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Exposure Draft

Standards for Investment Reporting (Ireland) 2000

Investment Reporting Standards Applicable to
Public Reporting Engagements on Historical
Financial Information

Mission

To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest.

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Preface

SIR (Ireland) 1000 “Investment Reporting Standards Applicable to all Engagements in Connection with an Investment Circular” contains basic principles and essential procedures (“Investment Reporting Standards”) that are applicable to all engagements involving an investment circular prepared for issue in connection with a securities transaction governed wholly or in part by the laws and regulations of Ireland.

SIR (Ireland) 2000 contains specific additional Investment Reporting Standards, indicated by paragraphs in bold type, with which a reporting accountant is required to comply in the conduct of an engagement involving the examination of historical financial information which is intended to give a true and fair view, for the purposes of the relevant investment circular, included within an investment circular prepared for issue in connection with a securities transaction governed wholly or in part by the laws and regulations of Ireland.

SIR (Ireland) 2000 also includes explanatory and other material, including appendices, in the context of which the Investment Reporting Standards are to be understood and applied. It is necessary to consider the whole text of the SIR (Ireland) to understand and apply the basic principles and essential procedures.

The definitions in the glossary of terms set out in Appendix 3 of SIR (Ireland) 1000 are to be applied in the interpretation of this and all other SIRs (Ireland). Terms defined in the glossary are underlined the first time that they occur in the text.

To assist readers, SIRs (Ireland) contain references to, and extracts from, certain legislation, regulations and Listing Rules. Readers are cautioned that these references may change subsequent to publication.

Introduction

1. The purpose of this Standard for Investment Reporting (Ireland) (SIR (Ireland)) is to establish standards and provide guidance on the reporting accountant's responsibilities and procedures when preparing an "accountant's report" on historical financial information. The work required to prepare an "accountant's report" is referred to in this SIR (Ireland) as the "reporting accountant's exercise". The objective of the reporting accountant's exercise is to enable the reporting accountant to express an opinion as to whether, for the purposes of the relevant investment circular, the financial information gives a true and fair view of the state of affairs and profits, cash flows and statements of changes in equity of the issuer, or where applicable the target.
2. **When the reporting accountant is engaged to prepare an accountant's report, the reporting accountant shall obtain sufficient appropriate evidence to express an opinion as to whether the financial information presents a true and fair view, for the purposes of the investment circular. (SIR (Ireland) 2000.1)**
3. An engagement to prepare an accountant's report is a public reporting engagement as described in SIR (Ireland) 1000. The description of a public reporting engagement includes three generic terms having the following meanings in the context of an engagement to report on historical financial information:
 - a. With respect to historical financial information the "**subject matter**" is the entity's financial position for the periods being reported on;
 - b. The "**suitable criteria**" are the requirements of the applicable financial reporting framework, Irish and EU Prospectus Law, and the Listing Rules together with any "accepted conventions", as set out in the Annexure, that are applicable; and
 - c. With respect to historical financial information the "**outcome**" is the directors' historical financial information that is included in the investment circular and which has resulted from the directors applying the suitable criteria to the subject matter. The reporting accountant expresses an opinion (in the "**accountant's report**") as to whether the historical financial information gives, for the purposes of the investment circular, a true and fair view.
4. Commission Delegated Regulation (EU) 2019/980 supplementing Regulation (EU) 2017/1129 sets out certain requirements relating to the presentation of historical financial information in a prospectus. Several Annexes of the regulation require that historical financial information is either audited or "reported on as to whether or not, for the purposes of the registration document, it gives a true and fair view, in accordance with auditing standards applicable in a Member State or an equivalent standard."
5. With respect to Class 1 acquisitions, Chapter 12 of the Listing Rules sets out requirements for a financial information table relating to a target company and the accountant's opinion on that table. The accountant's opinion is required to state whether, for the purposes of the Class 1 circular, the financial information table gives a true and fair view of the financial matters set out in it.
6. In this SIR (Ireland), accountant's opinions on such financial information tables are described as "accountant's reports".

7. An accountant's report is likely to be used where the issuer's audited annual financial statements do not meet the standards of preparation and presentation prescribed in the applicable rules and need, therefore, to be adjusted in order that historical financial information which complies with the applicable rules can be presented. For example, where the entity is seeking a listing, the financial information for the last two years is required to be prepared and presented in a form consistent with that which will be adopted in the issuer's next published annual financial statements, having regard to accounting standards and policies and legislation applicable to such annual financial statements. In the context of Class 1 circulars, the objective may be to present the financial information of the target for all periods in a form which is consistent and comparable with the accounting policies adopted by the listed company in its latest annual accounts.
8. In addition, an accountant's report is used where there are no underlying financial statements that have been audited. Conventions for accounting in certain circumstances where historical financial information is specially prepared for the purposes of an investment circular are described in the Annexure to this SIR (Ireland).
9. The nature of the accountant's report is such that the objective of the reporting accountant's exercise does not differ in essence from that of an auditor. The underlying requirement of this SIR (Ireland) is that the reporting accountant will, in conducting the work necessary to provide the accountant's report, perform its own procedures, and/or use the work of the auditor(s), that meet those requirements of ISAs (Ireland) that are relevant to the reporting accountant's exercise. The reporting accountant applies ISAs (Ireland) on the basis set out in this SIR (Ireland) in the context of the following:
 - a. The reporting accountant is often reporting on financial information that has been included in, or formed part of, financial statements which have themselves already been subject to audit by an independent auditor. In consequence, there may be available to the reporting accountant a body of independent evidence relating to the historical financial information which would not be available to an auditor examining the financial information for the first time;
 - b. The financial information being examined may relate to accounting periods in circumstances where financial statements for one, and possibly two, subsequent periods have been prepared and audited. These circumstances mean that in assessing risks that may affect the historical financial information in relation to earlier periods the reporting accountant has the benefit of information relating to uncertainties affecting the financial information which would not have been available to an auditor auditing the information for the first time; and
 - c. The reporting accountant does not have the statutory reporting responsibilities of an auditor.
10. This SIR (Ireland) provides standards that address those aspects of the reporting accountant's exercise that require the reporting accountant to perform procedures directly, for example risk assessment procedures. It also provides guidance on the application of ISAs (Ireland) to the reporting accountant's exercise.
11. This SIR (Ireland) recognises that the reporting accountant may wish to use evidence previously obtained by the auditor who audited the historical financial statements for the relevant period covered by the reporting accountant's exercise. Guidance is provided on the steps that the reporting

accountant undertakes, including initial planning considerations, in order to assess the suitability of the audit evidence for this purpose.

12. Subject to the considerations set out in this SIR (Ireland), references in the ISAs (Ireland) to the auditor performing audit procedures or obtaining audit evidence may be read as references to the reporting accountant being satisfied that the procedures have been performed, or the evidence has been obtained, either by the reporting accountant or an auditor.
13. Certain requirements of ISAs (Ireland) will not be relevant to the reporting accountant's exercise, for example, when a requirement of an ISA (Ireland) is predicated on a continuing relationship between an auditor and the entity being audited, or because of the specific nature of the reporting accountant's responsibilities, under applicable regulations, as discussed in this SIR (Ireland).
14. This SIR (Ireland) also provides guidance to the reporting accountant in the context of assessing whether the financial information shows a true and fair view, for the purposes of the investment circular. In situations where the issuer has a historical record of audited financial statements, the true and fair view for the purposes of the investment circular may be a financial reporting framework such as International Financial Reporting Standards as adopted by the European Union. The Annexure to this SIR (Ireland) provides conventions to support the true and fair view for the purposes of an investment circular

Pre-existing financial information

15. With respect to historical financial information, where the issuer already has available:

- a. Audited annual financial statements; or
- b. Audited or reviewed interim financial information,

which meet the requirements of the applicable rules in respect of the preparation and presentation of historical financial information to be included in the investment circular, it may choose to include these financial statements, or financial information, in the investment circular together with the pre-existing reports of the auditor. In these circumstances an accountant's report is not prepared and this SIR (Ireland) does not apply to such circumstances. Furthermore, in these circumstances the audit firm is not required by Irish and EU Prospectus Law to consent to the inclusion of its reports in the investment circular.

16. Notwithstanding that the audit firm is not required to give consent, a reporting accountant that is also the auditor of the company may become aware that the financial statements are defective. For example, a material error may have been detected in the original financial statements. If the reporting accountant does become aware that the financial statements are defective and that the directors have not revised them as permitted by section 366 of the Companies Act 2014, it discusses the matter with those charged with governance. If the directors do not decide to revise the financial statements, the reporting accountant considers the need to take legal advice.

True and fair view, for the purposes of the investment circular

17. The reporting accountant shall:

- a. Obtain an understanding of the purpose of the investment circular;
- b. Ascertain which financial reporting framework is required to be used by the applicable regulations and which, if any, accepted conventions as to the preparation and presentation of historical financial information for inclusion in investment circulars are to be applied¹; and
- c. Review the appropriateness of the accounting policies in order to determine whether the proposed historical financial information prepared by the issuer is capable of giving a true and fair view, for the purposes of the investment circular. (SIR (Ireland) 2000.2)

18. Where historical financial information is presented in a prospectus Irish and EU Prospectus Law generally determine the applicable financial reporting framework. Irish and EU Prospectus Law require the most recent year's financial information to be presented in a form consistent with that which will be adopted in the issuer's next published annual financial statements, having regard to the accounting standards, policies and legislation applicable to such annual financial statements.

19. The reporting accountant satisfies itself that the directors have performed a thorough review of the accounting policies used in preparing the historical financial information in determining the accounting policies appropriate for the business following the transaction that is the subject of the prospectus. The reporting accountant also considers whether the policies are consistent with the applicable financial reporting framework, and accounting policies used in the relevant industry. Where the reporting accountant does not agree with the directors' final proposed accounting policies they refer to the guidance on reporting set out in paragraphs 63 to 64 (going concern) and 68 to 73 of this SIR (Ireland).

20. Where information is presented in a Class 1 circular, the suitable criteria regarding its presentation are those set out in the Listing Rules. These rules require financial information to be presented in a form consistent with the accounting policies adopted in the issuer's latest annual consolidated accounts.²

21. The directors have regard to, and make appropriate disclosure of, accepted conventions which have been developed for the preparation and presentation of historical financial information in investment circulars (including those relating to additional disclosures). These conventions have

¹ See Annexure.

² LR 12.5.4 (1), unless LR 12.5.4 (2) applies. This includes when financial information is presented in compliance with: the accounting policies to be used in the issuer's next financial statements, provided the issuer's last published annual consolidated accounts have been presented on a restated basis consistent with those to be used in its next accounts on or before the date of the class 1 circular. [LR 12.5.4 (2) (f)]

been developed to assist the directors, to the extent consistent with established accounting principles, to fulfil the criteria set out in the relevant regulations, present the information in an easily analysable form, and give a true and fair view for the purposes of the applicable investment circular.

22. The Annexure provides a summary of these conventions including, among others, conventions that address:

- Making adjustments to previously published financial statements and dealing with entities which have not previously prepared consolidated accounts.
- Carve outs.
- Acquisitions.
- Newly formed issuers.

In certain circumstances applying the conventions may result in combined, rather than consolidated, financial information being presented in order to meet the requirement to present financial information that gives a true and fair view, for the purposes of the investment circular.

General Professional Considerations

Agreeing the terms of the engagement

23. Illustrative examples of engagement letter clauses are set out in Appendix 1.

Joint reporting accountants

24. When joint reporting accountants are appointed, the division of work as between them is a matter for agreement. The arrangements between the joint reporting accountants may form part of the engagement letter. Irrespective of any such arrangement, the joint engagement partners and their engagement teams collectively constitute the 'engagement partner' and the 'engagement team' for the report to be given. Each of the joint reporting accountants participates in the planning of the engagement and they agree upon the scope of work and any changes subsequently found to be necessary thereto. Each of the joint reporting accountants has regard to the considerations set out in this SIR (Ireland) in respect of using the work of an auditor in determining the extent to which it is appropriate to rely on the evidence obtained by the other reporting accountants or the extent to which they consider it necessary to carry out their own work. Each of the joint reporting accountants reviews the work of the other to the extent considered necessary and records the results of that review. A common record of documentation, in accordance with SIR (Ireland) 1000, is maintained.

Fraud and Irregularity

25. In considering the requirements of ISA (Ireland) 240 (Updated December 2018) "*The auditor's responsibilities relating to fraud in an audit of financial statements*", ISA (Ireland) 250 (Revised November 2020) "*Section A - Consideration of laws and regulations in an audit of financial*

statements” and “Section B - The auditor’s statutory right and duty to report to regulators of public interest entities and regulators of other entities in the financial sector” for the auditor to report any matters arising to certain authorities, the reporting accountant will need to assess the effect of these requirements when reporting in terms of the true and fair view, for the purposes of the investment circular. Where matters arise, which may potentially require disclosure by the reporting accountant and the reporting accountant is unsure how to proceed, the reporting accountant takes legal advice.

Those Charged with Governance

26. In applying ISAs (Ireland) 260 (Revised November 2020) “Communication with those charged with governance”, 265 “Communicating deficiencies in internal control to those charged with governance and management” and 450 (Updated July 2017) “Evaluation of misstatements identified during the audit”, the reporting accountant considers who, in relation to the investment circular, should be regarded as a person charged with governance. Where the issuer has already formed an audit committee, the reporting accountant communicates with the audit committee in accordance with the guidance set out in this SIR (Ireland). In the absence of an audit committee those responsible for governance will usually be the directors of the issuer.

Planning and Performing the Engagement

Planning

27. **The reporting accountant shall perform and document risk assessment procedures to support the reporting accountant’s exercise. (SIR (Ireland) 2000.3)**

28. In addition to those matters that a reporting accountant considers when applying SIR (Ireland) 1000, a reporting accountant may consider:

- Any previous modifications to the opinion in the auditor’s report on underlying financial statements or emphasis of matter or other matters paragraphs and their potential impact on the approach to the reporting accountant’s exercise.
- The nature of adjustments to previously published historical financial information which may be proposed by the preparer of the historical financial information (for example as a result of changing the applicable accounting framework) and the sources of evidence to support an examination of the adjustments.
- The interaction with other roles undertaken by the reporting accountant in connection with the transaction, for example preparing a long form report.
- Staffing, including relevant experience and skills linked to investment circular reporting, and sources of consultation.
- Liaison with the auditor and arrangements for terms of access to the audit documentation, or equivalent evidence if maintained in machine readable form.

- The nature and timing of procedures to support any decision to rely on audit evidence obtained by the auditor.
 - Whether the financial reporting framework applicable to the audited financial statements is the same as that applicable to the financial information contained in the investment circular.
 - Whether there are any special circumstances concerning the appointment, resignation or reporting responsibilities of the auditor.
 - Whether there is evidence of any limitation having been placed on the work of the auditor.
 - Whether corrections or adjustments to subsequent financial statements indicate possible inadequacies in the audits of earlier periods.
29. **Where the reporting accountant is considering using audit evidence obtained by an auditor as part of the evidence for the reporting accountant's exercise, the reporting accountant shall consider the professional qualifications, independence and professional competence of the auditor and the quality control systems applied by the audit firm to that engagement. (SIR (Ireland) 2000.4)**
30. Matters that the reporting accountant considers include:
- a. Whether the auditor was required to comply with the IESBA's International Code of Ethics for Professional Accountants, International Standards on Quality Control (Ireland), and ISAs (Ireland), or equivalent standards.
 - b. The auditor's professional competence, including their integrity and experience.
 - c. Whether the auditor operated in a regulatory environment that actively oversees auditors.
31. **If an auditor has not met relevant³ independence requirements, and/or the engagement team has serious concerns about the other matters listed in paragraph 30, the reporting accountant shall seek to obtain sufficient appropriate audit evidence relating to the historical financial information of the component without reliance on the evidence generated by the auditor. If sufficient appropriate audit evidence cannot be obtained the reporting accountant considers the impact on their opinion. (SIR (Ireland) 2000.5)**

Understanding of the entity, its environment and risk assessment

32. **The reporting accountant should obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the historical financial information covered by the accountant's report whether due to fraud or error, and sufficient to design and implement responses to the assessed risks of material misstatement. As part of this risk assessment the reporting**

³ In the case of overseas auditors, relevant requirements may include those derived from the IESBA *International Code of Ethics for Professional Accountants*.

accountant should determine whether any of the risks identified are, in the reporting accountant's judgment, significant risks. (SIR (Ireland) 2000.6)

33. Such an understanding is ordinarily obtained by:
- a. Meeting the directors and management of the entity;
 - b. Visiting the entity's premises;
 - c. Discussing the financial information and recent results with management;
 - d. Applying analytical procedures to the financial information;
 - e. Reviewing relevant audit documentation; and
 - f. Obtaining from management an understanding of the principal transaction flows, internal controls, information systems and reporting arrangements of the business.
34. If this process indicates that there are factors which may give rise to a modification of the accountant's opinion or an emphasis of matter and other matter paragraphs then such factors are reported immediately to those responsible for the investment circular, usually the directors, and any other responsible parties.
- 35. When performing the risk assessment, the reporting accountant shall take into account the evidence obtained from all other relevant work performed in connection with the investment circular. (SIR (Ireland) 2000.7)**
36. The reporting accountant may be undertaking other relevant work related to the transaction giving rise to the accountant's report. For example, the reporting accountant may have been commissioned to prepare a long form report, or a comfort letter on a statement of sufficiency of working capital.
37. If other relevant work has been performed by another firm the reporting accountant requests the issuer to provide access to the documentation of such work. If the reporting accountant is not allowed access to such documentation it considers the implications for its report.

Materiality

38. The reporting accountant determines both materiality and performance materiality for the purposes of the reporting accountant's work independently from the auditor, if any, who audited the underlying financial statements, and accordingly the reporting accountant's determination of materiality and performance materiality may differ from that of the auditor. In determining materiality and performance materiality for the purposes of reporting on historical financial information, regard is had to the context in which the opinion is to be given (which includes the fact that the information may relate to a trend of results over a three-year period).

The reporting accountant's procedures

39. **The reporting accountant shall perform procedures to obtain sufficient appropriate evidence as to whether the work of an auditor, which the reporting accountant plans to use, is adequate for the reporting accountant's purposes. Where the reporting accountant, concludes that the auditor's work is not adequate, does not have access to the auditor's audit documentation, or an audit has not previously been performed, the reporting accountant shall perform procedures that compensate for this. The procedures of the auditor and the reporting accountant, taken together, shall comply with the requirements of ISAs (Ireland) unless:**
- a. **An entire ISA (Ireland) is not relevant to the reporting accountant's engagement; or**
 - b. **A particular requirement is:**
 - i. **Conditional and the condition does not exist; or**
 - ii. **Less relevant than an equivalent requirement of a SIR (Ireland);**
 - iii. **Predicated on the concept of a recurring engagement or an ongoing relationship with a client which is usually not relevant to engagements to report on an investment circular. (SIR (Ireland) 2000.8)**
40. In approaching the procedures to be performed in response to the assessed risk of material misstatement at the assertion level, the reporting accountant considers the extent to which the procedures that the reporting accountant wishes to perform have previously been performed by an auditor. Where such procedures have been performed by an auditor, the reporting accountant may, subject to the considerations discussed in this SIR, use the evidence obtained by the auditor from those procedures as part of the reporting accountant's own evidence.
41. In exceptional circumstances a reporting accountant may judge it necessary to depart from a relevant requirement in an ISA (Ireland) to achieve the aim of that requirement. In such circumstances the reporting accountant performs alternative procedures to achieve the aim of that requirement. When such a situation arises the reporting accountant documents the reason for the departure.
42. Where applicable auditing standards have changed during the period covered by the historical financial information, or it is not practicable for the reporting accountant to undertake procedures that meet the requirements of ISAs (Ireland), the reporting accountant considers the implications for the reporting accountant's exercise, having regard to its risk assessment. The reporting accountant may be able to conclude that it is unnecessary to apply certain requirements of the ISAs (Ireland) throughout the three-year period covered by the accountant's report because:
- a. It is sufficient to apply them with respect to the latest period only, because sufficient appropriate evidence relating to earlier periods can be obtained from the latest period; or
 - b. The auditing standards that were applicable at the time met the same objectives as the requirements of ISAs (Ireland). In such cases the reporting accountant documents the

reason or justification for not meeting the requirement and why omitting it does not have an impact on its opinion.

Evidence

43. When the reporting accountant intends to use audit evidence obtained by the auditor, it shall evaluate whether the audit procedures performed by the auditor adequately respond to the reporting accountant's assessment of the risks (including significant risks) of material misstatement of the financial information to be included in the investment circular. (SIR (Ireland) 2000.9)

44. The reporting accountant's procedures shall include:

- a. Examining material adjustments from previously published historical financial statements made during the course of preparing the historical financial information and considering the responsible party's basis for satisfying itself that the adjustments are necessary and whether they have been correctly determined;**
- b. Evaluating whether all necessary adjustments to previously published historical financial statements have been made; and**
- c. Where the information is based on previously published financial statements, comparing the historical financial information to those financial statements and assessing whether the information has been accurately extracted therefrom. (SIR (Ireland) 2000.10)**

45. The timing of the reporting accountant's own work will inevitably be dictated by the timing of the preparation of the historical financial information and the related investment circular and this may be some time after the end of the periods to which the report relates. In certain areas therefore, use of the work of the auditor may be the only practicable means of obtaining the evidence necessary to support the reporting accountant's opinion⁴. Where the reporting accountant concludes that it cannot rely on the auditor's work, then it considers the implications for its report.

46. Where the financial information to be reported on has previously been subject to audit, the audit documentation will be a useful source for the evidence which the reporting accountant may need to support its opinion on the financial information.

47. If planning to use the work of the auditor, the reporting accountant considers whether:

- a. The work of the auditor was conducted to an appropriate materiality level; and
- b. The auditor complied with the auditing standards that were applicable to the auditor's work.

48. The reporting accountant accepts evidence in audit documentation as being prima facie truthful and genuine, but in considering that evidence adopts an attitude of professional scepticism, whether

⁴ Procedures which require the reporting accountant to be physically present at a relevant date (for example attendance at physical inventory counting) will clearly be impossible to perform.

the documentation was produced by an auditor from the reporting accountant's own firm or by another auditor. However, with respect to audit documentation from the reporting accountant's own firm, the reporting accountant is more familiar with the detailed quality control procedures that will have been applied in the conduct of the audit. The application of professional scepticism will include considering the evidence contained in the audit documentation in the light of the understanding of the entity and its environment, including its internal control and such other evidence as the reporting accountant obtains directly.

49. The extent to which independent testing of the evidence obtained by the auditor (for example, reperformance of tests performed by the auditor) will be necessary is a matter for the reporting accountant's judgment on the basis of the information available at the time, including the reporting accountant's evaluation of the auditor's work.
50. **The reporting accountant shall evaluate the quality of the audit evidence obtained by the auditor that the reporting accountant intends to rely on. Where the reporting accountant concludes that such audit evidence is either not sufficient or is inappropriate for the purposes of the reporting accountant's exercise the reporting accountant should determine what additional procedures are to be performed by the reporting accountant and perform those procedures. Where the evidence is not available, the reporting accountant should consider the implications for its report. (SIR (Ireland) 2000.11)**
51. Where relevant information is not available from the audit documentation, the reporting accountant will need to obtain the relevant evidence directly. The audit documentation is unlikely, for example, to contain information concerning post balance sheet events up to the date of signing the accountant's report or to contain evidence relating to any adjustments made to the financial statements in preparing the historical financial information.

Obtaining access to information in audit documentation

52. When the company's auditor, or former auditor, is not appointed as the reporting accountant, the auditor will be aware that the reporting accountant may need access to information contained in the audit documentation. The auditor or former auditor is normally prepared, in accordance with relevant professional guidance, to make the audit documentation available to reporting accountants for the purpose of work under this SIR (Ireland).
53. Access may be granted only on the basis that the auditor accepts no responsibility or liability to the reporting accountant in connection with the use of the audit documentation by the reporting accountant. This has no effect on the reporting accountant's judgment regarding the extent to which reliance is placed on such audit documentation.
54. In cases where the reporting accountant is not able to obtain access to information in audit documentation, the reporting accountant will have no option other than to obtain the relevant evidence directly.
55. Where the evidence used by the reporting accountant includes that contained within the audit documentation of an auditor, the reporting accountant's documentation identifies the working papers reviewed and the nature of the work performed. Whilst it is not necessary for the reporting accountant's documentation to replicate all of the detailed findings contained in the audit

documentation, reporting accountants do document the basis on which the auditor addressed the particular risks identified in the reporting accountant's risk assessment procedures.

56. **The reporting accountant shall obtain, either from the directors or from the auditor, copies of all relevant communications sent by the auditor to those charged with governance of the entity, including those required to be sent by auditing standards applicable at the time, and copies of any responses to such communications made by management. A relevant communication would, for example, be one that discussed internal control and other weaknesses. (SIR (Ireland) 2000.12)**

Events occurring up to the date of the accountant's report

57. Unless an event after the balance date event indicates that there has been an error in the preparation of the historical financial information in an earlier period, the reporting accountant will, having regard to the convention for treating post balance sheet events for the purposes of historical financial information in an investment circular (as referred to in the Annexure), only consider the impact of post balance sheet events occurring up to the date of the accountant's report on the final period presented.

Events occurring between the date of the accountant's report and the completion date of the transaction

58. **If, in the period between the date of the accountant's report and the completion date of the transaction, the reporting accountant becomes aware of events and other matters which, had they occurred and been known at the date of the report, might have caused it to issue a different report or to withhold consent, the reporting accountant shall discuss the implications of them with those responsible for the investment circular and take additional action as appropriate. (SIR (Ireland) 2000.13)**
59. After the date of the accountant's report, the reporting accountant has no obligation to perform procedures or make enquiries regarding the investment circular.
60. Under Listing Rule 12.4.9, a supplementary investment circular must be prepared if, after the publication of an investment circular that seeks shareholder approval for a transaction expressly requiring a vote by the Listing Rules, but before the date of a general meeting, the issuer becomes aware that there has been a material change affecting any matter contained in the document or a material new matter which the issuer would have been required to disclose in the investment circular if it had arisen at the time of its publication.
61. A similar obligation arises under Article 23 of the Prospectus Regulation (Regulation (EU) 2017/1129) requires that, every significant new factor, material mistake or material inaccuracy relating to the information included in a prospectus which may affect the assessment of the securities and which arises or is noted between the time when the prospectus is approved and the

closing of the offer period or the time when trading on a regulated market begins, whichever occurs later, shall be mentioned in a supplement to the prospectus without undue delay.

62. If, as a result of discussions with those responsible for the investment circular concerning a subsequent event that occurred prior to the completion date of the transaction, the reporting accountant is either uncertain about or disagrees with the course of action proposed, the reporting accountant may consider it necessary to take legal advice with respect to an appropriate course of action.

Going concern

63. **Where the reporting accountant concludes that a material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern at the time the accountant's report is signed, the reporting accountant shall determine whether appropriate disclosure of the nature and implications of the uncertainty has been made in the basis of preparation note to the historical financial information. Where appropriate disclosure has been made, the reporting accountant shall include a "Material Uncertainty Related to Going Concern" paragraph in the reporting accountant's report immediately after the reporting accountant's opinion on the financial information. (SIR (Ireland) 2000.14)**
64. **Where the reporting accountant concludes that no material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern at the time the accountant's report is signed the reporting accountant shall include a "Conclusions relating to Going Concern" paragraph in its report.⁵ (SIR (Ireland) 2000.15)**

Representations

65. A number of specific representations are required by ISAs (Ireland). Where representations have been obtained by the auditor, subject to the considerations set out in this SIR (Ireland), it may not be necessary for the reporting accountant to seek further representations covering the same matters, other than in relation to the period since the audit opinion relating to the final period included in the historical financial information was given.
66. Representations additional to those pursuant to ISAs (Ireland) that a reporting accountant may consider for incorporation in the letter of representation or board minute include:
- Confirmation from the directors or management of the entity that they are responsible for the preparation of the historical financial information.

⁵ See ISA (Ireland) 570 (Revised October 2019), para 21-1.

- Confirmation that any adjustments made to historical financial statements for the purposes of preparing the historical financial information are necessary, have been correctly determined and that there are no other adjustments that are necessary.

67. In relation to a Class 1 acquisition, the acquirer may not be in a position to make representations in relation to the historical financial information of the target entity on matters such as fraud, non-compliance with laws and regulation and related parties. In such circumstances representations may be sought from the management of the target entity. In the event that such representations are not forthcoming, the reporting accountant considers the implications for its report.

Reporting

68. The reporting accountant's opinion is usually expressed in terms of whether, for the purpose of the relevant investment circular, the financial information gives a true and fair view of the state of affairs and profits, cash flows and statement of changes in equity. Appendices 2 and 3 set out illustrative examples of accountant's reports on historical financial information.

69. When there is a limitation on the scope of the reporting accountant's work, the reporting accountant considers whether the limitation results in a lack of sufficient appropriate evidence necessary to form an opinion. When the possible effect is, in the opinion of the reporting accountant, material to the financial information, there will be insufficient evidence to support an unqualified opinion. The nature of the work of reporting accountants is such that in the absence of reliable contemporary evidence relating to significant accounts and balances it may not be possible to form an opinion on the financial information. This might be the case where there has been no audit of the underlying financial information in the past or where the auditor has given a qualified opinion because of a limitation in the scope of work.

70. As a consequence of the purpose for which financial information is presented and the importance which may be attached to it by readers of the document, a reporting accountant does not normally agree to be associated with financial information where a disclaimer of opinion needs to be given on the information for the entire period.

71. The reporting accountant needs to be satisfied that the financial information adequately describes both the applicable financial reporting framework used in the preparation of the financial information and any of the accounting conventions from the Annexure that have been used. Usually these are referred to within the financial information in a basis of preparation note.

72. Where the financial information has been prepared fully in accordance with a recognised financial reporting framework such as "International Financial Reporting Standards as adopted by the European Union" the accountant's opinion is expressed in terms of the financial information giving a true and fair view in accordance with that framework (see Appendix 2 for an illustration).

73. Where the financial information has not been prepared fully in accordance with a recognised financial reporting framework but, for example, in accordance with a financial reporting framework modified by applying a convention described in the Annexure to this SIR, the accountant's opinion is expressed in terms of the financial information being prepared in accordance with the basis of

preparation described in a note to the financial information, rather than in accordance with the financial reporting framework. The basis of preparation note states which accounting convention has been applied and how it departs from the requirements of the recognised financial reporting framework. A statement is made in the note that in all other respects the recognised financial reporting framework has been applied (see Appendix 3 for an illustration of the accountant's report).

Other information – references to previous audit opinions

74. The reporting accountant's opinion is arrived at independently of any audit opinion previously given on the financial statements which form the basis for the financial information to be reported on. It is not part of the reporting accountant's role to explain (where this is the case) why the reporting accountant's opinion differs from the opinion of the auditor. In some cases, however, there may be an obligation on an issuer to disclose details of modified opinions contained in auditor's reports prepared by the statutory auditor. In such cases, the reporting accountant considers the disclosures made by the issuer relating to such modified opinions and whether any matters disclosed might give rise to questions as to how the reporting accountant has dealt with matters giving rise to the modified opinions. If the reporting accountant is not satisfied with the disclosures, the reporting accountant discusses the matter with those responsible for the investment circular and ensures that the appropriate information is included by the issuer or is included in the accountant's report. Where the audit has been undertaken by another firm, the reporting accountant does not normally refer to the name of the auditor in the accountant's report.

Comparatives

75. The reporting accountant is required to provide a report on each period included in the historical financial information to which the reporting requirement relates. In consequence the financial information does not constitute either "comparative information", "corresponding figures" or "comparative financial statements" as contemplated by ISA (Ireland) 710 "*Comparative information – corresponding figures and comparative financial statements*". Accordingly, ISA (Ireland) 710 is not relevant to the work of the reporting accountant.

Effective date

76. This Investment Reporting Standard is effective for reporting accountant engagements commencing on or after 15 September 2022. Early adoption is permitted.

Appendix 1: Examples of Engagement Letter Clauses

These examples of engagement letter clauses are intended for consideration in the context of an accountant's report. They should be tailored to the specific circumstances and supplemented by such other clauses as are relevant and appropriate. Suitably adapted, this example may be used for reporting accountant's engagements with respect to other relevant engagements.

For a prospectus

Financial information upon which the report is to be given

We understand that the directors of ABC plc will include in the Prospectus historical financial information for the [three] years ended [] in relation to ABC plc, the last [two years] of which will be presented and prepared in a form consistent with that which will be adopted in ABC plc's next published annual financial statements, having regard to accounting standards and policies and legislation applicable to such annual financial statements in accordance with the requirements of Annex [1] item [18.1 of the Commission Delegated Regulation (EU) 2019/980.

Responsibilities

The directors of ABC plc are responsible for the historical financial information. It is our responsibility to form an opinion as to whether the financial information gives a true and fair view for the purposes of the Prospectus and to report our opinion to the directors of ABC plc.

Scope of work

We shall expect to obtain such evidence as we consider sufficient and appropriate to enable us to draw reasonable conclusions therefrom. The nature and extent of our procedures will vary according to our assessment of the appropriate sources of evidence. Our work will be directed to those matters which in our view materially affect the overall financial information upon which our opinion is to be given, and will not be directed to the discovery of errors or misstatements which we consider to be immaterial. It is expected that a substantial part of the evidence which we may require will be contained in the audit files of LMN Accountants. ABC plc has agreed that it will use its best endeavours to ensure that the relevant files are made available to us. Our work may also depend upon receiving without undue delay full co-operation from all relevant officials of ABC plc and their disclosure to us of all the accounting records of ABC plc and all other records and related information (including certain representations) as we may need for the purposes of our examination.

For a Class 1 circular

Financial information upon which the report is to be given

We understand that the directors of ABC plc will include in the Class 1 Circular a historical financial information table for the [three] years ended [] in relation to XYZ Limited which will be presented and prepared in a form consistent with the accounting policies adopted in ABC plc's latest annual consolidated accounts in accordance with the requirements of chapter 12 of the Listing Rules.

Responsibilities

The directors of ABC plc are responsible for the historical financial information table. It is our responsibility to form an opinion as to whether the financial information gives a true and fair view for the purposes of the Class 1 circular and whether the financial information table has been prepared in a form that is consistent with the accounting policies adopted in ABC plc's latest annual accounts and to report our opinion to the directors of ABC plc.

Scope of work

We shall expect to obtain such evidence as we consider sufficient and appropriate to enable us to draw reasonable conclusions therefrom. The nature and extent of our procedures will vary according to our assessment of the appropriate sources of evidence.

Our work will be directed to those matters which in our view materially affect the overall financial information upon which our opinion is to be given, and will not be directed to the discovery of errors or misstatements which we consider to be immaterial.

It is expected that a substantial part of the evidence which we may require will be contained in the audit files of LMN Accountants. ABC plc has agreed that it will use its best endeavours to ensure that the relevant files are made available to us. Our work may also depend upon receiving without undue delay full co-operation from all relevant officials of ABC plc and XYZ Limited and their disclosure to us of all the accounting records of XYZ Limited and all other records and related information (including certain representations) as we may need for the purposes of our examination.

Appendix 2: Example of an Accountant’s Report on Historical Financial Information Prepared in Accordance with International Financial Reporting Standards

Date

Reporting accountant’s address

Addressees, as agreed between the parties in the engagement letter

Dear Sirs

[ABC plc]/[XYZ Limited]

We report on the financial information [set out in paragraphs to] [which comprises⁶], for the [specify periods].

[We have not audited or reviewed the financial information for the [26 weeks ended ...] [which has been included for comparative purposes only,] and accordingly do not express an opinion thereon.⁷]

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the [*describe Document*] dated, a true and fair view of the state of affairs of [ABC plc]/[XYZ Limited] as at [*specify dates*] and of its profits, cash flows and [statement of comprehensive income] [changes in equity] for the [specify periods] in accordance with International Financial Reporting Standards as adopted by the European Union

Responsibilities

The Directors of ABC plc are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of Preparation

This financial information has been prepared for inclusion in the [*describe Document*⁸] dated.....of ABC plc on the basis of the accounting policies set out in paragraph []. This report is required by

⁶ Where paragraph numbers are not referred to specify the titles of the primary statements on which the opinion is being expressed and refer to the notes of those primary statements.

⁷ This wording is relevant where financial information for an interim period is required to be reported on in circumstances where comparative information for the same interim period in the prior financial period is also to be presented, but not reported on.

⁸ For example, “prospectus”, “listing particulars”, “Class 1 Circular” or “information document”.

[*Relevant Regulation*] and is given for the purpose of complying with that [paragraph] and for no other purpose.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting (Ireland) issued by the Irish Auditing and Accounting Supervisory Authority in Ireland. We are independent of [the [Company] and the [Target] [and others where relevant]] in accordance with relevant ethical requirements. [In Ireland this is the relevant ethical code of the recognised accountancy body of which the reporting accountant is a member.] [set out relevant ethical requirements where the engagements does not involve an investment circular prepared for issue in connection with a securities transaction governed wholly or in part by the laws and regulations of Ireland.] as applied to Investment Circular Reporting Engagements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

[Conclusions Relating to Going Concern]/[Material Uncertainty Relating to Going Concern]

Declaration⁹

For the purposes of [item 1.2 of annex 1 of Commission Delegated Regulation (EU) No 2019/980] [Paragraph a of Schedule Two of the Euronext Growth Markets Rule Book – Part II] we are responsible for [this report as part] [the following part(s) : *specify parts*] of the [prospectus] [registration document] [information document] and we declare that, to the best of our knowledge, the information contained in [this report] [those parts] is in accordance with the facts and that [the report] [those parts] make[s] no omission likely to affect [its] [their] import. This declaration is included in the [prospectus] [registration document] [information document] in compliance with [item xx of annex xx of the Commission Delegated Regulation (EU) 2019/980 supplementing Regulation (EU) 2017/1129] [item 1.2 of annex 3 of Commission Delegated Regulation (EU) No 2019/980] [Schedule Two of the Euronext Growth Markets Rule Book – Part II].

Yours faithfully

Reporting accountant

⁹ This declaration is a requirement of CDR (EU) No 2019/980 and is appropriate for inclusion when the report is included in a Prospectus, see Appendix 2 of SIR (Ireland) 1000. It is also appropriate for inclusion in an information document under Schedule Two of the Euronext Growth Markets Rule Book – Part II.

Appendix 3: Example of an Accountant’s Report on Historical Financial Information Prepared in Accordance with the Basis Described in a Basis of Preparation Note

Date

Reporting accountant’s address

Addressees, as agreed between the parties in the engagement letter

Dear Sirs

[ABC plc]/[XYZ Limited]

We report on the financial information [set out in paragraphs to] [which comprises¹⁰], for the [specify periods].

[We have not audited or reviewed the financial information for the [26 weeks ended ...] [which has been included for comparative purposes only,] and accordingly do not express an opinion thereon.¹¹]

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the [*describe Document*] dated, a true and fair view of the state of affairs of [ABC plc]/[XYZ Limited] as at [*specify dates*] and of its profits, cash flows and [statement of comprehensive income] [changes in equity] for the [specify periods] in accordance with the basis of preparation set out in note x¹².

Responsibilities

¹⁰ Where paragraph numbers are not referred to specify the titles of the primary statements on which the opinion is being expressed and refer to the notes of those primary statements.

¹¹ This wording is relevant where financial information for an interim period is required to be reported on in circumstances where comparative information for the same interim period in the prior financial period is also to be presented, but not reported on.

¹² Where the financial information has not been prepared fully in accordance with a recognised financial reporting framework but, for example, in accordance with a financial reporting framework modified by applying a convention described in the Annexure to this SIR (Ireland), the accountant’s opinion is expressed in terms of the financial information being prepared in accordance with the basis of preparation described in note x to the financial information, rather than in accordance with the financial reporting framework. The basis of preparation note states which accounting convention has been applied and how it departs from the requirements of the recognised financial reporting framework. A statement is made in the note that in all other respects the recognised financial reporting framework has been applied.

The Directors of ABC plc are responsible for preparing the financial information on the basis of preparation set out in note x to the financial information.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of Preparation

This financial information has been prepared for inclusion in the [describe Document¹³] dated.....of ABC plc on the basis of the accounting policies set out in paragraph []. This report is required by [*Relevant Regulation*] and is given for the purpose of complying with that [paragraph] and for no other purpose.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting (Ireland) issued by the Irish Auditing and Accounting Supervisory Authority in Ireland. We are independent of [the [Company] and the [Target] [and others where relevant]] in accordance with relevant ethical requirements. [In Ireland this is the relevant ethical code of the recognised accountancy body of which the reporting accountant is a member.] [set out relevant ethical requirements where the engagements does not involve an investment circular prepared for issue in connection with a securities transaction governed wholly or in part by the laws and regulations of Ireland.] as applied to Investment Circular Reporting Engagements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

[Conclusions Relating to Going Concern]/[Material Uncertainty Relating to Going Concern]

Declaration¹⁴

For the purposes of [item 1.2 of annex 3 of Commission Delegated Regulation (EU) No 2019/980] [Paragraph a of Schedule Two of the Euronext Growth Markets Rule Book – Part II] we are responsible for [this report as part] [the following part(s) : *specify parts*] of the [prospectus] [registration document] [information document] and we declare that, to the best of our knowledge, the information contained in [this report] [those parts] is in accordance with the facts and that [the report] [those parts] make[s] no

¹³ For example, "prospectus", "listing particulars", "Class 1 Circular" or "information document".

¹⁴ This declaration is a requirement of CDR (EU) No 2019/980 and is appropriate for inclusion when the report is included in a Prospectus, see Appendix 2 of SIR (Ireland) 1000. It is also appropriate for inclusion in an information document under Schedule Two of the Euronext Growth Markets Rule Book – Part II.

omission likely to affect [its] [their] import. This declaration is included in the [prospectus] [registration document] [information document] in compliance with [item xx of annex xx of the Commission Delegated Regulation (EU) 2019/980 supplementing Regulation (EU) 2017/1129] [item 1.2 of annex 3 of Commission Delegated Regulation (EU) No 2019/980] [Schedule Two of the Euronext Growth Markets Rule Book – Part II].

Yours faithfully

Reporting accountant

Annexure: Accounting Conventions Commonly used in the Preparation of Historical Financial Information in Investment Circulars

This Annexure has been compiled by the FRC, and adapted by IAASA to reflect Irish requirements, from a number of sources to describe conventions commonly used for the preparation of historical financial information intended to show a true and fair view for the purposes of an investment circular. It does not include basic principles, essential procedures, or guidance promulgated by the FRC or IAASA.

Introduction

1. The purpose of this Annexure is to provide guidance concerning the conventions commonly applied for preparation and presentation of Historical Financial Information for inclusion in investment circulars. These conventions may be applied in circumstances where IFRS establishes no requirements. Where IFRS prescribes a certain treatment, this should be applied as described in the relevant standard.
2. Preparers¹⁵ have regard to accepted conventions which have been developed for the preparation and presentation of historical financial information in investment circulars. They seek to assist preparers, to the extent consistent with established accounting principles, to meet the obligation that the historical financial information should give a true and fair view for the purposes of the relevant investment circular. The conventions are described in the material presented below.

Disclosure of the financial reporting framework adopted

3. Preparers summarise the applicable financial reporting framework within the notes to the financial information. Where one of the conventions described in this Annexure is applied and its application has a material effect on the financial information or is necessary for an understanding of the basis of preparation of the financial information, it is appropriate to describe the treatment adopted in the basis of preparation note in the historical financial information.

Adjustments to the financial information

4. Preparers make adjustments, only in respect of material items, in order to:
 - a. Present the financial information for all relevant years on the basis of consistent, acceptable and appropriately applied accounting policies, in accordance with the applicable requirements;

¹⁵ The directors and management of an entity are responsible for the preparation and presentation of the financial statements of an entity. In this Annexure they are collectively referred to as “the preparers”.

- b. Correct errors; and
 - c. Record adjusting post balance sheet events where appropriate (see paragraph 16 below).
5. The historical financial information presented will be based on the records of the entity whose historical financial information is presented in the investment circular (referred to as “the entity” throughout this Annexure), for the periods reported on. These records reflect the representations and intentions of the entity’s management at the time the underlying financial information was drawn up. Matters such as the selection of accounting policies, accounting estimates and valuation judgments form part of the responsibilities of management in compiling a record of their stewardship.
6. In presenting historical financial information in an investment circular, except insofar as necessary to achieve the objectives set out above, preparers do not seek to replace accounting policies, accounting estimates or valuation judgments with alternatives subsequently selected by themselves. They consider whether the specific application of the basis of accounting originally adopted by management falls within an acceptable range of alternatives (if not, the conclusion will usually be that an error has occurred, which may need to be adjusted). Furthermore, it is not normally appropriate for adjustments to be made to eliminate items of earned income or expenses incurred, nor, in any circumstances, to recognise notional items of income or expense. The historical financial information presented in the investment circular is thus a version of the historical record as presented by the entity’s management and adjustments are introduced only to achieve those specific objectives set out in paragraph 4 of this Annexure

Trend of results

7. The historical financial information included in an investment circular presents a trend of results for the relevant period and is therefore an important aspect of the presentation of a true and fair view. In this respect the financial information may be distinguished from the financial information contained in statutory accounts.
8. Notional, or pro forma, adjustments that impact net profits or net assets are not introduced in order to make the “track record” more consistent with the entity’s expected operations or structure following the transaction. Such adjustments would anticipate future events and are not consistent with the principle that the historical financial information should record the events which actually occurred during the period of the historical financial information.

Adjustments for change in basis of accounting

9. Under Irish and EU Prospectus Law, the last audited historical financial information containing comparative information for the previous year, must be prepared and presented in a form consistent with the accounting standards framework that will be adopted in the issuer’s next published annual financial statements having regard to accounting standards and policies and legislation applicable to such annual financial statements.

10. The requirement for having the last audited historical financial information containing comparative information for the previous year consistent with the next financial statements only applies to where the issuer has changed their accounting framework. The requirements do not prevent entities from presenting the financial information for all periods in a form which is consistent with that which will be adopted in the next published financial statements if they so choose. In other contexts, such as in a Class 1 transaction, the objective may be for the financial information for all periods to be presented in a form consistent with the accounting policies adopted by the acquirer in its latest annual consolidated accounts.
11. When considering the adjustments that may be necessary where a new International Financial Reporting Standard or other relevant accounting standard has been introduced, a relevant factor will be whether the requirements for implementing the new accounting standard provide that it should be applied retrospectively once adopted. Further complexity may arise when different rules apply for an entity which is a first-time adopter of IFRS. Where adoption of a new accounting standard leads to the inclusion of a prior year adjustment in the accounts, adjustments are made, to the extent practicable, to reflect the effect of the policy in any relevant earlier period. Where the adoption of a new accounting standard does not lead to the inclusion of a prior year adjustment, for example where the accounting standard is stated to apply to transactions first accounted for after a certain date; no such adjustment is made to the financial information. Where an entity chooses to adopt a new accounting standard early and this is permitted or encouraged, although not required, by that standard, the financial information reflects the same treatment as adopted by the entity.
12. Although adjustments may be made for changes in accounting policies, adjustments are not normally made for changes in the methods of applying an accounting policy (or to otherwise update the entity's accounting estimates, provided that there were no errors). In some cases (for example a Class 1 purchase of a private company) the entity and the target may have applied different policy options when adopting a new standard. IFRS 15 *Revenue from Contracts for Customers*, for example, allows either retrospective adoption or 'modified retrospective adoption' (except for first time adopters of IFRS). Such policy options are viewed as accounting policy differences. Therefore, where there is a requirement to adjust financial information of a target to present it based on the accounting policies employed by the acquirer consideration needs to be given to the potential tensions between regulatory requirements and presenting restated historical financial information in an investment circular or prospectus in a way that is most useful to investors.
13. The effect of correcting an estimate in a later period is normally reflected in the result of that period. Consideration may be given to whether an understanding of the trend of results would be assisted by separate or additional disclosure in relation to changes in the methods of applying accounting policies or the impact of a correction of an accounting estimate.
14. Occasionally, an accounting policy may have been applied on the basis of considerations other than relevant economic ones (for example where financial statements measure the carrying amount of depreciable fixed assets in accordance with depreciation policies which are influenced by taxation considerations – as is the case in certain jurisdictions). Those presenting historical financial information in an investment circular may determine that an adjustment is necessary in order for

the financial information to present a true and fair view, for the purposes of the relevant investment circular.

Audit qualifications relating to non-compliance with accounting standards

15. Where the auditor's report(s) on the underlying financial statements was qualified on grounds for example of failure to comply with an applicable accounting standard or disagreement over an accounting treatment, it may be possible to make adjustments so as to remove the need for a similar qualification in a report on the adjusted historical financial information.

Post balance sheet events

16. In determining whether adjustment is to be made for post balance sheet events, subject to the guidance set out above, it is normal practice to consider events only up to the date on which the audit report on the relevant underlying financial statements was originally signed by the auditors except in relation to the final period presented. In respect of this final period, it will be necessary for post balance sheet events to be reflected up to the date on which the historical financial information to be presented in the investment circular is approved by the responsible party. Where the financial information is based upon financial records which were not audited, the relevant date for post balance sheet event considerations in the earlier periods is normally taken to be the date at which the underlying balance sheet was finalised.

Presentation of the financial information

17. Subject to the requirements of any applicable regulation, the financial information is presented on a consistent and comparable basis from period to period and includes such presentational changes to the financial information as are necessary in order to achieve this.
18. Presentational changes might be made to:
 - a. Present the financial information in a comparable way; and
 - b. Give due prominence to matters of particular importance in the context of the document in which the financial information is included.
19. The financial information contained in the entity's records may not have been presented on a comparable basis from period to period because the convention for presenting financial information adopted in earlier periods may have been different from that adopted in later periods.
20. Whenever practicable, financial information is presented in such a way that information which a user of the investment circular might wish to compare, is in fact comparable. Presentational changes of this nature may be categorised as follows:
 - a. Reclassifications (for example, cost of sales reclassified as distribution costs);

- b. Re-analyses (for example, restatements of analyses between continuing and discontinued activities);
 - c. Grossing up of items netted off in earlier periods (for example, matched assets and liabilities previously left off balance sheet);
 - d. Derivation or computation of information undisclosed in earlier periods (for example, profit and loss account subtotals or cash flow statements); and
 - e. Harmonisation of note disclosures (for example the editing of notes for earlier periods to integrate them with notes for later periods).
21. For example, a business classed as a continuing operation in one year may have been designated a discontinued activity in financial statements drawn up for a later period. It will be desirable for the relevant information within continuing operations in the earlier periods to be reclassified as discontinued. Where separate disclosure of information relating to entities acquired during the period has been presented in the financial statements, it is customary to reclassify such information for the purposes of the historical financial information as continuing activities, other than in respect of acquisitions made in the final period of the track record.
22. Changes are not, however, made to the presentation adopted in the financial statements on which the financial information is based, unless such changes are consistent with the requirement to give a true and fair view for the purposes of the investment circular.
23. Where it is considered that the significance of certain items to an understanding of the financial information may be obscured by the presentation adopted in the financial statements, it is usually appropriate for that presentation to be changed, relevant disclosures to be made or relevant explanations to be introduced to highlight their significance. This approach may be adopted for example to highlight certain categories of expense, such as proprietors' remuneration, in the trading record of a company seeking flotation. It may also be adopted to highlight the results of different classes of business, particularly in cases where there are proposals that a class of business is to be discontinued.
24. However, in all cases, changes in presentation would be inappropriate if they are in conflict with applicable accounting standards.

Entities under common control

25. There may be occasions where the business that is the subject of the transaction does not correspond to a single legal entity or legal group but rather to part of a legal entity or legal entities under common control. This would often be the case in the event of a disposal either through a sale or an IPO where a business was being carved-out of a larger company or group.
26. It can be difficult to determine the appropriate boundary of a reporting entity. This may relate to legal entities where the financial statements of those entities can be combined applying the principles used in preparing consolidated accounts. However, there may be more complex

situations where the business is being carved-out of a company or larger group in such a way that some of the entities involved in the business have other activities, transactions and balances unrelated to the business. Therefore, the combination may include divisions of legal entities or specific transactions and/or balances carried by legal entities that do not otherwise form part of the combination. In such cases the needs of users are considered, and the need for information that is relevant and faithfully represents what it purports to represent.

27. Where the entities have been under common control but do not form a legal group, the historical financial information will normally be presented on a combined basis.¹⁶ Under this method, the results and net assets of the relevant entities are aggregated (with eliminations for intercompany transactions and balances). Aggregated share capital and reserves balances are often not relevant and, therefore, it is common for the equity section of the statement of financial position to be a single line item. Separate historical financial information for entities accounting for substantially the whole of the historical revenue earning record is also likely to be required.

Carve outs

28. The objectives of carve-out financial statements are to present historical financial information of components that have not in the past represented a reporting entity. Normally, therefore, carve-out financial statements are a form of combined financial statements. Carve-out financial statements may be drawn from smaller individual components, such as business divisions, which can create additional complexity when defining the boundary of the new entity. The entity/(ies) which the carve-out financial statements are presenting historical financial information about may be more integrated into a larger entity's accounting systems, and the need for judgements about allocations may be more pervasive than for combined financial statements whose components are already stand-alone businesses. In addition, care must be taken to ensure that adjustments made in the preparation of carve-out financial statements are not, in fact, pro forma adjustments.
29. Where a business has formed part of a larger group ("overall group") during the three-year period, but has not been accounted for separately, it may be desirable to present a separate track record (a "carve out") for that business ("carve out business"), derived from the records of the overall group. This approach may be preferable to the alternative approach of presenting the track record of the overall group, with appropriate disclosures of operations discontinuing or not acquired. Circumstances where a carve out approach might be followed include flotations of businesses in a demerger and Class 1 acquisitions of divisions of a selling group.
30. When considering whether it is appropriate or even practicable to present carve out financial information, the following factors will be relevant:

¹⁶ Combined financial statements have been defined as statements which: *provide information about assets, liabilities, equity, income and expenses of two or more entities that are not all linked by a parent-subsidiary relationship* (IASB Conceptual Framework, CF.3.12).

- a. The extent to which the carve out business has been separately controlled within the overall group; and, therefore
- b. The extent to which it is possible to identify verifiable and accurate historical financial information.

As noted in paragraph 28 above, there are particular challenges in identifying the boundaries of combined and/or carve out financial statements. The historical financial information must be fit for the purpose intended (to meet the information needs of users of the financial statements), and it must be practicable to extract relevant information which faithfully presents the underlying activities.

31. Where the omission of the results and assets of those operations not the subject of the transaction concerned would be misleading in the context of the circumstances in which the historical financial information is to be presented, it will generally be appropriate to adopt the approach of presenting financial information on the overall group. Disclosures are made to assist the user to understand the contribution made by the operations not the subject of the transaction concerned. However, each case will need to be assessed on its own facts and circumstances.
32. In preparing the track record for the carve out business, the guidance in paragraph 6 of this Annexure will be relevant. The objective will be, so far as possible, to present a historical record reflecting the events which actually occurred in the reporting period. Whilst it may be possible to identify certain transactions and balances which clearly relate to the carve out business, there will often be cases where the accounting records do not differentiate between items which relate to the carve out business and items which relate to the remainder of the overall group's business. Examples include management overheads, funding arrangements, working capital balances, the use of common suppliers, and shared assets (including inventories). The guidance below discusses some of the elements typically encountered in preparing a carve out track record.
33. Clear and comprehensive disclosure in the notes to the historical financial information will normally be needed about the basis of preparation in order for it to be clearly understood. The description would be expected to give a general indication of the process adopted for the preparation of the historical financial information, and describe any factors which are particularly important to an understanding of the manner in which the information has been prepared.
34. The accounting policies to be adopted in the carve out accounts will need to reflect the requirements relating to the presentation of historical financial information and may differ from those previously adopted. The question of functional currency should also be considered having regard to the economic environment of the carve out business, which may lead to the adoption of a different functional currency from that of other entities within the group.

Allocations

35. Where transactions or balances are not accounted for within the overall group in a manner which clearly attributes them to the carve out business, it will generally be desirable for a method for allocating the relevant amounts to the carve out business to be identified with a view to providing the fairest approximation to the amounts actually attributable to the carve out business. Any method

should be adopted and applied on a rational and consistent basis, and that basis disclosed where material. It will not, however, be appropriate to make allocations where there is no rational or consistent basis for doing so.

Bases for allocating transactions and balances

36. The appropriate basis for allocating group income and expenditure to a carve out business will vary according to the circumstances. It may, for example, be appropriate to allocate centrally accounted-for human resources costs on the basis of headcount (but account might be taken also of relative levels of staff turnover or other factors which indicate greater or less than average use in deciding whether the approach was in fact appropriate). The costs of a head office accounts department might be allocated by reference to the relevant sizes of the carve out business and remaining group. Again, if other factors suggest that size is not a good indicator – if for example a disproportionate number of the accounting team is engaged in work for one part of the business and not the other – refinements to the approach might be considered appropriate.
37. It is important to recognise that the purpose of the allocation is to attribute an appropriate element of the overall group record to the carve out business. As a consequence, the position shown will frequently not be that which might have existed if the carve out business had been a stand-alone business. The position will be affected by the arrangements which apply to the group as a whole, which are a matter of historical fact and which it is not the purpose of the carve out financial information to alter. Frequently, disclosure will be made accompanying the financial information highlighting that the information presented may not be representative of the position which may prevail after the transaction.
38. Since the objective of allocations is to give a fair presentation of the carved-out business, then it is important to ensure that those allocations are rational, consistent, accurate, and reasonable in the context of the larger reporting entity. In the case of particularly complex or judgemental areas such as group third party debt and leases, consideration is given to the existence of formal separation agreements which may provide relevant information when making allocation decisions, or the extent to which leases are related to specific assets.¹⁷ Where the objective of the allocation process is unlikely to be met, consideration may be given to qualitative disclosures as an alternative.

Relationship with the remaining group

39. In addition to transactions with 'third parties', the results of the business will also include transactions with the part of the overall group which is not part of the carve out business (the "remaining group"). Hence, for example, sales which were previously regarded as 'intra group' will need to be re-examined to determine whether they relate to entities within the carve out business or outside it.

¹⁷ Care needs to be taken to ensure that allocation adjustments are not, in fact, pro forma adjustments dependent on future transactions.

40. The remaining group will normally also be regarded as a related party for the purposes of disclosing related party transactions, and it will normally be necessary to identify the extent of the relationships between the carve out business and the remaining group. Balances with the remaining group may have comprised elements of trading balances and short term or long-term funding balances, which may or may not have been interest bearing. Balances of a trading nature will normally be presented as an element of debtors or creditors. Balances which are considered to be funding in nature (having regard inter alia to the use made of the balances, the period for which they remain outstanding and the level of other capital) will normally be classified according to their general nature.
41. Balances with the remaining group may also contain elements of third-party debtors or creditors which have been accounted for on behalf of the carve out business by the remaining group. Examples might be VAT costs, payroll taxes, certain customers or suppliers common to the carve out business and the remaining group, and external funding balances. Such elements of the balance with the remaining group would be expected to be reallocated to the appropriate third-party captions.

Pension costs

42. The employees of the carve out entity may have participated and/or continue to participate in the parent's employee benefit plans, which may include a defined benefit scheme. Therefore, for the purpose of presenting the historical financial information it may be necessary to determine how the assets, liabilities and ongoing costs associated with the defined benefit scheme will be allocated. The most appropriate allocation method may depend on:
- a. if a contractual agreement exists that allocates the costs, assets and liabilities of the scheme at the date of the carve out
 - b. whether it is possible to identify the past contributions associated with the employees of the carve out entity;
 - c. whether the existing employee benefit plans will become multi-employer plans, and if so, whether actuarial allocations to each part of the business will be possible; and
 - d. the profile of the employees of the carve out business compared with the profile of the employees of the continuing business.
43. Disclosures need to be sufficient to allow users to understand the method adopted in the carve-out accounts, the judgments and estimates made in arriving at the figures presented in the accounts and the ongoing implications for the carve out business.

Disposals and non-recurring items

44. Non-recurring items are generally allocated to the carve out business and accounted for in accordance with the applicable accounting standard. The treatment of disposals follows that described in paragraph 53 of this Annexure

Taxation

45. Tax charges are generally allocated to the carve out business to reflect the proportion of the overall group charge attributable to the carve out business. The approach will typically involve the aggregation of the tax charges actually incurred by the companies within the carve out business (and will therefore reflect the benefits, reliefs and charges arising as a result of membership of the overall group), after taking account of the tax effects of any adjustments. Where the information relating to the tax charges actually incurred is not available, the tax charge may be recomputed on the basis of the results of the carve out business. The tax rate applied is selected having regard to the tax position of the overall group and might thus include the impact of benefits, reliefs and charges arising as a result of membership of the overall group, to the extent that they would have been available to or imposed upon the carve out business.

Cash flow statements

46. A cash flow statement is prepared for the carve out business based on the carve out information. Where the overall group operates a central cash account, cash flows relating to centrally settled costs are allocated to the carve out business to the extent that the related balances are allocated to the carve out business.

Treatment of other items

47. Dividends are expected to be reflected in the track record of the carve out business where companies within the carve out business have paid dividends to members of the remaining group.
48. In relation to the disclosure of directors' remuneration, it is normal to present information for those individuals who are to be directors of the carve out business or who were employed by the overall group in a capacity equivalent to that of a director of the carve out business. The information disclosed will reflect the salaries and benefits paid in respect of services to the carve out business by any member of the overall group to those individuals (irrespective of whether the individuals were directors or not) during the period covered by the track record. No information is presented for proposed directors of the carve out business who were not employed by the overall group, or for individuals who served as directors of companies within the carve out group but who are not to be directors of the carve out group's holding company following the transaction.
49. A segmental analysis is prepared for the carve out business to reflect the segments which the carve out business has decided to adopt (as with any other company).

Equity

50. In the context of carve-out financial statements, the traditional captions in equity (share capital, share premium, retained earnings etc) are often not relevant. Therefore, it is common for the equity section of the statement of financial position to be a single line item.

Alternative Performance Measures (APMs)

51. It is important to consider the use of APMs carefully in the context in which they are presented. For combined financial statements, for example, the use of an allocation methodology in the preparation of historical financial information may not result in accurate or meaningful results when used as the basis for the presentation of APMs. ESMA guidance on APMs provides important principles to follow, particularly in respect with the disclosure of the basis of preparation and calculation of alternative measures.¹⁸

Acquisitions

52. Entities acquired during the period covered by the historical financial information will typically be accounted for, in the records of the acquiring entity, in accordance with the accounting treatment applicable, having regard to the set of accounting standards adopted. Hence, for example, if the accounting standards require acquisition accounting, the acquired subsidiary will be accounted for from the date of acquisition by the acquiring entity.

Disposals

53. Disposals of subsidiaries or a discontinuation of a material section of the business are reflected by separate analysis between the continuing business and the disposed or discontinued business, either under the relevant headings in the profit and loss table or in the notes to the historical financial information. It is not normally appropriate to make adjustments to eliminate the results of subsidiaries that have been disposed of or discontinued operations from the trading record. However, it may not be necessary to introduce the results of a subsidiary that has been disposed of or a discontinued operation into specially prepared consolidated accounts or combined accounts prepared having regard to the considerations set out in paragraphs 53 to 58 of this Annexure, unless the inclusion of such information is relevant to an understanding of the business to which the historical financial information relates.

Unincorporated entities and entities producing limited accounting information

54. Acquisitions may involve entities which do not prepare financial information which meets the standards required for statutory accounts in Ireland (and additionally may not have been subject to the disciplines of an external audit). The accounting conventions adopted may be devised for internal management accounting purposes rather than to meet more generally applicable accounting standards. In such cases, it may not be possible to present financial information meeting the requirements of the relevant regulations. The decision as to what information to present will depend upon the degree to which the information can be regarded as sufficiently relevant and reliable having regard to the purpose for which it is presented. Frequently the purpose will be to

¹⁸ ESMA *Guidelines on Alternative Performance Measures & ESMA Questions and answers: ESMA Guidelines on Alternative Performance Measures (APMs)* for further relevant useful guidance.

assist shareholders in a decision; it is for those responsible for the investment circular to weigh up the balance between depriving shareholders of information which may be relevant to a decision and being satisfied that the information presented is of sufficient quality to be properly used as the basis for a decision. Where there is significant doubt about the quality of the financial information available, those responsible for the investment circular may be advised not to present it in the investment circular. This may lead to very limited financial information appearing in the relevant investment circular. In the case of an investment circular regulated by the Central Bank, the position should be discussed in advance with the Central Bank.

Financial information on newly formed issuers

55. In many cases, investment circulars are prepared in relation to newly formed companies (for example startup businesses, investment trusts, newly formed holding companies etc). Generally, such companies will not have prepared accounts for a financial year at the time the investment circular is to be issued and consequently financial statements will need to be prepared for the purposes of the investment circular. If the newly formed company has not yet commenced operations, preparers generally make a statement to this effect and do not include historical financial information for it. Where relevant this should be discussed and agreed in advance with the Central Bank.

Changes in the legal form of entities

56. There may be circumstances where businesses have been carried on during the period covered by the report by different legal entities with the consequence that the relevant financial information may be found in the accounts of different legal entities. A typical example is a management buy-out, where prior to the buy-out, the business might have been accounted for in the financial statements of a subsidiary undertaking of the vendor, but, following the buy-out, the financial information may be that of the entity formed to effect the acquisition.

57. In cases where the legal entity accounting for the business has changed (for example where a business has been transferred from one entity to another – typically a newly formed company) but where there is no essential change in the underlying business, it is normal for the financial information to be presented as part of a single table, with the results of the predecessor entity shown next to those of the successor entity (generally on a combined basis in the period during which the transaction took place).

58. A consequence of the change in legal entity may be a change in the capital structure. Frequently, where there is a management buy-out, debt becomes a significant part of the capitalisation of the business. In order to highlight for the reader, the potential lack of comparability between periods, a statement is often included within the introduction or beneath the profit and loss account (and in the relevant notes) referring to the change in capital structure and alerting the reader to the fact that the information relating to financing costs may not be comparable throughout the period. In circumstances where, as in the case of a management buy-out, fair value adjustments have been made during the period covered by the historical financial information, it is inappropriate to attempt to show the impact of such adjustments on the results prior to the acquisition. However, the impact

of the fair value adjustments is, where practicable, highlighted in respect of the post-acquisition results.

Earnings per share (EPS)

59. Consideration will need to be given as to whether it is appropriate to present an EPS figure in all circumstances. For example, in the case of combined financial statements, any EPS figure may be almost impossible to calculate with confidence, or may not provide meaningful information.
60. In cases where there has been a capital reorganisation since the date at which the last balance sheet was drawn up, it will usually be appropriate for the earnings per share figures disclosed to be adjusted to reflect the reorganisation (to the extent that it involves issues of shares for no consideration, issues containing a bonus element, share splits, long term incentive plan/options vesting as a result of the transaction, etc). In such cases, the number of shares used in the earnings per share calculation is adjusted so that the shares originally in issue are replaced by the number of new shares, representing the shares originally in issue, following the reorganisation. Where shares have been issued during the period, this is taken into account in calculating the equivalent weighted average number of post-reorganisation shares. Where the reconstruction involves conversions, for example of preference shares or loan stock, the earnings figures used in the calculation of earnings per share may also need to be adjusted to eliminate the effect of any related preference dividends or interest.
61. Difficulties may also arise over the relevance of the earnings per share figure in certain cases, for example where prior to flotation a new holding company has been created. In such cases an earnings per share figure based on the share capital of the subsidiary may be of limited significance to investors. Accordingly, it is usually appropriate to include a supplementary earnings per share figure, in addition to the historical earnings per share figure, based on the relevant number of shares in the new parent company (before the issue of shares to raise new funds). This approach is also generally adopted in the case of a carve out business which did not have share capital during the reporting period. Where the effect is material and where practicable, the number of shares used for the purposes of the calculation is adjusted to reflect variations in the levels of capital funding the operations arising, for example, from issues of equity for cash during the period under review. In some circumstances, such as where there has been a management buyout during the period reported on, the differences in the capital structure may be such that a comparison of the earnings per share figures is not meaningful. Where this is the case, the statement to be included beneath the profit and loss table mentioned above generally refers also to the lack of comparability of the earnings per share information.

Reporting currency

62. A target entity may have reported historically in a currency other than that of the acquiring entity. Typically, regulation requires that the historical financial information of a target be presented on a basis consistent with that adopted by the issuer in its last financial statements or to be adopted by the issuer in its next financial statements.



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