date, sold, consumed, held for trading, or, are otherwise effectively unrestricted cash or cash equivalents are classified as current assets. All other assets should be classified as non-current. Similar criteria apply to the classification of current/non-current liabilities (paragraphs 69 to 76 of IAS 1 refer). *Findings* Instances were identified from reviews undertaken in the year where periodic financial statements failed to provide sufficient information or failed to properly classify assets and liabilities.	Issuers have provided undertakings to give an increased level of consideration to the classification and presentation of financial instruments and, where necessary, to reclassify comparative items and provide appropriate disclosures in future financial reports.
Judgements, significant assumptions and key sources of uncertainty *Requirements* In preparing financial reports, judgements are made by directors that have a significant effect on the amounts recognised in the financial statements (paragraph 122 of IAS 1 refers). Furthermore, paragraph 125 requires	The Authority has obtained undertakings from issuers to improve the disclosures in areas involving a high degree of judgement or complexity and where assumptions or estimates are significant to the amounts recognised in the financial reports. These undertakings included:

issuers to disclose information about the assumptions and other key sources of uncertainty that have a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities within the next financial year. *Findings* The Authority identified instances where the disclosures of areas involving a high degree of judgement or complexity and where assumptions or estimates are significant to the amounts recognised in the financial reports could be enhanced in users' interests.	• uncertainties and judgements concerning the valuation of investments; • impairment of goodwill; • the classification and presentation of investments (e.g. at fair value through profit or loss or available for sale),; • the consolidation or non-consolidation of investment in subsidiaries or Special Purpose Entities; • accounting for defined benefit pension obligations; and • accounting for provisions and intangible assets.
Management/Directors' Report *Requirements* Management Reports/Directors' Reports are required by section 13 of the Companies (Amendment) Act, 1986 and Regulations 4 to 8 of the Transparency Regulations to present a 'fair review' of the period and to be a 'balanced and comprehensive' analysis of the period. *Findings* Certain issuers failed to provide a comprehensive analysis of the period in Management Reports/Directors' Reports and certain issuers omitted Responsibility Statements in periodic reports.	Undertakings have been obtained from issuers to enhance the information to be provided in such reports in future periods. In addition, certain issuers omitted to include the required Responsibility Statements in their financial reports and undertakings to provide such Statements in future financial reports have been provided to the Authority.
Retirement benefit obligations *Requirements* IAS 19 requires disclosure of a narrative description of the basis used to determine the overall expected return on plan assets, including the effect of the major categories of plan assets. *Findings* An issuer omitted to provide the required disclosures.	Issuers undertook to enhance the narrative disclosure of the basis used to determine the overall expected return on plan assets, including the effect of the major categories of plan assets (paragraph 120A(l) of IAS 19 refers).
Key performance indicators ('KPIs') *Requirements* Transparency Rule 6.1[18] requires the inclusion in annual financial reports of a fair review of the development, performance and position of the business using key performance indicators, both financial and non-financial. *Findings* A significant number of issuers provide non-GAAP performance measures. In certain instances, such measures were not clearly defined, and, where amounts used to calculate such KPIs have been adjusted from those shown in the financial statements, failed to provide reconciliations necessary to aid users' understanding.	The Authority has encouraged issuers using such KPIs 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, to provide reconciliations necessary to aid users' understanding.

[18] Section 13 of the Companies (Amendment) Act 1986 contains a similar requirement in relation to the information to be included in the Directors' Report

4. Review activity in respect of the financial reporting of financial institutions and other issuers primarily engaging in financial services

4.1 Background and associated risk considerations

Consequent to the global financial crisis precipitated by the sub-prime crisis in the US, the subsequent collapse of Lehman Brothers in the US and the failure of Icelandic banks, the financial reporting risks attaching to financial institutions and other issuers primarily engaging in financial services have increased significantly in recent times.

These global factors impacted significantly on Irish financial services issuers and were further exacerbated in an Irish context by a number of domestic factors, including a slowdown in domestic economic activity, a fall in property values, and deterioration of the public finances. As a response to this combination of events, the Government introduced a Bank Guarantee Scheme, appointed public interest directors to the Boards of certain institutions, nationalised Anglo Irish Bank Corporation plc[19] ('Anglo'), introduced capital into Allied Irish Banks plc ('AIB') and Bank of Ireland ('BoI'), and enacted legislation during 2009 for the purpose of establishing the National Asset Management Agency ('NAMA').

Moreover, these general economic factors, combined with a number of issuer specific matters - most significantly those in respect of Anglo - have had the effect of elevating public concern and heightening the risks associated with the financial reporting practices of certain Irish financial institutions. As a result, and in accordance with its risk-based selection process, the financial reporting of financial institutions and other issuers primarily engaging in financial services became a significant focus for the financial reporting supervision activities of the Authority during 2009.

The remainder of this section summarises the Authority's response to the aforementioned heightened risks. Specifically:

- three financial reporting issues which required consideration arising from information about certain transactions and events which came into the public domain regarding Anglo and Irish Life & Permanent plc ('IL&P') are considered; and

- the Authority's financial reporting review activities in respect of other financial reporting matters relevant to the main domestic financial institutions within remit (namely, AIB, Anglo, BoI and IL&P)[20] and other issuers principally engaging in financial services are outlined.

Whilst the Authority's enquiries in respect of certain matters were ongoing at year end, the following aims to provide readers with a broad understanding of the Authority's approach to the matters arising.

4.2 Specific matters of relevance to Anglo and IL&P

In December 2008 and February 2009 respectively, information concerning certain transactions and events at Anglo, some of which had occurred over a number of years, came into the public domain. Certain of these transactions also involved IL&P. These transactions and events, which include significant corporate governance, company law and financial reporting dimensions, attracted significant regulatory attention during 2009 and have resulted in the instigation of a number of investigations[21].

Having regard to its statutory remit and functions, the focus of the Authority has been on any implications that these transactions and events may have had for the statutory financial reporting of the issuers concerned and, specifically, on whether the transactions and events concerned have been appropriately recognised, measured, presented and disclosed in the affected issuers' relevant periodic financial reports.

[19] Anglo Irish Bank Corporation plc re-registered as a limited company following its nationalisation in January, 2009.
[20] Readers may find it useful to note that the Educational Building Society and the Irish Nationwide Building Society are outside the scope of the Authority's remit.
[21] These include investigations initiated by An Gárda Siochana, the Financial Regulator, the Office of the Director of Corporate Enforcement as well as the appointment of a Special Investigator by the Institute of Chartered Accountants in Ireland's Complaints Committee (see section 3.2.4 for further details on the latter).

In that regard, the accounting components of the following transactions and events were examined by the Authority during the year:

I. inter-institutional transactions between Anglo and IL&P around each institution's reporting dates;

II. the temporary refinancing of certain Anglo directors' loans with Irish Nationwide Building Society at certain of Anglo's reporting dates; and

III. the advancing of loans by Anglo to certain customers and directors, where the security provided consisted solely of shares in the company.

The relevant periodic financial reports which became the particular focus of attention in the Authority's examinations of these matters were as follows:

- Anglo's half-yearly financial report for the six months ended 31 March, 2008 ('Anglo's 2008 HY Report'), which was published on 7 May, 2008;

- Anglo's annual financial report for the year ended 30 September, 2008 ('Anglo's 2008 FY Report'), which was published on 20 February, 2009; and

- IL&P's half-yearly financial report for the six months ended 30 June, 2008 ('IL&P's 2008 HY Report'), which was published on 27 August, 2008.

As the Authority's remit over issuers' financial reporting extends only to periodic financial reports for financial years commencing on or after 20 January, 2007, the annual and half-yearly financial reports of Anglo and IL&P in respect of 2007 and earlier did not come within the Authority's scope and, accordingly, the Authority has no statutory entitlement to seek information in respect of same.

4.2.1 Inter-institutional transactions

In February 2009 both Anglo and IL&P made public disclosures setting out the details of certain transactions between the two institutions which occurred across each institution's reporting dates as follows:

- on 31 March, 2008 IL&P, through its subsidiary Irish Life Assurance ('ILA'), deposited €750m with Anglo overnight on receipt of €1bn by Permanent TSB from Anglo;

- at 30 June, 2008 Anglo provided appoimately €3.4bn in interbank deposits to IL&P through a security repurchase agreement. IL&P's total outstanding amount for security repurchase agreements at that date was €7.73bn;

- during September, 2008 IL&P, through its non-bank subsidiary 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 IL&P, through its non-bank subsidiary ILA, deposited a total of €4bn with Anglo overnight on receipt of €4 billion into Permanent TSB. These transactions matured on 1 October, 2008.

Comment [ET14]:

Wording to be reviewed by MK/MB

MB: amount rounded to approx 3.4billion

The principal accounting issues which required consideration in respect of these transactions related to presentation and disclosure, and in particular as to whether, in accordance with relevant accounting pronouncements:

- each placement and corresponding deposit should have been presented separately as assets and liabilities respectively ('gross presentation') in the relevant institutions' Balance Sheets or whether the asset and liability should have been set-off against each other with any residual balance presented as a single asset or liability as appropriate ('net presentation');

- the amounts received and placed (and, in particular, amounts received by Anglo from ILA) were classified and presented as funding from either a bank or customer counterparty as appropriate;
- the disclosure of the details of the transactions in Anglo's and IL&P's 2008 HY and FY Reports was sufficient to provide users with an understanding of the impact of the transactions on the entity; and
- there were any further transactions of a similar nature with other counterparties, which should have been disclosed either in respect of the current year, or the comparative period.

Comment [ET15]: ET: MB/MK – happy with mentioned of both banks and both HY and FY?

MB: YES

For the purposes of evaluating the accounting treatment applied to these transactions by Anglo in its 2008 HY and FY Reports, the following information was requested from Anglo's directors during the year:

I. copies of agreements, contracts, term sheets and similar documentation pertaining to the transactions with IL&P around the year end period;

II. details of the cash flows pertaining to these transactions and, in particular, the sequence of each individual cash flow movement;

III. an explanation as to the commercial and/or other rationale for these transactions in that particular form and at that particular time;

IV. in the context of Anglo stating that it sought these funds from IL&P against the background of a global liquidity crisis and the mutual provision of support, an explanation as to how, in the directors' assessment, these transactions assisted Anglo with its liquidity and/or other objectives;

V. confirmation as to whether Anglo had requested that a deposit be placed with it via a non-bank affiliate of IL&P;

VI. details as to how the transactions were settled, with an explanation of the cash flows arising (together with a request for any documentary records of the request from IL&P that the transactions be settled net); and

VII. details as to whether any transactions which could be considered analogous to those referred to above had been entered into at, or around, the year end of 30 September, 2007 (i.e. in the context of the comparative amounts in the Report), and if so, full details of any such transactions.

In addition to requesting necessary information, explanations and clarifications from the directors, the Authority also engaged with the Financial Regulator on these matters during the year. At year end, the Authority had obtained all information, explanations and clarifications requested of the directors and was in ongoing communication with the Financial Regulator with a view to concluding consideration of these matters as expeditiously as possible.

In respect of IL&P's 2008 HY Report, the directors were requested to provide information and clarifications concerning the accounting treatment of the relevant transactions at 30 June, 2008, including details of the following:

I. the component parts of the asset and liability of €7.73bn;

II. the counterparties in respect of each component transaction;

III. the term, maturity dates, and security provided in respect of each component transaction;

IV. the rationale for each component transaction;

V. the accounting treatment adopted, including details of the Balance Sheet line items in which each component was included;

VI. details of any additional transactions with the same counterparties, or of similar value, duration or maturity;

VII. the accounting treatment adopted in respect of significant transactions, including those of short term duration, undertaken near to the reporting date; and

VIII. the nature of any significant transactions which reversed in the days/weeks following the reporting date, including the rationale for entering into such transactions in the first instance.

As a result of the Authority's enquiries, IL&P's directors have undertaken to enhance future half-yearly reports by providing disclosures in respect of inter-institution transactions in those half-yearly reports similar to those provided in their annual financial reports.

In the context of the foregoing, it is important to note that the Authority's consideration of these matters was limited to an examination of the relevant issuers' periodic financial reports and did not extend to an examination those issuers' preliminary announcements, over which the Authority has no have statutory remit.

Consequently, while circumstances may arise from time to time in which public confidence in the quality and reliability of statutory financial reporting might be damaged as a result of actual or perceived deficiencies in preliminary announcements, the Authority has no statutory authority to make enquiries of directors regarding such announcements or to take enforcement action in respect of same. Preliminary announcements must, however, satisfy certain requirements of the Listing Rules of the ISE as well as the provisions of Market Abuse law.

4.2 2 Temporary refinancing of directors' loans

In December, 2008 Anglo announced that the, then, Chairman and another director had resigned from the Board arising from the fact that, over a period of eight years to 2007, loans which they had obtained from Anglo had been temporarily transferred to another financial institution prior to Anglo's financial year end date, which Anglo noted was from a transparency point of view, inappropriate.

The principal financial reporting issue which required consideration in this context related to whether the financial statements contained the disclosures required by IAS 24[22] concerning the nature of the transactions and balances, together with details of their amounts, terms and conditions, security and guarantees given or received, provisions and expenses for doubtful debts, as well as the required company law disclosures.

On publication of Anglo's 2008 FY Report (as detailed above, the Authority has no remit over issuers' preliminary announcements), the Authority conducted an examination of the directors' accounting treatment of transactions with key management personnel, and in particular in respect of directors' loans. That examination, which was also informed by certain information received from the Financial Regulator, concluded that the 2008 FY Report provided the required information regarding loans advanced to, and loan repayments received from, key management personnel, including directors as well as comparative amounts in respect of 2007. That report also provided further details regarding the nature of the transactions and balances. On that basis, the examination led to the conclusion that, in all material respects, the information required by IFRS and company law had been provided in that report.

The Authority further queried Anglo's directors regarding the HY 2008 Report. As a result, the directors undertook to provide detailed related party disclosures (including comparative amounts) in respect of matters that had not been included in the previous half-yearly financial report, including the disclosure that, as at 31 March, 2008, loans outstanding to the former Chairman stood at €119.8m. These undertakings resulted in Anglo's half-yearly financial report for the six months ended 31 March, 2009 providing information in respect of related parties in a form and level of detail consistent with that provided in its 2008 FY Report.

[22] Related party disclosures

While the 2008 FY Report contained, in all material respects, the necessary disclosures, it should be noted that there remains a question, from a financial reporting perspective, as to whether the non-disclosure of these transactions in the financial reporting periods to 30 September, 2007 and previously, represent breaches of the relevant reporting framework. However, as outlined earlier, given that these periodic financial reports do not come within the Authority's statutory financial reporting supervisory remit, the Authority is not empowered to make enquiries of the directors in respect of those reports, nor in respect of any earlier version of the 2008 FY Report which was not made public pursuant to the requirements of the Transparency Regulations. These matters are however, likely to be considered as part of certain of the other investigations into events at Anglo currently underway.

4.2.3 Loans secured solely on Anglo shares

Anglo's FY 2008 Report disclosed that loans were extended to a number of Anglo's customers, as well as to certain of the bank's directors, with the security for such loans consisting solely of shares in the bank. The Report further disclosed the existence of an impairment loss of €300m in respect of these loans which had not been recognised in the FY Report as the conditions providing evidence of impairment did not exist at 30 September, 2008.

The principal accounting issue requiring consideration in respect of this matter related to whether an impairment charge should have been recognised in the 2008 FY Report. In that regard, the following information was requested and received from Anglo's directors during the year:

I. details of the directors' rationale for determining that there was no indication that the asset was impaired at the reporting date; and

II. details of the impairment calculations and workings performed at 30 September, 2008 in respect of loans secured solely on shares in the company, categorised separately in respect of customers and directors.

Having considered the information provided by the directors, the examination led the Authority to conclude that as of 30 September, 2008 there was no evidence of impairment of these loans by virtue of the security consisting solely of shares in Anglo.

4.2.4 Co-operation with third parties

As referred to above, certain of the abovementioned transactions and events have resulted in the initiation of enquiries by other statutory bodies, including An Garda Síochána, the Financial Regulator and the Office of the Director of Corporate Enforcement. In that context, and in addition to receiving certain information from the Financial Regulator, during the year the Authority shared certain information regarding these matters with the:

- Financial Regulator;
- Office of the Director of Corporate Enforcement; and
- Special Investigator appointed by the Institute of Chartered Accountants in Ireland to investigate the role played by certain Institute members in events at the bank (further information on this matter is provided in Chapter 3 of this Report).

4.3 Other matters relating to the financial reporting of financial institutions and other issuers primarily engaging in financial services

In response to the heightened risk factors attaching to financial institutions and other issuers primarily engaging in financial services, and in addition to the examinations detailed above and the Authority's routine review activity, the Authority corresponded with the domestic financial institutions as well as a number of fund and debt issuers for the purpose of assessing practice in respect of certain financial reporting issues common to such issuers. Set out in the following paragraphs is a summary of the principal matters raised with the issuers concerned.

Comment [ID16]: Need to clarify that INBS, EBS etc don't come within scope.

4.3.1 Valuations
The markets for the pricing of selected financial instruments were characterised by ongoing illiquidity during the year. In that context, the requirements in respect of the measurement and disclosure of the fair value of financial instruments are laid down in IAS 39 (paragraphs 48 and 48A refer) and in IFRS 7 respectively. In response to the valuation difficulties resulting from illiquid markets, the IASB issued a number of amendments to IFRS 7 during 2008 and 2009 respectively concerning, amongst other matters, the reporting of valuations of financial instruments[23].

Pursuant to IAS 39, if the market for a financial instrument is not active, the reporting entity establishes fair value by using a valuation technique (which may be based in whole or in part upon unobservable prices/inputs). Valuation techniques are subjective in nature and, accordingly, the amounts recognised in financial statements can be impacted by the judgements made by the directors in arriving at valuations. Similarly, the valuations recognised in issuers' financial statements are affected by the significant assumptions underpinning the valuation techniques applied (changes in assumptions to reasonably possible alternatives can significantly impact the fair value calculated by valuation techniques).

Against this backdrop the Authority considered it appropriate to devote resources towards examining certain issuers' approach towards the valuation of selected financial instruments. In that context, matters in respect of which the Authority sought information, explanations and clarifications included:

- details of the methods and, where a valuation technique was employed, assumptions applied in determining fair values for each class of financial assets and financial liabilities;

- details of the changes in fair value recognised in profit or loss (and amounts recognised on issuers' Balance Sheets) that were estimated using a valuation technique based on assumptions that were not:

    - supported by prices obtained from observable current market transactions in the same instrument; and

    - based on available observable market data;

- details of the effect (expressed in monetary terms) on fair values of changing one or more of those assumptions to reasonably possible alternatives;

- details regarding the accounting policy adopted in relation to repossessed assets (including the measurement thereof); and

- details of the fair value gains or losses on the financial assets (reclassified financial assets) recognised in profit or loss in that reporting period and in the previous reporting period.

In response to these enquiries, certain issuers provided undertakings to provide enhanced disclosures in future periodic financial reports regarding the basis on which selected financial instruments have been valued.

4.3.2 Impairments
The approach to impairment as prescribed under existing accounting standards is an 'incurred loss' model[24]. Under this model, loans may be written down (impaired) only when evidence is available that a loan or portfolio of loans will not be repaid in full. Such evidence (a 'trigger event') may be specific to an individual loan (e.g. a bankruptcy) or an event that is likely to lead to defaults across a portfolio of loans (e.g. an increase in unemployment and a downturn in the property market may lead to an increase in mortgage defaults). Under the incurred loss model expected future credit losses are not

Comment [ID17]: Should we say something about why the expected loss model is not currently permitted.

MK - a difficult one to answer but perhaps there is something in the Basis of conclusion to the standard?

MB: SEE FOOTNOTE

ID: include a reference to income smoothing?

[23] Reclassification of financial assets (issued October, 2008 and effective 1 July, 2008), Reclassification of financial assets- Effective date and Transition (issued November, 2008 and effective 1 July, 2008) and Improving disclosures about financial instruments (issued March, 2009 and effective 1 January, 2009).
[24] Paragraph BC 109 of IAS 39 states that '*impairment losses should be recognised only if they have been incurred*', and paragraph BC 110 states that '*for a loss to be incurred, an event that provides evidence of impairment must have occurred after initial recognition of the financial asset… Possible or expected future trends that may lead to a loss in the future … do not provide objective evidence of impairment …*'

permitted to be recognised until a trigger (loss) event has occurred. This has resulted in the incurred loss model being criticised during the global financial crisis for recognising expected losses too late, i.e. by not permitting issuers to recognise expected losses but, rather, only permitting them to recognise losses when they have been incurred.

When a loan is extended, the risk of default is included in the lender's calculation of the applicable interest rate. However, the currently required accounting treatment assumes that the loan will be repaid in full unless, at some point during the loan's life, evidence is provided to the contrary. Therefore, under the incurred loss model, until a trigger event occurs the full contractual interest is recognised as revenue. When a trigger event occurs the impairment is recorded, resulting in an abrupt adjustment in the Income Statement. This pattern occurs even if the amount of that loss had always been expected (e.g. reflects historical experience). The high recognition of interest revenue until actual evidence of a trigger event occurs has been criticised for not reflecting that future credit losses are expected across a portfolio of loans. Additionally, in practice issuers may have used different trigger events or have assessed the same trigger events differently.

In November 2009, and against the backdrop of the international financial crisis, the IASB published proposals to alter the current accounting requirements to an 'expected loss' impairment method[25]. The proposed expected loss model would, if adopted, require issuers to:

- determine the expected credit losses on a financial asset when that asset is first obtained;
- recognise contractual interest revenue, less the initial expected credit losses, over the life of the instrument;
- build up a provision over the life of the instrument for the expected credit losses;
- at each reporting date, reassess the expected credit loss; and
- recognise immediately the effects of any changes in credit loss expectations.

However, for the period under review, the incurred loss model is that which issuers were required to apply under the accounting standards in force. Therefore, issuers are currently permitted to account for credit losses on financial assets only if:

- an event (or a combination of events) had occurred that had a negative effect on future cash flows; and
- that effect could reliably be estimated.

Consequently, issuers are not permitted to consider the effects of future expected losses in their financial statements.

Against the backdrop of the foregoing, matters in respect of which the Authority requested and obtained information, explanations and clarifications from issuers' directors included:

- the threshold amounts used in determining whether financial assets were considered as being '*individually significant*' for the purposes of determining whether objective evidence of impairment existed;
- the proportion of financial assets that were (i) considered '*individually significant*'; and (ii) assessed for impairment, on an individual basis, for the reporting period;
- clarification as to whether there were any changes to the threshold amounts and proportions in the current reporting period;

[25] Exposure Draft ED/2009/12 *Financial Instruments: Amortised Cost and Impairment* (November, 2009). This is the second instalment of a three-part IASB project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The three parts deal with: (i) classification and measurement; (ii) amortised cost and impairment (loan loss provisions); and (iii) hedge accounting.

- details of the significant assumptions used in assessing each of:
    - the cashflows that may result from foreclosure; and
    - the costs associated with obtaining and disposing of collateral;
- elaboration, in both narrative and quantitative terms, on the key assumptions and parameters underlying estimations of the present value of future cash flows for each portfolio of loans collectively evaluated for impairment and the level of the IBNR[26] provision (e.g. interest rates, price trends, bankruptcy trends, unemployment rates, loss experience, level of arrears, migration rates, timing and amount of the realisation of collateral etc.);
- elaboration as to how such key assumptions and parameters, based on historic loss experience, had been adjusted to reflect current observable data, including the nature of such data and the type of adjustment(s) arising, together with the basis on which those adjustments had been determined;
- elaboration as to the factors giving rise to a decrease/increase in the coverage ratio of the impairment provision to impaired loans;
- with regard to renegotiated loans, details of the rationale for the directors' judgement that:
    - there was no objective evidence of impairment in relation to any of these renegotiated loans; or
    - that there was no loss arising on any of these loans when the carrying amount was measured against the present value of estimated future cash flows discounted at the original effective interest rate;
- clarification as to whether the issuer had any loans whose terms and conditions had been amended and on which an impairment loss had been recognised in the current reporting period, and if so, the aggregate amount of any such loans and the impairment charge for the period;
- details of issuers' methodologies in identifying the need for the subsequent re-classification of renegotiated loans as 'impaired';
- the total amount outstanding in respect of renegotiated loans as at the reporting date which had been classified as being of performing status which, in the absence of renegotiation, would otherwise have been be classified as impaired;
- the amount, if any, of interest rolled up into renegotiated loans during the relevant period;
- details of the criteria applied by issuers in determining whether to upgrade loans from impaired to performing status, together with details of issuers' review processes in this regard;
- details as to the accounting policy applied in relation to repossessed assets, including the measurement of assets acquired in exchange for loans and receivables; and
- details of all adjusting and non-adjusting post balance sheet events that were considered by issuers' directors in assessing and arriving at impairment provisions. In respect of each adjusting and non-adjusting post balance sheet event identified, issuers' directors'

[26] Incurred But Not Reported –'*An entity should recognise an impairment on a group of loans if its loss expectation at initial recognition of the loans had not changed but the entity could estimate reliably, on the basis of the past, that loss events occurred after initial recognition, but before the reporting date ... An entity should recognise such an incurred impairment loss that is supported by objective evidence, which might not have been reported before the entity's reporting date. However, an impairment loss could not be recognised if relevant events had not been recognised*' (IFRIC – items not added to the agenda, October, 2004).

conclusions as to the adjusting/non-adjusting nature of the events concerned was also sought, together with details of the rational underpinning each conclusion.

4.3.3 Related party disclosures

Consequent upon the introduction of the Government Guarantee Scheme, the appointment of public interest directors to certain institutions' Boards, the nationalisation of Anglo and the recapitalisation of AIB and BoI, the State is now a related party to the affected institutions.

In this context, and in the context of the requirements of IAS 24 *Related Party Disclosures*, company law requirements and amendments thereto during the year, the Authority engaged with the domestic financial institutions under its remit on their respective approaches towards accounting for related party transactions and balances with the Government. This engagement was informed by the, apparent, differing levels of disclosure provided by the issuers concerned in their 2009 half-yearly reports. For example, one issuer, while providing a description of its relationship with the Government and the guarantee arrangement in place, did not treat the Government as a related party whereas another issuer stated that all covered institutions' participating in the Government Guarantee Scheme were related parties to each other.

Comment [ID18]: Clarify that this doesn't include INBS, EBS etc.

Comment [ID19]: Identify?

Comment [ID20]: Ditto

As a result of the Authority's enquiries in this regard, a number of undertakings were received from issuers' directors, including:

- undertakings to disclose transactions with related parties (including the Government) in accordance with paragraphs 16 and 17 of IAS 34 (i.e. transactions with related parties) sufficient to '*provide an explanation of events and changes that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period*'[27] in future half-yearly financial reports;

- undertakings to disclose:

  (a) the nature of the related party relationship;

  (b) details of the amounts of transactions with related parties;

  (c) the amount of outstanding balances, their terms and conditions and details of any guarantees given or received;

  (d) provisions for doubtful debts relating to amounts outstanding; and

  (e) expense recognised in respect of bad or doubtful debts due from related parties,

  including comparative amounts in future annual financial statements;

- undertakings to review related party disclosures with a view to enhancing and clarifying those disclosures in future periodic financial statements; and

- undertakings to include the Government as a related party in future periodic financial statements and to provide the required disclosures, including comparative amounts.

Certain issuers were also reminded that, while the IASB has agreed amendments to IAS 24, those amendments have not been endorsed by the EU and, consequently, the revised IAS 24 does not form part of the relevant reporting framework at this time.

4.3.4 Other financial reporting matters

Other matters in respect of which the Authority engaged with directors of financial institutions and fund and debt issuers during the year included:

- accounting policies – changes in accounting estimates;

[27] IAS 34 Interim Financial Reporting, paragraph 15

- concentration risk;
- treatment of the cash flows relating to debt securities in issue;
- assets classified as held for sale;
- redemption of subordinated liabilities;
- share-based compensation schemes;
- repossessed assets;
- retirement benefits;
- lease disclosures;
- contingent liabilities;
- investment properties;
- reinsurance contracts;
- segmental reporting;
- deferred tax on temporary differences; and
- joint ventures.

5. Enforcement of IFRS across the European Union - (EECS)

5.1 Background to our membership of the EECS

The background to the establishment of the CESR-sponsored EECS[28] was set out in detail in the Authority's first Annual Report[29] and is 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, CESR members) and where Member States' financial reporting enforcement responsibilities do not reside with the national securities regulator (as is the case in Ireland[30]), non-CESR 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 International Financial Reporting Interpretations Committee (IFRIC).

5.2 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.

[28] European Enforcers' Co-ordination Sessions
[29] Section 4 of Chapter 2 of the Authority's 2006 Annual Report refers
[30] The Financial Regulator, which is a CESR member, is also a member of the EECS

As at 31 December, 2009 approximately 350 decisions had been submitted to the database by EECS members. For the benefit of preparers and other stakeholders, summaries of enforcement decisions taken by EECS members are published periodically. During 2009, CESR published its fifth, sixth and seventh such summaries (on 24 March, 26 August and 16 December respectively). Those summaries published by CESR to date, which do not name the issuers concerned, can be accessed on the Authority's website at http://www.iaasa.ie/publications/index.htm

5.3 EECS activities
During the year, the EECS' principal activities included:

- considering issues giving rise to enforcement in Member States and sharing perspectives thereon;
- discussing decisions taken by other enforcement authorities;
- discussing emerging issues of interest to financial reporting enforcers;
- maintaining and augmenting the confidential database of enforcement decisions;
- publishing, for the benefit of issuers and other interested parties, summaries of enforcement decisions posted to the EECS database;

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- publishing (via CESR) an analysis of the compliance of European financial institutions with financial reporting disclosure requirements related to financial instruments[31]; and
- hosting (via CESR) a roundtable with accounting enforcers from 33 countries, representatives of the International Accounting Standards Board **(**IASB) and auditors to discuss the enforcement of International Financial Reporting Standards (IFRS) and enforcement decisions taken around the world.

5.4 Authority participation in the EECS
During the year:

- Authority staff attended all 7 EECS plenary meetings and actively participated in the consideration of issues brought to the EECS by other members;
- the Authority submitted 13 decisions to the database;
- Authority staff presented 8 decisions to the plenary for discussion;
- submitted 2 emerging cases to the plenary for discussion;
- presented 5 discussion papers to the plenary for discussion amongst members. The subject matter of those discussion papers included:
    - the impact of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and IAS 24 *Related Party Disclosures* on State participation in the ownership of banks and the impact of NAMA[32];
    - IFRS 3 *Business Combinations* and factors contributing to the recognition of goodwill;
    - IAS 1 *Presentation of Financial Statements* and the classification of bank loans in circumstances of non-compliance with loan covenants; and
    - IFRS 8 *Operating Segments* and the identification of Cash Generating Units for the purposes of impairment testing;

[31] A link to this document can be found on the Authority's website at http://www.iaasa.ie/news/prev_news_2009.htm#id2304694
[32] National Asset Management Agency.

- hosted, in conjunction with the Financial Regulator, a meeting of EECS in July, 2009 at Dublin Castle which was attended by representatives of EU accounting enforcers from 19 countries; and

- conducted research and analysis, from an Irish perspective, on the compliance of European financial institutions with financial reporting disclosure requirements related to financial instruments for collation at EU level by CESR.

In addition to the Authority's participation in plenary related matters, the 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:

- 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

- the review of enforcement decisions taken by EU national enforcers with a view to determining whether they meet the criteria for publication.

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

- Enforcement Methodology Group, which is charged by the plenary with the development of common review methodologies. This Group develops and maintains template review programmes for use by EU national enforcers, the purpose of such programmes being to facilitate a consistent approach towards financial reporting review and enforcement across the EU. The template review programmes were updated in 2009 to reflect additions and amendments to IFRS; and

- 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.

In addition, the Authority provided input to a number of CESR-led surveys on the application of CESR Standards across the EU.

6. 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 may be found in Chapter 5 of this Report.

APPENDIX # TO ANNUAL REPORT

Comment [ET21]: Insert as Appendix once finalised

Appendix # – overview of considerations affecting risk assessment and selection

Comment [ET22]: Insert once finalised

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

As a consequence of the foregoing, IAASA has resolved to adopt a mixed model, whereby selections of issuers' financial reports for review will be based on risk assessments, supplemented by cyclical and/or random selections (thereby ensuring that entities that might not be selected as a consequence of a risk-based approach nevertheless stand to be selected for review). IAASA has further decided that a risk-based approach should have regard, *inter alia*, to:

(a) the risk of material misstatement in issuers' financial reports; and

(b) the potential impact of such a misstatement on the users of financial reports.

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

(a) financial structure and business/economic trends;

(b) financial position and ratios;

(c) industry specific issues;

(d) audit qualifications and related issues;

(e) corporate governance and control environment issues;

(f) incidence of related party transactions;

(g) incidence of business combinations and/or disposals;

(h) administrative, court and/or regulatory actions; and

(i) third party signals (e.g. complaints received by IAASA, press reportage etc.).

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

(a) share trading activity and volatility in stock price;

(b) market capitalisation;

(c) number and nature of investors;

(d) nature of securities traded; and

(e) public profile.

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

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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

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 accountancy profession

The promotion of adherence to high professional standards by the 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 accountancy profession through three principal avenues, i.e. by:

- promoting adherence to high professional standards through interaction with the 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 accountancy profession

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

I. continuing to provide members of the 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 at Appendix X to this Report);

Comment [ET1]: Insert Number once finalised

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;

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:

    i. breaches of approved procedures have occurred; and

    ii. parallel regulatory responses are necessary or otherwise appropriate; and

V. providing RABs with feedback from IFIAR inspection workshops for the purpose of enhancing RABs' inspection processes.

Further information regarding the Authority's activities in the context of II to V above is set out in Chapter 3 of this Report.

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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:

I. continuing to review, on a risk assessed basis, 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;

II. responding to queries received from members of the public, thereby providing enquirers with the information necessary to enable them to:

   - understand the Authority's and PABs' respective roles in the complaints/disciplinary processes;
   - understand issuers' periodic financial reporting obligations under the Transparency Regulations; and
   - direct complaints to other relevant authorities, where appropriate; and

III. 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 at Appendix X to this Report).

Comment [ET2]: Insert No. once finalised

Further information regarding the Authority's activities in the context of I above can be obtained in Chapter 4 of this Report while further information regarding II above can be obtained in Chapters 3 and 4.

1.4 Provision of observations on year-end financial reporting issues for stakeholders' benefit
1.4.1 Financial years ended 31 December, 2008

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In presenting their results in respect of the year ended 31 December, 2008, issuers reported against a background of continuing market uncertainty, reduced access to credit and a weak domestic and international economic environment, each of which gave rise to significant challenges in the context of financial reporting. In that context, the Authority considered it opportune to offer some commentary, by way of an observations document published in January of 2009, on selected financial reporting issues for Boards' and Audit Committees' benefit[1]. The table below provides a brief summary of the matters addressed in the document.

Table X
Summary of matters addressed in the Observations document published in January 2009

Valuation and impairment of assets The document drew attention to the necessity for Boards and Audit Committees to critically assess management's judgements in respect of the impairment of individual assets and Cash Generating Units. It also reminded Boards that the use or models in valuations or impairment assessments of financial assets requires careful analysis as previous assumptions utilised in those models, which are based on historical experience, may no longer be applicable in the prevailing environment.

[1] This document is available at http://www.iaasa.ie/publications/FRSUobs_Jan09.pdf

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Retirement benefits The necessity to question the appropriateness of historically applied assumptions in the valuation of retirement benefit asset and liabilities was also highlighted. Aspects of accounting for retirement benefits warranting particular attention included: • determination of appropriate discount rates; • fair value of plan assets; and • the provision of a full current actuarial valuation in the context of the changed economic environment.
Going concern/principal risks and uncertainties Against a background of potentially falling asset values and decreased earnings, Boards and Audit Committees were advised to place appropriate emphasis on satisfying themselves that the preparation of financial reports on a going concern basis was appropriate and the document listed several considerations that might usefully be included in Boards' and Audit Committees' evaluation. In addition, the document drew attention to the Authority's observations on the varying standard of compliance noted with the requirement to include a description of the principal risks and uncertainties facing the issuer in the Management Report and noted that disclosures which are meaningful and issuer-specific are required as opposed to the provision of boilerplate statements.
Financial instruments: IFRS 7/FRS 29 disclosures The document drew attention to the provisions of Paragraph B3 of IFRS 7, which points to the necessity to strike a balance between overburdening financial statements with excessive detail and obscuring important information as a result of too much aggregation. Stakeholders were also advised that the Authority was likely to focus on the standard, quality and appropriateness of issuers' IFRS 7 disclosures in its review activities for 2009.
Hedge effectiveness In times of market turbulence, the measurement of the effectiveness of a hedging arrangement takes on additional importance, and, in this regard, Boards and Audit Committees were advised to carefully review the assumptions employed by management in their assessment of hedge effectiveness.
Judgements Noting that in its review activity to date, the Authority had found that periodic financial reports vary considerably in the extent to which they clearly and comprehensively disclose the judgements made in preparing financial statements, stakeholders were advised that judgements were likely to remain an area of review focus in 2009. The document highlighted, in particular, the judgements made by debt and fund issuers in respect of the classification of financial instruments between equity and financial liabilities under IAS 32 *Financial Instruments: Presentation*.
Related party disclosures As a general observation, it was noted that in its review activity the Authority had identified weaknesses and deficiencies in disclosures provided pursuant to the requirements of IAS 24 *Related Party Disclosures.* In the particular environment in which issuers were preparing to publish their 2008 financial reports, the importance of compliance with the statutory provisions governing transactions with directors was emphasised.
Deferred tax assets Boards and Audit Committees were advised to rigorously assess the appropriateness of the recognition of deferred tax assets in circumstances where the entity had incurred losses.
Operating profit While acknowledging that issuers differ in their presentation of items within and outside of a subtotal entitled '*Operating profit*' and in the level of accompanying disclosure provided, it was noted that entities should have regard to the provisions of BC13 of IAS 1 *Presentation of Financial Statements* and should also include a disclosure to explain the judgements applied in classifying items within and outside of '*Operating profit*'.
Alternative performance measures The Authority noted that, while many entities presented alternative performance measures in periodic financial reports, such as '*EBITDA*' and '*Alternative Earnings Per Share*', the quality of narrative explanations accompanying same is varied. Stakeholders' attention was drawn to the CESR Paper entitled '*Recommendation on Alternative Performance Measures*' which encourages entities who use alternative (non-IFRS) performance measures to do so in a manner that is both appropriate and useful for investors' decision making.

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Business combinations The document highlighted potential weaknesses in the financial reporting around business combinations, in particular in respect of the allocation of the cost of acquisition to identifiable assets at fair value and failure to disclose the use of provisional values.
Earnings per share The Boards, and where applicable Audit Committees, of closed ended funds were reminded that the requirement to provide EPS is neither met nor negated by the provision of Net Asset Value ('NAV') disclosures.
Prior period errors Arising from the Authority's review activities, weaknesses and deficiencies in disclosures concerning the nature and effect of restatements of comparative amounts were noted, as well as instances in which entities had corrected prior period errors on a prospective rather than retrospective basis, as required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
Recently promulgated accounting pronouncements 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.

1.4.2 Financial years ended 31 December, 2009

At year end, work on a similar document dealing with issuers' financial statements in respect of the year ended 31 December, 2009 was at an advanced stage[2]. Matters addressed in that document include:

- impairment of goodwill;
- hedging instruments;
- bank covenants;
- related party transactions and balances;
- accounting for Government grants and disclosure of Government assistance;
- materiality;
- financial instruments – risk disclosures;
- operating profit; and
- key performance indicators.

Comment [M3]: Is this 2010 Obs Doc not already adequately covered by Chapter 4's commentary on finding and outcomes and undertakings table? It looks a bit lost here after a more detailed summary of the Jan 2009 Obs Doc in the proceeding paragraphs.

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1.5 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 Report[3] 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.

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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.

[2] This document is available at http://www.iaasa.ie/publications/Obsdoc_Jan10.pdf

[3] Section 5 of Chapter 2 of the Authority's 2006 Annual Report (available at http://www.iaasa.eu/publications/Annual_Report_2006.pdf).

Deleted: Section 4 of chapter 4 of the Authority's 2008 **[or 2007?????]** Annual Report refers

While the ASB published a number of documents during the year that were of particular relevance in an Irish context, one issue of particular relevance to Irish preparers of financial statements was the publication, in August 2009, of the ASB's policy proposal entitled '*The Future of UK GAAP*'. 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. Specifically, the separate body of accounting literature currently referred to as Irish/UK GAAP would cease to exist. While, under its policy proposal, the ASB would not relinquish the right to set Irish/UK GAAP in the future, if implemented, all existing literature would be superseded.

The ASB's proposal sets out a differential reporting regime based on the concept of '*public accountability*'. The proposed approach, and its effect on the various categories of companies operating in Ireland, can be summarised as follows:

Type/Nature of Entities	**Current Accounting Regime**	**Proposed Accounting Regime**	**Potential implications for…**
EU listed entities' consolidated financial statements IEX listed entities' consolidated financial statements	IFRS (EU endorsed)	IFRS (EU endorsed)	n/a
'*Publicly Accountable*' entities, including 100% publicly accountable subsidiaries	Converged Irish/UK GAAP	IFRS (EU endorsed) [Tier 1]	Irish listed Debt and Fund entities Building societies Credit Unions Friendly societies
Large and Medium '*Non Publicly Accountable*' Entities ('NPAs')	Converged Irish/UK GAAP	IFRS for SMEs [Tier 2]	NPA groups NPA entities NPA subsidiaries
Small companies	Converged Irish/UK GAAP	FRSSE [Tier 3]	Small companies

In essence, and as referred to in the table above, the ASB proposals would see a three tier approach to future financial reporting by Irish (and UK) entities. Set out below is a brief summary of each Tier.

Tier 1 – 'Publicly Accountable' entities (including 100% publicly accountable subsidiaries)
All publicly accountable entities would be required to apply EU endorsed IFRS. This requirement would apply to publicly accountable entities irrespective of their size. By way of example, in an Irish context, this would have implications for:

- approximately 500 Credit Unions and Friendly Societies operating in the State;
- fund and debt issuers listed on the ISE; and
- publicly accountable wholly-owned subsidiaries.

This was an issue discussed at considerable length by the ASB and, given that Ireland differs from the UK considerably in that Ireland has a higher proportion of fund and debt issuers listed on the ISE than is the case on the London Stock Exchange (and that certain of these issuers are wholly owned subsidiaries), this was a subject in which the Authority took a keen interest. Having considered the matter is considerable detail, the ASB decided to expose the following proposals for stakeholder comment:

- IFRS (EU endorsed) should be used by all publicly accountable entities (including publicly accountable subsidiaries);

- subsidiaries not meeting the criteria for being considered as being publicly accountable should be regarded as part of Tier 2 and should be allowed to use the IFRS for SMEs; and

- there should be no disclosure exemptions for subsidiaries (as there are so few that this option was not considered to be worth pursuing). Stakeholders were, however, invited to make the case if they disagreed with this assessment.

Tier 2 – Large and Medium Non-publicly Accountable entities
The ASB considers that the IFRS for SMEs standard, recently published by the IASB, should be used by Tier 2 entities. The IFRS for SMEs is a self-contained Standard which has been developed by the IASB to cater for the needs of entities that publish general purpose financial statements for external users but which do not have public accountability. Many of the principles for recognition and measurement in 'full' IFRS have been simplified, some topics omitted altogether, and the number of required disclosures has been significantly reduced. Under the proposed approach, therefore, the IFRS for SMEs standard would require to be adopted by:

- those entities not deemed to be publicly accountable (Tier one entities), who would be required to apply EU endorsed IFRS; and

- those entities not permitted to use the FRSSE (only Tier three entities would be permitted to apply the FRSSE).

In practice the proposals mean that most large and medium sized Irish companies would be required to switch from using existing 'full' Irish/UK GAAP to using the IFRS for SMEs Standard. Affected entities could, of course, elect to apply 'full' EU endorsed IFRS should they so wish.

Tier 3 – Small companies
The ASB considers that the existing Financial Reporting Standard for Smaller Entities ('FRSSE') should remain in force for the foreseeable future, on the grounds that the cost of change to the IFRS for SMEs Standard in its current form would not be justified in the context of the entities concerned.. The FRSSE is a self-contained standard based on Irish/UK GAAP for use by small companies. The measurement requirements in the FRSSE are the same as those in 'full' Irish/UK GAAP but many of the disclosure and presentation requirements of 'full' Irish/UK GAAP have not been included. This option is currently available for small companies as defined in Irish law, i.e. companies that do not exceed two or more of the following criteria: (i) turnover €3,809,214; (ii) balance sheet total €1,904,607; (iii) average number of employees 50. While the FRSSE is widely used by small companies in the UK, it is not as widely used in Ireland and many small companies prepare their financial statements using 'full' Irish/UK GAAP. In the event that the ASB implements its proposals a, these entities would have to change their existing practice and use the FRSSE (or, alternatively, elect to apply the IFRS for SMEs or 'full' IFRS).

Comment [ID4]: Appropriate word?

MK - Is an appropriate word but would stay neutral on it i.e. probably nothing lost if it is taken out?

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In view of the significance of the ASB's proposals for Irish entities, the Consultative Committee of Accountancy Bodies in Ireland (CCAB-I) hosted a public event on 9 December, 2009 to discuss and debate the proposals and the role of IFRS therein. The Authority's Head of Financial Reporting Supervision spoke at the event, which was attended by over 400 people.

1.6 Co-operation with interested parties in the development of auditing standards and practice notes
[ID to draft – APB 03/10 meeting papers refer]

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

2.1 Statutory Audit Directive and related matters

Set out below are the principal issues in respect of which the Authority provided its input, advice and perspectives to the Minister and the Department of Enterprise, Trade & Employment ('the Department') during the year.

2.1.1 Transposition of the Statutory Audit Directive

During the year, the Authority continued to devote considerable resources towards providing the Department with advice and assistance in the context of its responsibility to transpose the Directive into national law. Specific Directive related issues on which the Authority provided assistance and advice are elaborated upon below.

2.1.2 European Commission Decision on transitional arrangements for certain third country auditors and audit entities

In July 2008, the European Commission issued a Decision, the effect of which was to permit auditors and audit entities from certain named third countries to continue to issue valid audit opinions in the EU for a specified time period, provided that they furnish certain specified information to Member States' designated authorities. The Authority provided the Department with assistance and advice in giving effect to the Decision in national law, which was done in XXX by Statutory Instrument 229 of 2009[4]. Further information regarding the Authority's role as competent authority for the above purpose is provided in Chapter 3 of this Report.

Comment [ET5]: Insert once finalised

2.1.3 European Commission Recommendation[5] on External Quality Assurance of Auditors of Public Interest Entities

Following publication by the European Commission of the Recommendation in May 2008, the 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:

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.

In its response dated 9 April, 2009, the Authority expressed the view that:

- implementation of the Recommendation is necessary from a public interest perspective;
- Ireland's current quality assurance arrangements in respect the audits of listed entities are increasingly out of step with EU and internationally accepted best practice; and
- implementation would be likely to result in reduced duplication of audit inspection activities, thereby creating scope for associated benefits deriving from reduced costs and regulatory burdens.

[4] The S. I. may be accessed at http://www.iaasa.ie/legislation/si229_2009.pdf

[5] This document may be accessed at http://www.iaasa.ie/publications/EU_QA_Recs080508.pdf

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Based on the foregoing, and having regard to cost and other considerations associated with a move to a direct inspections model, the Authority expressed the view that the most appropriate manner in which to implement the Recommendation would be through a move to a delegation model (i.e. option III above).

Of those parties who responded to the Consultation Paper (whose responses have been published on the Department's website[6]), the results were as follows:

In favour of retaining the status quo	In favour of moving to a direct inspections model	In favour of a move to a delegation model
CIMA Ernst & Young KPMG ICAI/CARB ICAS PricewaterhouseCoopers	ACCA Deloitte Financial Regulator Grant Thornton ICPAI Office of the Director of Corporate Enforcement	AIA IAASA ICAEW Institute of Internal Auditors Revenue Commissioners

2.1.4 PCAOB 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. One of the more significant developments on this issue during the year was the issuing of a letter from EU Commissioner McCreevy to the Acting PCAOB Chairman in September. In his letter, the Commissioner:

i. expressed concerns regarding the PCAOB's desire to perform inspections in EU Member States in circumstances where certain legislative amendments – which would allow for the mutual exchange of auditors' working papers with EU authorities - have yet to be made to US law;

ii. drew attention to the legal consequences that PCAOB inspections would have for Member States and EU audit firms (i.e. on the basis of such inspections taking place outside the provisions of Article 47 of the Directive);

iii. confirmed that, until such time as the Commission has taken an adequacy decision in respect of the US, Member States cannot accept PCAOB inspections of EU audit firms and Member States' oversight bodies and audit firms cannot send audit working papers to the PCAOB;

iv. emphasised that, were Member States to fail to comply with (iii) above, the Commission would have to initiate infringement proceedings against the Member State(s) concerned; and

v. indicated that the PCAOB should not, therefore, impose sanctions on EU audit firms that are not in a position to comply with the PCAOB's information/inspection requests.

2.2 Other advisory inputs

Comment [ID6]: HH/MK/JO'M – others?

During the year the Authority also provided assistance and/or advice to the Department of Enterprise, Trade & Employment in respect of:

- the Companies (Miscellaneous Provisions) Bill 2009 ('the Bill'), which provided for the use, on a transitional basis, of US GAAP by certain parent undertakings, to the extent that the use of those principles in the preparation of relevant undertakings' financial statements does not contravene any of the provisions of the Companies Acts or any Regulations made thereunder. The Bill was subsequently enacted as the Companies (Miscellaneous Provisions) Act 2009;

- the commencement of section 36 of the Companies (Auditing and Accounting) Act 2003, which provides statutory backing for the PABs' disciplinary processes;[7]

[6] http://www.entemp.ie/commerce/companylawlegislation/eqaconresponses.htm
[7] Section 36 was commenced by S.I. 13 of 2009 (Companies (Auditing and Accounting) Act 2003 (Commencement) Order 2009).

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- possible alternative means of funding investigations under section 24 of the 2003 Act;
- the formulation of a revised list of entities for Ministerial prescription under section 48(1) of the 2003 Act (i.e. for the purpose of section 31 of the Act);
- certain proposed amendments to the Transparency (Directive 2004/109/EC) Regulations, 2007;
- how the term '*auditor*' should be defined in the Criminal Justice (Money Laundering) Bill, 2008. This Bill seeks to consolidate the existing law on money laundering and to enact new provisions giving effect to the Third Money Laundering Directive (Directive 2005/60/EC); and
- a review of Regulation (EC) No. 764/2008 of the European Parliament and of the Council of 9 July, 2008.

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the implications of the effective date of S.I. 450 of 2009 – European Communities (Directive 2006/46/EC) Regulations 2009 which was signed into law on 18 November, 2009 and introduced significant new disclosure requirements for issuers including in relation to their corporate governance arrangements, internal control and risk management;

Comment [ET7]: For HH to confirm. Mentioned in RMS activity report as requiring review because of DETE request, although it transpired not to be relevant to IAASA

2.3 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 matters[8]. The Authority is a body entitled to nominate a member to the CLRG and, through its nominee's membership[9], the Authority contributed to the CLRG's ongoing provision of advice to the Minister during the year.

Comment [ID8]:

Consider inclusion of following:
- Better Regulation Group meeting 3rd April
- Meeting with new Minister
-

[8] Further information on the CLRG can be obtained at http://www.clrg.org
[9] The Authority has nominated its Chief Executive as a member of the CLRG.

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Appendix 2

Presentations delivered by Authority staff during 2009

Topic	Forum/Audience	Presenter	Date
IAASA's role in supporting and enhancing market confidence through regulatory and compliance oversight	Association of Compliance Officers in Ireland (ACOI)	Ian Drennan, Chief Executive	January, 2009
IAASA's financial reporting supervision role	PricewaterhouseCoopers	Michael Kavanagh, Head of Financial Reporting Supervision and Maurice Barrett, Project Manager, Financial Reporting Supervision Unit	January, 2009
The role of IAASA in accounting regulation in Ireland	Masters in Accounting students, National University of Ireland, Galway	Eileen Townsend, Project Manager, Financial Reporting Supervision Unit	March, 2009
Regulatory reform in the Irish economy	Public Affairs Ireland Conference	Ian Drennan, Chief Executive	September, 2009
IAASA's financial reporting supervision role	Staff of the Financial Regulator	Michael Kavanagh, Head of Financial Reporting Supervision and Helen Hall, Head of Regulatory and Monitoring Supervision	September, 2009
Accounting regulation in Ireland	MBS in Accounting students, Dublin City University	Eileen Townsend, Project Manager, Financial Reporting Supervision Unit	October, 2009
The future of Irish GAAP	CCAB-I sponsored seminar	Michael Kavanagh, Head of Financial Reporting Supervision	December, 2009

Articles authored by Authority staff during 2009

Article Details	Author
'*Taking stock of the new*', AB Accounting and Business, ACCA, October 2009, Issue 10, pp. 35-38	Michael Kavanagh, Head of Financial Reporting Supervision
'*Future of Irish/UK GAAP*', Accountancy Plus, CPA, December 2009, Issue 4, pp. 17-18	Michael Kavanagh, Head of Financial Reporting Supervision

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

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 Adherence to legal obligations

1.2.1 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 Acts[1]. During the year, in compliance with the Authority's obligations as a company, the directors:

- held the Authority's third Annual General Meeting on 16 June, 2009; and
- filed the company's Annual Return with the Registrar of Companies on 2 July, 2009.

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.

1.2.2 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 December, 2008);
- 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;
- the European Communities (Late Payments in Commercial Transactions) Regulations 2002; and
- certain other requirements typically applicable to statutory bodies such as, for example, the Freedom of Information 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] 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 Statements and Related Statements).

1.3 Adherence to governance obligations

1.3.1 The Code

As a body established under statute, the Authority is subject to Code of Practice for the Governance of State Bodies ('the Code'), as issued by the Department of Finance. 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 an orientation briefing upon appointment to the Board;
- adopted Codes of Conduct for both directors and employees[2];
- 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; and
- 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.

[2] The Authority's Codes of Business Conduct can be accessed on the Authority's website at http://www.iaasa.ie/about/business_codes.htm

1.3.2 Revisions to the Code
During the year under review the Department of Finance issued a revised Code, which altered the governance obligations previously applying to the Authority. The Board considered the revised Code at its September meeting and took the following steps to ensure the Authority's continuing compliance with its governance responsibilities:

- effected certain amendments to the Schedule of Matters Reserved to the Board necessary to ensure continuing compliance;
- 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;
- adopted the revised requirements regarding 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 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).

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

2.1 Customer Charter

The Authority's Customer Charter[3] 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.ie[4], on which members of the public can access:

- details of the Authority's statutory remit, including the Authority's principal statutory functions and powers;

[3] A copy of the Authority's Customer Charter can be accessed at http://www.iaasa.ie/about/Customer_Charter.pdf
[4] The Authority's website is also accessible at www.iaasa.eu.

- 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;
- 3rd party publications likely to be of interest to website users;
- 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
- 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 Services provided - complaints and queries

As detailed above, members of the public may lodge complaints with the Authority regarding the PABs or issuers' periodic financial reporting. The Authority deals with complaints received on a confidential basis and seeks to address complaints received as quickly as possible. Further details regarding how to make a complaint can be accessed on the Authority's website or, alternatively, directly from the Authority. Complainants are advised, however, that, due to the Authority's statutory confidentiality obligations, there are limits to the extent to which it is possible for complainants to be kept apprised of the progress of a complaint.

In addition to accepting complaints, the Authority welcomes queries from members of the public and, to the extent practicable, endeavours to assist enquirers to the fullest extent possible. Details of complaints and queries received by the Authority during the year, together with details of the manner in which same were dealt with, are set out in Chapters 3 (complaints) and 3 and 4 (queries) of this Report.

Comment [j1]: Cross reference check needed.

Queries

A total of 50 queries of a financial reporting nature were during the year. The nature of queries received during the year is analysed in the Table XX.

Comment [ET2]: Insert once finalised

Table XX
Nature of financial reporting related queries received – 2009

Query type	**Number of queries**
Relating to the provisions of the Transparency Directive/Regulations	14
Relating to the provisions of IFRS	18
Relating to other financial reporting issues	15
Miscellaneous	3
Total	**50**

[RMS queries to be inserted also]

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 the public by means of Consultation Papers. In addition to being placed on the Authority's website, the publication of Consultation Papers is generally advertised in the national press 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. During the year, the Authority published a Feedback Paper on its procedures governing the conduct of statutory Investigations under section 24 of the Act (published in September 2009).

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. The Authority hosted one such meeting during the year, on 19 October, at which representatives of seven of the PABs were in attendance.

2.6 Provision of responses to Parliamentary Questions

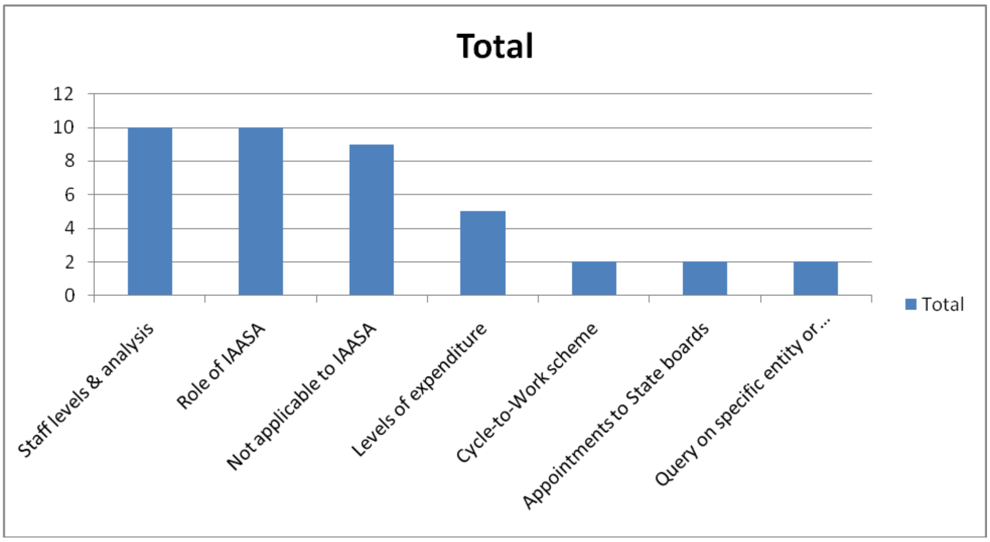
The parliamentary procedure of tabling Parliamentary Questions (PQs) is one whereby Deputies[5] have an opportunity to table questions to Ministers on matters of relevance to Ministers' portfolios. PQs can be tabled for written or oral response by Ministers.

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 Enterprise, Trade & Employment to provide material for inclusion in responses to be provided by the Minister.

During the year the Authority received 40 requests for PQ response material from the Department of Enterprise, Trade & Employment. The Table below provides an analysis of those questions by subject matter.

[5] Members of Dáil Eireann, which is the lower House of the Irish Parliament

Table 23
Analysis of subject matter of Parliamentary Questions referred to the Authority - 2009



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.
Role of IAASA	These questions related to powers devolved from the Minister to the Authority, whether the Authority issues licences, processes payments, carries out inspections and/or produces reports.
Not applicable to the Authority	These questions generally related to matters directly within the Minister's remit and were not, therefore, relevant to the Authority.
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.
Cycle-to-Work scheme	These questions related to queries regarding the Authority's participation in the scheme and the take-up therein.
Appointments to State Boards	Questions in this category related to issues surrounding Ministerial appointments to State Boards.
Query on specific entity or event	Questions under this heading related to interactions (if any) with specified individuals/organisations or representation at specific events.

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 ongoing professional continuing professional development;
- the attainment of further formal educational qualifications of relevance to the Authority's remit (i.e. in the area of IFRS); and
- undergoing training in other areas of relevance to the administration and management of the Authority, including in the areas of:
  - EU legislation;
  - information technology;
  - personal development; and
  - Statutory Bodies' duties and obligations.

CHAPTER 7 - PROFILE OF THE PRESCRIBED ACCOUNTANCY BODIES

IAASA

Irish Auditing & Accounting Supervisory Authority

2009 Financial Statements and Related Statements

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Report of the Directors

Introduction
The directors are pleased to submit to the third Annual General Meeting of the Irish Auditing and Accounting Supervisory Authority ('IAASA') the Authority's financial statements for the year ended 31 December, 2009, 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, 2009, were:

Ms. Karen Erwin	Chairperson, Ministerial nominee
Mr. Ian Drennan	Chief Executive, IAASA
Mr. Paul Appleby	Director of Corporate Enforcement
Ms. Helene Coffey	Nominee of the Law Society
Ms. Marie Daly	Nominee of the Irish Business and Employers' Confederation
Mr. Michael Deasy	Nominee of the Financial Regulator
Mr. Sean Hawkshaw	Nominee of the Irish Association of Investment Managers
Mr. Tony Kelly	Nominee of the Prescribed Accountancy Bodies
Mr. Brendan Kennedy	Nominee of the Pensions Board
Mr. Tadhg O'Connell	Nominee of the Revenue Commissioners
Senator Joe O'Toole	Nominee of the Irish Congress of Trade Unions
Mr. Gerard Scully	Nominee of the Irish Stock Exchange
Mr. Brian Shiels	Ministerial nominee
Secretary	Mr John G O'Malley, Head of Legal Services, IAASA

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

Under the Transparency (Directive 2004/109/EC) Regulations, IAASA has also 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 entitles whose securities are listed on a regulated market in the EU and for taking appropriate enforcement action in cases of infringement.

IAASA does not trade for the acquisition of gain by its members and there were no material changes to the nature of the company's activities during the year.

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 by the company 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 **xxxxxxxxxx** and signed on its behalf:

___________	____________	______________
Karen Erwin	**Ian Drennan**	**Michael Deasy**
Chairperson	**Chief Executive**	**Chairperson, Audit Committee**

Statement on the System of 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 Deloitte[1] to act as internal auditors and to report to the Audit Committee. The Audit Committee, which comprises 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 the Framework Code of Best Practice 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 Deloitte. 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, 2009, 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

[1] With effect from 1 January, 2010, the Authority retained the services of Crowleys DFK as internal auditors

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 2006. 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 **xxxxxxxx** and signed on its behalf:

___________	___________	______________
Karen Erwin	**Ian Drennan**	**Michael Deasy**
Chairperson	**Chief Executive**	**Chairperson, Audit Committee**

Statement of Accounting Policies
for the year ended 31 December, 2009

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 Fund[2] 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 Trade & Commerce ('the Minister'), be paid to the Authority out of monies provided by the Oireachtas.

Further to the foregoing, the Department of Enterprise, Trade & Employment - 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

[2] As detailed in accounting policy 4

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.

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 (plus accrued interest) 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, 2009. 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.

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.

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 primary[3] and secondary[4] 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 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.

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[3] The Investment Funds, Companies and Miscellaneous Provisions Act, 2006

[4] Statutory Instrument SI 277 of 2007 - Transparency (Directive 2004/109/EC) Regulations 2007

7. Superannuation
The interim arrangements that the Authority has in place with regard to employees' superannuation benefits are described in Note 20. 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.

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	$33^{1}/_{3}$%
Office Equipment	20%
Furniture & Fittings	12½%

9. Stocks
Stocks on hand at period end represent stocks of ICT 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, 2009

	Note	2009 €	2008 €
Income	4	2,135,461	1,966,271
Administrative Expenses			
Staff Costs	5	1,268,505	1,121,177
Directors' Fees	5(a)	89,185	104,000
Accommodation	6	169,721	177,514
Travel & Subsistence		44,214	67,022
Consultancy	7	385,240	238,834
Office Expenses	8	70,383	145,814
Official Entertainment		1,963	3,533
Information Technology	9	18,468	33,643
HR & Professional Development	10	42,575	47,214
Insurance		26,134	25,232
Auditors' Remuneration		12,000	12,000
Depreciation	11	7,725	5,157
		(654)	(14,869)
Interest Receivable		10,860	26,154
Surplus for the year before Deposit Interest Retention Tax		10,206	11,285
Deposit Interest Retention Tax	12	(2,835)	(5,231)
Surplus for the year after Deposit Interest Retention Tax		**7,372**	**6,054**
Transferred from/(to) Capital Account	15	(5,566)	502
Transferred to Reserve Fund	16	(1,806)	(6,556)
Surplus for the year after Transfers		**0**	**0**

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 XXXXXXX and signed on its behalf:

Karen Erwin
Chairperson

Ian Drennan
Chief Executive

Michael Deasy
Chair, Audit Committee

Irish Auditing & Accounting Supervisory Authority

Balance Sheet as at 31 December, 2009

	Note	2009 €	2008 €
Fixed Assets			
Tangible Fixed Assets	11	14,187	8,817
Current Assets			
Stock on Hand		1,693	2,787
Exchequer Grant Income Debtor	4.5	0	4,604
Debtors & Prepayments		18,412	21,854
Bank & Cash	13	719,255	741,396
		739,360	770,641
Creditors: Amounts falling due within 1 year			
Creditors & Accruals		140,177	121,174
Deferred Rent Incentive	14	1,452	1,452
PAB Levy Income Carried Forward	4.5	306,638	360,847
Exchequer Grant Income Carried forward	4.5	3,376	0
		451,643	483,473
Net Current Assets		287,718	287,168
Amounts falling due after 1 year			
Deferred Rent Incentive	14	21,844	23,296
Net Assets		**280,061**	**272,689**
Reserves			
Income & Expenditure Account		0	0
Capital Account	15	14,383	8,817
Reserve Fund	16	265,678	263,872
		280,061	**272,689**

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 XXXXXXX and signed on its behalf:

Karen Erwin	**Ian Drennan**	**Michael Deasy**
Chairperson	**Chief Executive**	**Chair, Audit Committee**

Irish Auditing & Accounting Supervisory Authority

Cash Flow Statement for the year ended 31 December, 2009

	Note	2008 €	2008 €
Net Cash Inflow from Operating Activities	17	(16,159)	7,525
Return on Investments & Servicing of Finance			
Interest Received		9,483	27,185
Capital Expenditure			
Payments to Acquire Tangible Fixed Assets		(13,094)	(4,655)
Taxation			
Deposit Interest Retention Tax (DIRT) Paid		(2,371)	(5,437)
Management of Liquid Resources			
Amounts Transferred to Fixed Term Deposits		100,000	0
Interest Reinvested in Fixed Term Deposits (Net of DIRT)		(7,113)	(21,748)
Increase/(Decrease) in Cash		**70,747**	**2,870**

Reconciliation of Net Cash Flow to Movement in Net Funds

Net cash & liquid resources at 1 January		(741,396)	(716,778)
Net cash & liquid resources at 31 December		719,255	741,396
Increase/(Decrease) in Liquid Resources in Year		92,887	(21,748)
Increase/(Decrease) in Cash in Year	18	**70,746**	**2,870**

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 XXXXXXXXXX and signed on its behalf:

Karen Erwin
Chairperson

Ian Drennan
Chief Executive

Michael Deasy
Chair, 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 Supervisory Authority are performed and exercised respectively through a company limited by guarantee and designated by the Minister for Trade & Commerce ('the Minister') for that purpose. The company (Registered No. 412677) was incorporated on 20 December, 2005. (While the Act refers to the Minister for Enterprise, Trade & Employment, the Government has delegated all Ministerial functions provided for by the Act to the Minister for Trade & Commerce. This delegation was effected by the Enterprise Trade & Employment (Delegation of Ministerial Functions) (No. 3) Order 2009).

The period covered by the financial statements is the year ended 31 December, 2009.

Note 2 - Comparatives

The comparative figures refer to the year ended 31 December, 2008.

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 €2,259,000 [2008: €2,343,000] as laid out below. In addition, Exchequer funding to a maximum of €440,000 [2008: €212,000] 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)	904,000	1,355,000	2,259,000
Reserve Fund	-	-	-
Sub-total	**904,000**	**1,355,000**	**2,259,000**
Approved allocation in respect of Transparency Directive	440,000	-	440,000
Total	**1,344,000**	**1,355,000**	**2,699,000**

4.2 Income (Accounting Policies 3, 4 and 5 refer)	**2009**	**2008**
	€	**€**
Recurrent Income under the Act (Note 4.4)		
Exchequer Grant Income	699,473	704,275
Prescribed Accountancy Bodies' Levies	1,049,209	1,056,413
	1,748,682	1,760,688
**Reserve Fund Income*		
Exchequer Grant Income	-	-
Prescribed Accountancy Bodies' Levies	-	-
	-	-
Income in respect of Transparency Directive Activity (Note 4.4)		
Exchequer Grant Income	386,778	203,860
Prescribed Accountancy Bodies' Levies	-	-
	386,778	203,860
Miscellaneous Income		
EU Refunds in respect of travel expenses	-	1,723
	-	1,723
	2,135,461	**1,966,271**

* Interest earned on the Reserve Fund investment account is detailed at Note 16. For the year under review, gross interest on the Reserve Fund account is disclosed as 'Interest Receivable' on the face of the Income & Expenditure account, and not as part of 'Income' as heretofore. The comparative amounts in respect of 2008 have been amended accordingly

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 in 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 Enterprise, Trade & Employment 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.

4.4 - Calculation of Net Expenditure

	2009	**2008**
	€	**€**
Gross Expenditure *per Income & Expenditure Account*	2,136,115	1,981,140
Add: Unamortised value of income used for capital acquisitions	5,566	(502)
	2,141,680	1,980,638
Less:		
Miscellaneous Income	-	1,723
Non-reserve fund interest (net of DIRT)	6,220	14,367
Net Expenditure for the year	**2,135,461**	**1,964,548**
Net Expenditure related to Transparency Directive obligations	386,778	203,860
Net Expenditure related to Activities under the 2003 Act (Note 4.2)	1,748,682	1,760,688
	2,135,461	**1,964,548**
Net expenditure attributable to the Exchequer		
i. Transparency Directive (100%)	386,778	203,860
ii. Obligations under the Act (40%)	699,473	704,275
Net expenditure attributable to the Prescribed Accountancy Bodies	1,049,209	1,056,413
	2,135,461	**1,964,548**

4.5 - Calculation of Grant Debtor / Levy Carry Forward

	Exchequer	**Prescribed Accountancy Bodies**	**TOTAL**
	€	**€**	**€**
Balance at 1 January, 2009	4,603	(360,847)	(356,244)
Attributable net expenditure *(Note 4.4 refers)*	1,086,251	1,049,209	2,135,461
Grants/Levies received in the year	(1,094,230)	(995,000)	(2,089,230)
Debtor/(Levy Carry Forward) at 31 December, 2009	**(3,376)**	**(306,638)**	**(310,014)**

Note 5 - Staff Costs

	2009	**2008**
	€	**€**
Salaries	976,588	868,665
Employer PRSI Contributions	82,310	80,507
Employer Pension Contributions *(Note 20)*	209,607	172,005
Agency Fees - Temporary clerical staff	-	-
	1,268,505	**1,121,177**

The average number of employees during the year was 12 [2008: 11]. The Authority's complement of full time staff at 31 December, 2009 was 12 [2008: 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. Fees are not payable to public servants whose membership is considered *ex oficio.*

	2009	2008
	€	€
Karen Erwin	13,067	14,000
Helene Coffey	8,400	9,000
Marie Daly	8,400	9,000
Ian Drennan	8,400	9,000
Sean Hawkshaw	8,400	9,000
Tony Kelly	8,400	9,000
Brendan Kennedy	8,400	9,000
Donal O'Connor (resigned 21 January, 2009)	518	9,000
Joe O'Toole	8,400	9,000
Gerard Scully	8,400	9,000
Brian Shiels	8,400	-
David Martin (resigned 3 January, 2009)	-	9,000
	89,185	**104,000**

Note 6 - Accommodation

	2009	2008
	€	€
Rent *(Note 14)*	117,711	117,711
Building Service Charges	16,684	18,594
Millennium Park Service Charges	8,739	8,703
Insurance	914	2,102
Rates	19,014	18,678
Rent - temporary offices	(1,907)	0
Other Room Hire	8,566	11,726
	169,721	**177,514**

Note 7 - Consultancy

	2009	2008
	€	€
Financial statement review (transparency directive)	179,371	110,996
Committees of Enquiry - Section 23	84,895	0
Legal Advice	75,513	81,486
Internal Audit & Actuarial Services	35,511	34,550
Recruitment & recruitment related costs	0	6,715
PR Consultancy	1,215	3,938
Other Consultancy	8,735	1,149
	385,240	**238,834**

Note 8 - Office Expenses

	2009	2008
	€	€
Post & Telecommunications	14,694	17,651
Printing & Stationery	20,017	24,261
Repairs & Maintenance	6,965	4,346
Advertising & Publicity	7,104	19,502
Recruitment related advertising	0	55,986
Periodicals & Newspapers	5,613	5,725
Cleaning & Hygiene Services	7,072	7,149
Light & Heat	8,090	9,709
Sundries	829	1,485
	70,383	**145,814**

Note 9 - Information Technology

	2009	2008
	€	€
Software & Licences	2,741	14,187
Peripherals & Consumables	3,530	2,140
Maintenance Contracts	7,584	11,207
Internet Services	3,076	3,547
Website Development	1,537	2,562
	18,468	**33,643**

Note 10 - HR & Professional Development

	2009	2008
	€	€
Continuing Professional Development & Other Professional Training	14,472	24,821
Reference Materials & Subscriptions	5,376	8,770
Educational Support	7,000	-
Professional Membership Subscriptions	15,727	13,623
	42,575	**47,214**

Note 11 - Tangible Fixed Assets

	IT Equipment	Office Equipment	Furniture & Fittings	Total
	33.33%	20.00%	12.50%	
	€	€	€	€
Cost				
At 1 January, 2009	15,099	4,417	248	19,765
Additions	873	652	11,569	13,094
Disposals	-	-	-	-
At 31 December, 2009	**15,972**	**5,069**	**11,817**	**32,859**
Accumulated Depreciation				
At 1 January, 2009	8,786	2,099	62	10,947
Charge for year	5,234	1,014	1,477	7,725
At 31 December, 2009	**14,020**	**3,113**	**1,539**	**18,672**
NET BOOK VALUE				
At 1 January, 2009	6,313	2,318	186	8,817
At 31 December, 2009	**1,952**	**1,956**	**10,278**	**14,187**

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

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

Note 13 - Bank & Cash

	2009	2008
	€	€
Bank - current	161,534	90,788
Bank - notice deposit	557,521	650,408
Cash on Hand	200	200
	719,255	**741,396**

€263,610 [2008: €261,970] of the funds held in the Authority's bank accounts at 31 December, 2009 relate to the Reserve Fund and can

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
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
Further to a commitment given to the Prescribed Accountancy Bodies by the Minister with the consent of the Minister for Finance prior to
As a consequence, in addition to tangible fixed assets acquired by the Authority subsequent to its incorporation, and to which the

	€
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,

Note 15 - Capital Account

	2009	2008
	€	€
Opening Balance - 1 January,	8,817	9,319
Transfer from Income & Expenditure Account:		
Income applied to capitalised asset acquisitions	13,094	4,655
Less: Amortisation in line with asset depreciation	(7,725)	(5,157)
Closing Balance - 31 December,	**14,187**	**8,817**

Note 16 - Reserve Fund Reserve

	2009 €	2008 €
Opening Balance - 1 January,	263,872	257,316
Transferred from Income & Expenditure Account:		
Exchequer Grant Income	-	-
Prescribed Accountancy Bodies' Levies	-	-
Interest Receivable on Reserve Fund Monies (net of DIRT)	1,806	6,556
Closing Balance - 31 December,	**265,678**	**263,872**

	2009 €	2008 €
Surplus for the year after Deposit Interest Retention Tax	**7,372**	**6,054**
Non Operating Items:		
Less: Interest Received (Net of DIRT)	(7,113)	(21,748)
	259	**(15,694)**
Add:		
Increase/(Decrease) in Creditors & Accruals	19,004	27,091
Increase/(Decrease) in Prescribed Accountancy Bodies' Levies carry forward	(54,209)	(82,413)
Increase/(Decrease) in Exchequer Grant Income carry forward	3,376	0
Decrease/(Increase) in Debtors & Prepayments	8,046	74,058
Decrease/(Increase) in Stock	1,094	778
Increase/(Decrease) in Deferred Rent Incentive	(1,452)	(1,452)
Depreciation	7,725	5,157
	(16,418)	23,219
Net Cash Inflow from Operating Activities	**(16,159)**	**7,525**

Note 18 - Analysis of changes in net funds

	Cash at Bank & on Hand	Cash on Fixed Term Deposit	TOTAL
Balance at 1 January, 2009	90,988	650,408	741,396
Cash flow for year	70,746	(92,887)	(22,141)
Balance at 31 December, 2009	**161,734**	**557,521**	**719,255**

Note 19 - Financial Commitments

19.1 Capital Commitments
There are no capital commitments as at 31 December, 2009.

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

Note 20 - Chief Executive's Salary
The salary of the Chief Executive at 31 December, 2009 was €129,753

Note 21 - Accounting Treatment for Retirement Benefits

In accordance with section 20 of the Act, the Authority may only establish a superannuation scheme with the approval of the Minister,
As completion of the necessary reviews of proposals for superannuation schemes can be a lengthy process, the Authority has agreed

(i) Authority employees' pension contributions are paid to the Department of Enterprise, Trade & Employment;
(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
(iii) in return for the payment to it of the employees' and employer's superannuation contributions, the Department has agreed that
(iv) this agreement is an interim arrangement until the Authority's own superannuation scheme is approved and is intended to apply

Financial Reporting Standard 17 'Retirement Benefits' (FRS 17) defines a Defined Contribution Scheme as 'A pension or other retirement
As the arrangements currently in place are such that (i) the Authority pays regular contributions fixed as a percentage of pay; and (ii) the

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 31-12-2009	*At 31-12-2008*
Rate of increase in salaries	4.00%	4.00%
Rate of increase in pensions in payment	3.50%	4.00%
Discount rate	5.50%	5.90%
Inflation assumption	2.25%	2.00%
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 354,000 [2008: €219,000], and the service cost (calculated on the foregoing assumptions) for the year is €91,100 [2008: 97,052]. 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 [2008: €5,142]. 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 XXXXXXX

APPENDICES

GLOSSARY OF TERMS

ACCA	Association of Chartered Certified Accountants
Act, the	Companies (Auditing and Accounting) Act, 2003
AIA	Association of International Accountants
APB	Auditing Practices Board
ASB	Accounting Standards Board
ASB Statement	ASB Statement entitled '*Half-Yearly Financial Reports*'
Authority / IAASA	Irish Auditing & Accounting Supervisory Authority
Bank, the	Anglo Irish Bank Corporation plc
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
CLRG	Company Law Reform 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
CPD	Continuing Professional Development
CRO	Companies Registration Office
EEA	European Economic Area
EECS	European Enforcers' Co-ordination Sessions
EU	European Union
EGAOB	European Group of Auditors' Oversight Bodies
FRS	Financial Reporting Standard(s)
FRSSE	Financial Reporting Standard for Smaller Entities
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standard(s)
IASB	International Accounting Standards Board
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
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IIPA	Institute of Incorporated Public Accountants
ISE	Irish Stock Exchange
ISQC1	International Standard of Quality Control 1
Issuer	An entity coming within the Authority's remit under the Transparency Regulations
Minister	Minister of Trade & Commerce
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
PII	Professional Indemnity Insurance
POB	Professional Oversight Board (UK)
PQ	Parliamentary Question
RAB	Recognised Accountancy Body
Regulator, the	Financial Regulator
Regulations, the	Transparency (Directive 2004/109/EC) Regulations, 2007
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)
SMEs	Small & Medium Enterprises
SORP	Statement Of Recommended Practice
Statutory Audit Directive	Directive 2006/43/EC
Transparency Directive	Directive 2004/109/EC
Transparency Rules	Interim Transparency Rules, as issued by the Financial Regulator

ODCE	Office of the Director of Corporate Enforcement
OECD	Organisation for Economic Co-operation and Development
Oireachtas	Parliament
1990 Act, the	Companies Act, 1990