Irish Auditing & Accounting Supervisory Authority

Financial Reporting Supervision role of IAASA

KPMG

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Disclaimer

The views expressed are mine and do not necessarily reflect the views of the Board, individual Board members or the staff of IAASA

Confidentiality – Section 31

No person shall disclose, except in accordance with law, information that –

a) is obtained in performing the functions or exercising the powers of the Supervisory Authority, and

b) has not otherwise come to the notice of members of the public…

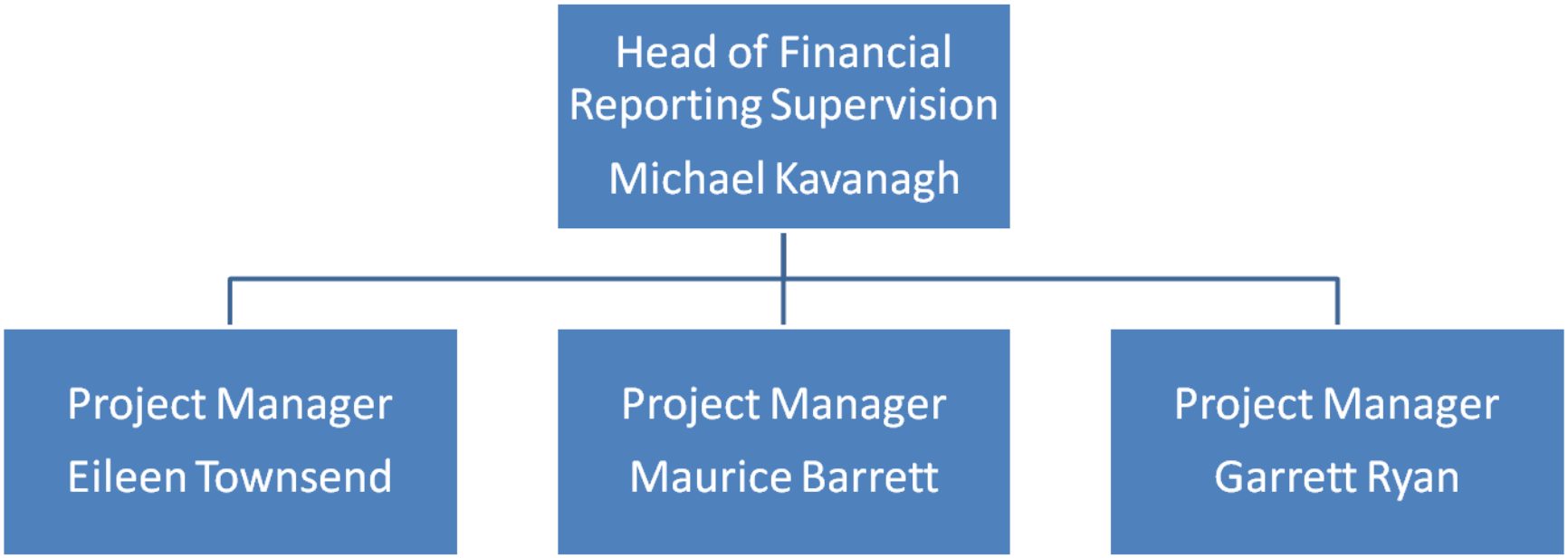
Certain exemptions provided for in law

IAASA

Presentation overview

1. Re-cap on IAASA's role under the Transparency Regulations
2. Criteria used in selecting financial reports for review
3. IAASA's approach to issues arising from reviews
4. Some issues arising during 2009 reviews
5. Looking forward to 2010

Financial Reporting Supervision Unit



Principal Functions of FRSU

- To examine whether the financial reports of issuers whose Home Member State is Ireland under the Transparency Regulations complies with the relevant reporting framework
- Liaising with other countries' financial reporting monitoring bodies
- Co-operating in the development of accounting standards and practice notes
- Assisting the Board to discharge its functions as an advisor to the Minister on accounting related matters

Recap on IAASA's financial reporting supervisory/enforcement function

- Central Bank is the central administrative competent authority for the purposes of the Transparency Directive.

- IAASA is the independent designated competent authority for carrying out functions under Article 24(4)(h) of the Directive, i.e.

  "..to examine that information referred to in this Directive is drawn up in accordance with the relevant reporting framework and take appropriate measures in case of discovered infringements."

Review constituency as at 31 December 2008

Category	No. of issuers in category	Half-yearly financial reports issued per annum	Annual financial reports issued per annum	Total no. of periodic financial reports issued per annum
Equity	35	35	35	70
Funds	56	56	56	112
Debt	134	84	134	218
Total	**225**	**175**	**225**	**400**

Certain debt issuers are exempt from the requirement to make public half-yearly financial reports for a period of 10 years

Methodology for selection of entity for review (1)

Selection criteria include:

- Risk of material misstatement in the financial statements
- Potential impact on users of financial statements in the event of material misstatement
- Supplemented with random selection of financial statements for review

Methodology for selection of entity for review (2)

Risk factors include:

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

Methodology for selection of entity for review (3)

Assessment of impact of material misstatement:

- share trading activity and volatility in stock price
- market capitalisation
- number and nature of investors
- nature of securities traded
- public profile

IAASA's approach towards issues

- What a review entails…….
- Review issues addressed, in the first instance, through correspondence with issuers with request to respond ….. What an IAASA letter contains
- Additional correspondence where further clarification or further elaboration is required
- Where relevant/applicable, further action determined having regard to significance of issues arising and directors' responses to matters arising
- Issues being posted to EECS database will also inform IAASA's review activity/focus and IAASA decision may be posted to EECS database.
- Has not, yet, been necessary to invoke powers

Actions in response to IAASA correspondence (1)

- Initial letter → information gathering and not necessarily an indication of non-compliance
- Timescale for response.
- Involve advisers
- Comprehensive responses and explanations
- Set out proposed rectification actions, if applicable
- Ensure compliance with undertakings made

Actions in response to IAASA correspondence (2)

Auditors could:

- enquire of issuers regarding IAASA correspondence and assist issuers in meeting undertakings given

IAASA's statutory powers

Minimum requirements as per TD (and more) including power to:

- require auditors and issuers to provide information and documents
- require an issuer to disclose the required information
- make public the fact that an issuer is failing to comply with its obligation
- carry out on-site inspections

Responses to matters arising from reviews completed during 2008

Issuer category	Number reviews completed	Undertakings regarding future reporting	Publication of amended financial report
Equity	15	10	1
Fund	17	11	9
Debt	19	18	18
Total	**51**	**39**	**28**

Review Activity 2008 & 2009

Year	Equity (incl. Banks)	Funds	Debt	Total
Reviews completed – 2008	15	17	19	51
Reviews completed – 2009	20	14	15	49

Some issues arising during 2009 reviews - Equity

- Impairment of assets
- Financial instruments: Disclosures of risk -IFRS 7
- Financial instruments: Recognition and measurement (IAS 39), fair value/valuations, hedge effectiveness etc.
- Principal risks and uncertainties
- Judgments and estimates by management
- Related party disclosures

Some issues arising during 2009 reviews - Equity

- Business combinations (IFRS 3) & Goodwill
- Operating Segments (IFRS 8)
- Operating profit
- Prior period errors
- Employee benefits (IAS 19)- Retirement benefits
- Deferred tax
- Compliance with IAS 34/ASB Statement on HY FS

Some issues arising during 2009 reviews – Funds/Debt issuers

- Financial instruments: Recognition and measurement (IAS 39) Fair value/valuations
- Financial instruments: Disclosures (IFRS 7) valuation assumptions, estimation techniques, significant accounting policies, risk disclosures (liquidity risk, price risk, currency risk, interest rate risk, counterparty risk, concentration risk etc.
- Principal risks and uncertainties
- Judgments and estimates
- Management reports /Director reports (IFRS, Co Act & TD)
- Related party disclosures

Some issues arising during 2009 reviews – Funds/Debt issuers

- Compliance with IAS 34/ASB statement on half yearly financial statements
- Impact of recently promulgated pronouncements
- Events after the balance sheet date
- Comparatives
- Presentation issues re primary statements
- Disclosure of certain derivatives
- Reclassification of items in the primary statements & certain notes
- EPS

Looking forward to 2010 – IAASA Observations Document

- Matters noted in IAASA Observations document last January still relevant
- Other areas of focus
  - Impairment of goodwill
  - Hedging instruments
  - Bank covenants
  - Related party transactions and balances
  - Accounting for government grants and disclosure of government assistance

Looking forward to 2010 (cont.)

- Materiality
- Financial instruments – risk disclosures
- ‘Operating profit’
- Key performance indicators {KPIs’}
- Management reports
- Reliance on ‘industry practise’

- New accounting pronouncements
  - IAS 1 revised and IFRS 8

Questions?

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IAASA

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