KPMG

AUDIT COMMITTEE INSTITUTE

Quarterly 37

June 2019

Background

Recognising the increasing importance of governance issues, the Audit Committee Institute Ireland (ACI) was established to serve both audit committee members and non-executive directors to help them to adapt to their changing roles.

Historically, those charged with governance responsibilities have largely been left on their own to keep pace with rapidly changing information relating to governance, remuneration, audit issues, accounting and financial reporting. Supported by KPMG, the ACI provides knowledge to non-executive directors and a resource to which they can turn at any time for information or to share knowledge.

Our primary objective is to communicate with all senior business people to enhance their awareness and ability to implement effective board processes.

The ACI aims to serve as a useful, informative resource for members in such key areas as:

- Governance, technical and regulatory issues
- Sounding board for enhancing all board committees' processes and policies
- Surveys of trends and concerns.

The ACI is in direct contact with approximately 1,000 members. For more information on the activities of the ACI, please visit our website at: www.kpmg.ie/aci.

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Welcome

Welcome to the latest edition of Quarterly, a publication designed to help keep audit committee members and non-executive directors abreast of developments in areas of corporate governance and related matters.

The key topics covered in this issue include:

- CEO Outlook report
- Gender pay gap reporting: Are you preparing for the proposed legislation?
- Top 10 technologies for business transformation
- Boardroom Questions: Blockchain
- Local regulatory update
- Financial reporting update

I hope you will continue to enjoy the ongoing benefits of ACI. Please contact us at aci@kpmg.ie with any comments or suggestions of topics you would like to see covered and visit our website at www.kpmg.ie/aci for further information.

David Meagher
Chairman
Audit Committee Institute Ireland
Partner
KPMG in Ireland

CEO Outlook report

Irish chief executives are more successful than their global counterparts at embedding a culture of innovation in their organisations. This is one of the key findings of the Irish edition of the 2019 KPMG Global CEO Outlook. The report surveyed 1,300 CEOs in many of the world's most dynamic organisations, including from Ireland, to discuss how they are confronting long-held market orthodoxies and assumptions that govern decision-making.

The survey found that Irish CEOs have also embraced a fail fast culture in their organisations. Over four fifths (82 percent) of the Irish CEOs surveyed want their employees to feel empowered to innovate and try new things without worrying about negative consequences - a figure similar to their global peers (84 per cent).

However, Irish CEOs were markedly more successful in actually achieving this goal with over three quarters (75 per cent) claiming to have done so, while only just over half of global CEOs (56 percent) feel they have similar attitudes in place.

"Business leaders are encouraging their teams to try new things and experiment where success isn't guaranteed and Irish CEOs appear to be successful in embedding the ethos that lessons from failure are valuable in supporting the innovation process", says KPMG managing partner Seamus Hand.

"This is indicative of the entrepreneurial culture we have in this country now", he adds. "That's due to a lot of things but one of them is the nature and diversity of the talent we have here in the Irish economy."

But there has to be an overall goal in sight. "Trying new things and being tolerant of failure is only useful if it's aligned with the objectives of the business. If the business isn't making profits these things don't matter. It's about asking how things can be done differently to help the organisation succeed. What you learn from failure and what you do next with that learning is important."

Saying that such a culture is required is one thing, actually embedding it is quite another. "Every organisation is different", says Hand. "But a lot of the things people said in the survey resonated with me and the leadership team in KPMG. When trying to embed a culture like this it has to percolate up from the bottom. You have to empower people to challenge the status quo. It's about using the best resource most of us have, our people, to come up with the ideas and putting in place processes to gather those ideas, evaluate them, and implement them."

Traditional hierarchical structures and departmental divides may not lend themselves to such a culture, but this doesn't mean organisations should sweep away tried and trusted approaches. "These historic structures are fundamental to the success to date of many organisations", Hand notes. "It's not about tearing things down and building from the ground up all over again. There are different ways of looking at it. It might be possible to do it outside and have external incubators to test and trial the ideas. In other cases, it may be possible to make changes which are less fundamental."

Leadership is also important. "One of the points that came through the research was in relation to the new type of leadership that companies need. It is changing from traditional siloed roles to much broader ones where a key requirement is greater collaboration."

The need to be agile was also highlighted. "Agility is primarily the ability to react quickly to changes in customer needs", Hand explains. "There are many ways for organisations to do this. Cyber is an example. Companies often see this as just something they need to have in place to protect their business, but it can be used as a platform to grow the business as well. Having good cybersecurity systems in place enhances a business's reputation and helps build trust with customers. It also offers a platform to add more technology solutions to meet the needs of customers."

Resilience is also important. "It's almost counter-intuitive but it is not resilience in terms of bouncing back from set-backs or getting through a downturn", says Hand. "It is about succeeding in times of change and how organisations respond to change."

Finally, internal disruption is becoming increasingly important. "Successful companies have to constantly challenge themselves and look at ways to disrupt their own businesses", says Hand. "That's what their new smaller competitors will do to them, so they have to do it to themselves if they want to remain successful."

This article originally appeared in The Irish Times and is reproduced here with their kind permission.

Learn more at kpmg.ie

Gender pay gap reporting: Are you preparing for the proposed legislation?

The Gender Pay Gap refers to the difference in the average hourly pay of women compared to men in a particular organisation and is designed to capture the extent to which women are evenly represented across an organisation. Employers need to be aware that where a gender pay gap exists, this may negatively impact their brand, employee relations, public reputation and their ability to attract and retain talent.

In the UK, organisations with more than 250 employees are now legally required to provide annual reports on their gender pay gaps. In Ireland, two separate Bills have been initiated in the Houses of the Oireachtas. In May 2017, the Labour Party initiated a Private Members Bill entitled "The Human Rights and Equality Commission (Gender Pay Gap) Information Bill 2017" which is making its way through the legislative process. Separately, the Government has published the Gender Pay Gap (Information) Bill 2019 (the "Government Bill") which is also making its way through the legislative process.

Consequently, mandatory gender pay gap reporting is likely to be introduced in Ireland in the near future and it is important for Irish employers to commence preparations at an early stage.

Early preparations may provide an opportunity to address any imbalance well in advance of any reporting deadline and will allow organisations to promote themselves as forward-thinking and progressive.

On the other hand, organisations which leave preparations too late will find themselves addressing any issues in the public domain, under the watchful eye of the media, trade unions, their employees and customers. Organisations reporting a high gender pay gap, may be considered to be less than fully committed to fair pay, promotion and development opportunities for women.

Proposed Reporting Requirements

The Government Bill, as currently drafted, proposes most of the current UK reporting requirements together with further Irish requirements, as follows:

Requirements: UK & Ireland

- Mean pay gap in hourly pay
- Median pay gap in hourly pay
- Mean bonus gap

- Median bonus gap
- % of female employees who were paid a bonus
  % of male employees who were paid a bonus

Requirements: Ireland

- Mean pay gap in hourly pay for part time employees
- Median pay gap in hourly pay for part-time employees
- % of female employees who received a Benefit in Kind
  % of male employees who received a Benefit in Kind

In addition, where any pay gaps are identified, employers must set out the reasons for this and the measures (if any) being taken, or proposed to be taken, to eliminate or reduce any such pay gaps.

The Bill further provides that the regulations to be introduced may also require the publication of information in relation to the mean and median pay gaps for temporary employees; the respective percentages of men and women in each of the four pay quartiles; and information by reference to job classifications.

Key metrics explained

The Mean Pay Gap

The mean gender pay gap is the difference between women's mean hourly wage and men's mean hourly wage. The mean hourly wage is the average hourly wage across the entire organisation.

The Median Pay Gap

The median gender pay gap is the difference between women's median hourly wage (the middle paid woman) and men's median hourly wage (the middle paid man). The median hourly wage is calculated by ranking all employees from the highest paid to the lowest paid, and taking the hourly wage of the person in the middle.

The Quartiles

Pay quartiles are calculated by splitting all employees in an organisation into four even groups according to their level of pay. Looking at the proportion of men and women in each quartile gives an indication of the gender representation at different levels of the organisation.

Plan your strategy now

Get your data ready

Check your reporting systems can deliver the data you require. How much human intervention will you need to compile your report? Make sure you set up systems so they can report according to the proposed procedures and pay periods.

Involve key stakeholders

You will need support from across the organisation to calculate and explain your gender pay gap. Engage with other departments early to address challenges you may have with the IT systems for example, or in dealing with employees' concerns once you publish the figures.

Perform a trial run

You should carry out a trial run of your gender pay gap report. This helps in two ways: first it lets you check that your systems and processes are ready to report in a way that is compliant with the proposed new reporting requirements and secondly, it provides you with an early and private snapshot of the current gender pay gap in your organisation.

Understand your Pay Gap

Understanding the reasons for your gender pay gap as early as possible gives you time to workout how to explain them (if the reasons are fair and valid) or to take professional advice on how to address them and to take action before you publish your first gender pay gap report.

Build your narrative & plan your communications strategy

Your organisation needs to own the narrative around your report. This is particularly important given that gender pay and equal pay are often confused. Prepare for challenges to your report from third parties, time your communications strategy carefully and put plans in place to control your message.

Implement proactive change

How you respond when you identify a gender pay gap could come under as much scrutiny as your gender pay gap itself. Failing to demonstrate positive change could put you at a disadvantage. Think now about how changing policies and practices in key areas, including recruitment, talent development, training, remuneration and retention, could help reduce your gender pay gap.

How will you address your gender pay gap?

Preparing to publish the data is one thing, but explaining why any pay gap exists and how you are dealing with any identified pay gap will be crucial to comply with the proposed regulations.

Set your figure in context. Your figure may be skewed by a number of factors, such as your industry sector or historical patterns of progression. We can prepare the narrative to explain the factors that influenced the calculation.

Look at policies and practices. Your response to your gender pay gap could attract as much scrutiny as the data itself. Failing to demonstrate positive change could negatively impact your business. Look at policies and practices in these key areas, could they be improved?

- Remuneration
- Recruitment
- Talent Development
- Retention
- Diversity and Inclusion

Where can KPMG help?

KPMG can assist your teams in preparing for the likely introduction of Gender Pay Gap reporting ("GPG") in Ireland. We can make your stakeholders aware of the issues, prepare a current "As is" analysis of your payroll to assess the current status of your organisation and provide a communication and action plan to address and explain any gaps arising.

Awareness

KPMG can host a workshop/meeting with your stakeholders, to share insights on the practical challenges of GPG, how organisations in the UK are dealing with it, and what next steps they are taking to communicate and take action to reduce their GPG.

Analysis

Our KPMG Data analytics tool can analyse your organisation's payroll data and prepare a detailed review and report by age, location, seniority of employees, functions and / or job titles. It can also assist with identifying the potential root causes of any GPG and KPMG can then advise on actions to address the GPG.

Assurance

Develop practical communications or guidance for your stakeholders on GPG reporting, taking action to reduce the GPG and feeding in to other gender, inclusion and diversity initiatives. Gender pay gap reporting is likely to generate ongoing and evolving issues to discuss (e.g. diversity reporting, equal pay auditing etc.)

Article by:
Darina Barrett, KPMG Ireland

Top 10 technologies for business transformation

We are in a period in which technologies are at once emerging, resurging and converging. Companies across virtually every sector are positioning themselves to outpace their competition by embracing - and implementing - innovative technology-based business models to create differentiated value.

Against this backdrop, respondents to KPMG's 2019 Technology Industry Innovation Survey again ranked Internet of Things (IoT) as the top driver of business transformation over the next three years.

This result comes as no surprise given how broad and far reaching the category is. From wearable health monitors to connected homes and cities, everything feels "smart" these days and is interwoven with a myriad of devices and applications. IDC forecasts global IoT spending will reach $745 billion this year, and $1.2 trillion in 2022.

A revealing aspect of the 2019 Technology Industry Innovation Survey is that while the universe of top ten technologies was essentially the same as last year, the order changed dramatically. Robotic process automation (RPA) and blockchain both jumped up significantly in this year's ranking.

In the following sections, we'll take a closer look at these two big gainers, as well as the key benefits and challenges our survey respondents perceive in adopting transformational technologies.

Leaders struggle with new technologies

Almost regardless of the specific technology, industry leaders most frequently cited the bottom line impacts of "improved business efficiencies" or "increased profitability" as the top benefits of adopting transformational technologies. Surprisingly, "increased market share" was only named once and "new revenue streams" was not ranked in the top three for any technology. This implies that business leaders are more focused on taking costs out of their business and are uncertain about how new technologies can transform their business models to grow revenue and market share. This point is reinforced by the fact that "unproven business case" was the top cited challenge with adopting new technologies.

As for other perceived challenges with adopting these technologies, respondents also said they were apprehensive about what they see as "technology complexity." Another popular concern was "security" which is ubiquitous in today's business world as data or privacy breaches can cause untold reputational and financial harm.

Robotic process automation

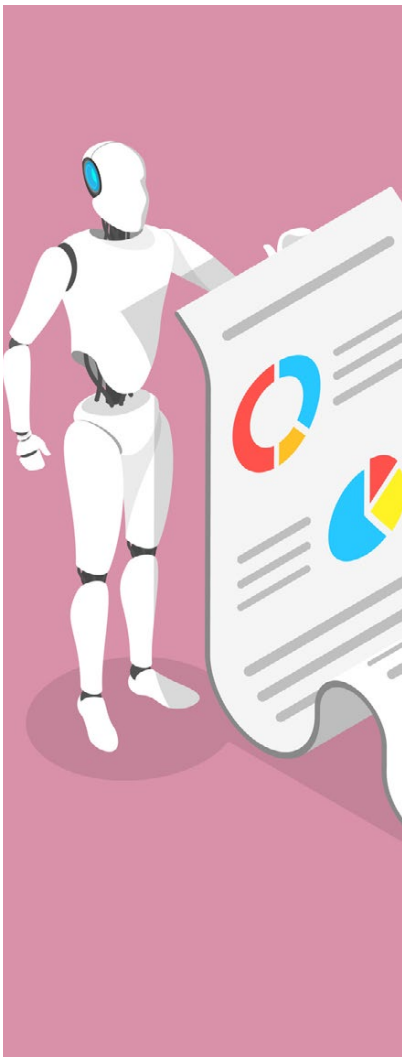
The big mover in this year's survey is RPA, which shot up the top 10 list from #9 a year ago to #2. RPA comprises the software bots that facilitate the automation of manual and structured activities. It is viewed as an entry point in the spectrum of intelligent automation (IA), which is a broad portfolio of enhanced and cognitive automation applications that also includes machine learning and true artificial intelligence (AI). In offices around the globe automated software bots are already performing numerous basic tasks and even making decisions that were previously in the domain of humans. RPA complements and augments human skills and boasts the power to exponentially increase the speed, scale, quality, precision and efficiency at which enterprises operate.

Blockchain

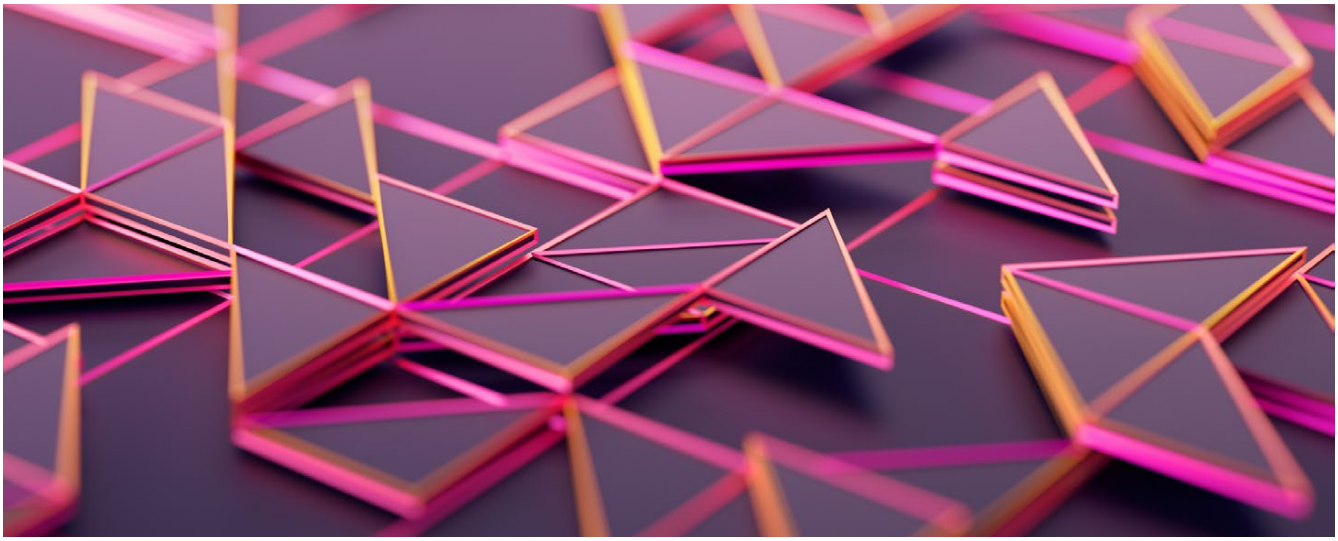
Since 2008, blockchain has progressed from being overhyped and disparaged to now firmly in the implementation phase. In fact, worldwide spending on blockchain solutions is forecast to reach $11.7 billion in 2022.

KPMG survey respondents' opinion of blockchain correspondingly increased, jumping from #7 to #4 on the top 10 transformative technology list. And as outlined in KPMG's Blockchain for Technology, Media, and Telecommunications Companies report, 41 percent of technology company leaders expect to implement blockchain technology at their company over the next three years. Similarly, nearly half (48 percent) believe blockchain will change the way their company does business over the next three years.

Article by:
Anna Scally, KPMG Ireland



Boardroom Questions: Blockchain



Why might Blockchain or Digital Ledger Technology (DLT) be important to businesses?

Up to 40% increased efficiency of data and digitization from single source of truth

Up to 75% reduction of operating risk, capital requirements and working capital

Up to 25% revenue enhancement as a result of better customer experience and new markets

Up to 95% reduction in reconciliations and errors

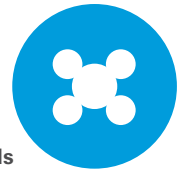
Source: Estimates based on KPMG client blockchain projects 2016-2017. Indicative benefits are not guaranteed and will depend on a number of factors including the change between the current state and the envisaged theoretical future state

What is Blockchain or DLT?

Blockchain is the Distributed Ledger Technology ("DLT") for Bitcoin, and now typically refers to DLTs generally. DLTs work as a distributed ledger or database system that:

Records data or transactions

Is designed to create and maintain **unalterable records**



Shares data across multiple users / devices

May be **public or privately run** (e.g. for enterprises)

How is using Bitcoin different from Paypal and other online payment systems?

- Bitcoin as a crypto-asset does not require integration with a bank account or credit card to transfer Bitcoin
- It is not housed within a single entity, but decentralized across all its users, applying cryptography to create integrity and trust between strangers
- Bitcoin as store of value is more volatile than most government issued currencies

How can Blockchain technology be used in day to day business?

Blockchain and financial services may:

- Reduce transaction costs andcomplexity
- Increase transaction speed and security, releasing trapped capital and liquidity
- Enhance customer experience by minimizing duplication
- Enable financial inclusion and transactions for the unbanked

Technical, legal and business uses:

Technical – a distributed database to efficiently share information across multiple participants e.g. provenance of manufactured goods

Business – a mechanism to exchange value between peers (business to business; person to person) using tokenized assets

Legal – it can validate pre-agreed contract conditions without human intervention

Privacy – people's online identity (public, private or anonymous) and personal data can be controlled by themselves and not by the provider of email, internet engine or social media groups

What are some of the possible risks?

Not understanding how Blockchain can affect your business or industry

Investing too early, perhaps without a clear strategic business case and not fully capturing the benefits

Your competitors taking the first advantage thereby reducing their costs and pricing whilst creating new services

Opportunities

Innovations are being developed including:

- Peer to peer sharing economies such as co-operatives can be formed and controlled by themselves, therefore not needing the sharing aggregators to take a margin
- Digital identity e.g. birth certificates, passports, social security: Blockchain uses an embedded trust component, meaning someone does not need to appear physically to prove who they are
- Property ownership – Blockchain uses a time stamp which cannot be changed, unlike a database, and could be the record keeper for all property and subsequent transactions
- Healthcare through medical records ensuring that only certain people can see certain aspects of the record
- Smart contracts – software programs that auto-execute transactions and make them easier to enforce, for example in the music industry where the artists' songs have smart contracts included, enabling the artist to be paid before the music is streamed
- Supply chain verification and transparency, enabling new forms of supply chain finance and reducing counterfeits
- Intellectual property – every industry, from people, services and manufacturing to conglomerates, can be protected from piracy
- Agency businesses – e.g. reduction of co-ordination and overhead costs and better sharing of information

Boardroom Questions

1. Have we considered what areas of our business can use Blockchain technology: whether that is intellectual property, contracts, treasury, etc?
2. How could Blockchain be a disruptor to our business?
3. Will our customers and suppliers benefit from us using Blockchain and can we support them in the transition, ultimately leading to greater margins?
4. Are any of our competitors, suppliers or customers using Blockchain? What has been the impact to their business and ours?
5. What are the risks of implementing Blockchain to our current and future business?
6. Do we have a strategy in place to assess, review and implement Blockchain and if so, who is responsible?
7. What are the costs in time, resource, legal and finance to implement?

What actions can the Board consider?

- ✓ Appoint a suitable senior management person to be responsible for reviewing the implications of Blockchain to the business
- ✓ Provide an overview of how clients, suppliers and competitors might use Blockchain
- ✓ Report back to the Board to give an update and the possible scenarios involving the different areas of the business and benefits
- ✓ Consider the review, suggest recommendations and plan ongoing reviews

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Local regulatory update

Through the early part of 2019, the Irish Auditing and Accounting Supervisory Board (IAASA) and the Financial Reporting Council (FRC) continue to focus on enhancing audit quality in Ireland and the UK respectively. With a clear focus on improving investor confidence in businesses and providing clear and meaningful information for stakeholders, the regulators have both issued a number of consultations looking for stakeholder views. In Ireland, the Companies Amendment Act 2019 has been enacted with a view to reduce administrative burden on companies when filing annual returns.

IAASA developments

Consultation Paper - Proposal to Revise ISA(Ireland) 570

On 3 May 2019, IAASA issued a consultation paper seeking the view of stakeholders regarding IAASA's proposal to issue a revised version of ISA (Ireland) 570 Going Concern.

The changes proposed are in line with the changes that are proposed and currently under consultation by the Financial Reporting Council (FRC).

The proposed revisions include:

- Require the auditor to obtain sufficient appropriate audit evidence regarding an entity's ability to continue as a going concern and to conclude on whether there is a material uncertainty relating to going concern. This is in contrast to the current ISA (Ireland) 570 which requires the auditor to conclude, based on the audit evidence obtained, whether there is a material uncertainty that may cast significant doubt on an entity's ability to continue as a going concern;
- Expanded requirements for the auditor to evaluate management's assessment of an entity's ability to continue as going concern; and
- New requirements for the auditor report to contain an explanation of how the auditor has evaluated management's assessment of going concern.

Stakeholders and interested parties are invited to provide responses by e-mail only to submissions@iaasa.ie no later than 5:00pm, Friday 28 June 2019.

IAASA's consultation paper can be accessed here: https://www.iaasa.ie/getmedia/6b0f6bda-f9d5-4d5f-b88e-900371463db6/IAASA_Consultation-Paper-on-ISA570_final.pdf

The proposed ISA (Ireland) 570 can be accessed here: http://www.iaasa.ie/getmedia/5625948b-0f43-4a8f-8290-9e4807fb5b4d/Proposed-ISA-Ireland-570-revised-going-concern_Final.pdf?ext=.pdf

The full report can be found here: https://www.iaasa.ie/getmedia/f28e050a-9644-48b7-a514-45a29ba08a6d/CEAOB_Guidelines_Monitoring-the-fee-cap-of-NAS_final.pdf

Consultation paper on IAASA's intended policy on publication and grading in the quality assurance review process

In November 2018, IAASA issued a consultation paper to obtain stakeholders on the proposal to implement a publication and grading policy in the quality assurance review process relating to statutory auditors and audit firms that carry out statutory audits of public-interest entities. Responses to the consultation paper were provided by a number of audit firms and recognised accountancy bodies, however IAASA identified that there was an absence of responses from Audit Committees and other users of the proposed public reports.

IAASA has issued a further consultation paper seeking the views of non-practioner stakeholders regarding the intended policy on publication and grading process relating to statutory auditors and audit firms that carry out statutory audits of public-interest entities.

IAASA is seeking that the non-practioner stakeholders provide their comments on the Consultation Paper by 31 May 2019.

The consultation paper is available here: https://www.iaasa.ie/getmedia/25dbf63b-3ae3-4245-98c3-bb53665f7765/Consultation_AQR-Process_Publication-Gradings_FINAL.pdf

European accounting enforcers outline common enforcement priorities regarding companies' 2018 financial statements

On 26 October 2018, the European Securities and Markets Auditory ('ESMA') published its annual statement titled European common enforcement priorities for 2018 annual financial reports. The statement sets out those topics which company directors, Audit Committees and auditors should particularly consider when preparing, reviewing and auditing International Financial Reporting Standards ('IFRS') financial statements for the year ending 31 December 2018.

The statement prioritises the following three topics:

a) specific issues related to the application of IFRS 15 Revenue from Contracts with Customers;

b) specific issues related to the application of IFRS 9 Financial Instruments; and

c) disclosure of the expected impact of implementation of IFRS 16 Leases.

The statement also emphasises the importance of:

a) disclosure in financial reports being tailored to the specific circumstances of the entity; and

b) providing explanations and descriptions of matters that are relevant to a user's understanding of the company's financial performance and financial position.

European national accounting enforcers, including IAASA, will use the ESMA topics in their examinations of companies' 2018 financial statements with the aim of promoting consistent application of IFRS by European companies in their financial statements.

ESMA's full public statement is available here: https://www.iaasa.ie/getmedia/34335ccc-56ec-4dba-a871-2bfd64a4a91c/ESMA32-63-503-ESMA-European-Common-Enforcement-Priorities-2018.pdf

Financial Reporting Council (FRC) developments

FRC announces 2019/20 audit thematic reviews, priority sectors and audit areas of focus

On 15 November 2018, the FRC announced its 2019/20 audit thematic reviews, priority sectors and audit areas of focus.

The thematic review topics will be:

- Audit Quality Indicators; and
- The use of technology in audits.

The corporate reports and audits selected for review by the FRC in 2019/20 will have regard to the following priority sectors:

- Financial Services, with emphasis on banks, other lenders and insurers;
- Oil and Gas (CRR only);
- General Retailers; and Retail Property;
- Business Support Services; and
- Construction and Materials.

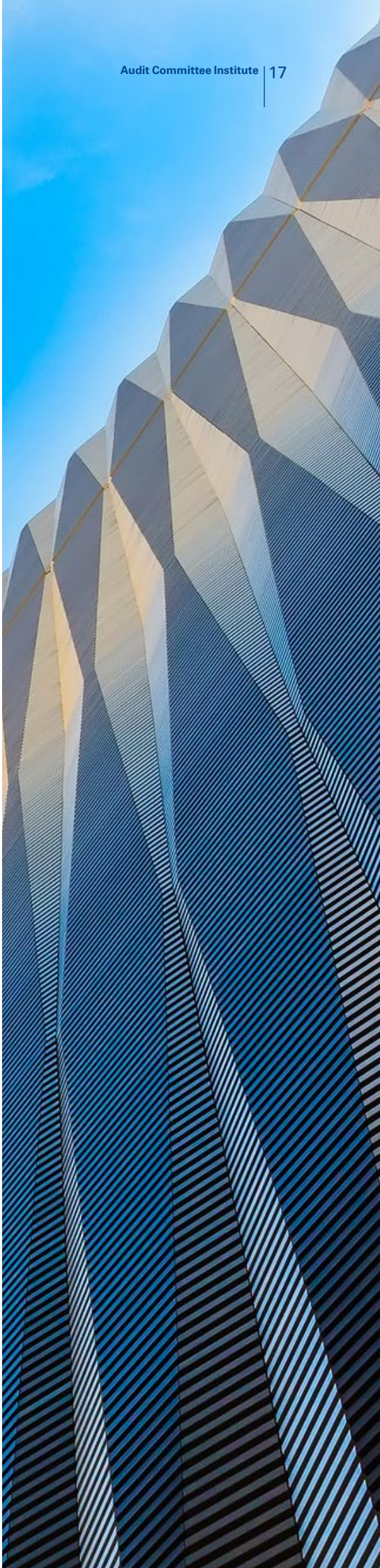
Wates Principles to improve corporate governance standards among private companies

On 10 December 2018, the FRC released the Wates Corporate Governance for Large Private Companies (Wates Principles). The Wates Principles are formed on six principles which encourage companies to adopt a set of key behaviours to secure trust and confidence among stakeholders and benefit the economy and society in general.

The six principles are:

a) Purpose and Leadership

b) Board Composition



c) Board Responsibilities

d) Opportunity and Risk

e) Remuneration

f) Stakeholder Relationships and Engagement

Reporting against these principles for large private UK companies will take effect on 1 January 2019.

The full set of principles is available here: https://www.frc.org.uk/getattachment/31dfb844-6d4b-4093-9bfe-19cee2c29cda/Wates-Corporate-Governance-Principles-for-LPC-Dec-2018.pdf

FRC consults on stronger Going Concern standard for auditors

On 4 March 2019, the FRC issued Proposed International Standard on Auditing (UK) 570 (Revised) Going Concern together with a consultation paper which proposes to increase the work required of auditors when assessing whether an entity is a going concern.

The proposed versions are similar to those outlined above in respect of the IAASA consultation and comprise of:

- Require the auditor to obtain sufficient appropriate audit evidence regarding an entity's ability to continue as a going concern and to conclude on whether there is a material uncertainty relating to going concern.;
- Expanded requirements for the auditor to evaluate management's assessment of an entity's ability to continue as going concern; and
- New requirements for the auditor report to contain an explanation of how the auditor has evaluated management's assessment of going concern.

The consultation period closes at 5pm on Friday 14 June 2019 and stakeholders are encouraged to respond with their views and comments.

The proposed standard and consultation paper can be accessed here: https://www.frc.org.uk/getattachment/c6a969db-a720-4d69-87fa-1567e970ce24/;.aspx

Company law

European Union (Anti-Money Laundering: Beneficial Ownership of Corporate Entities) Regulations 2019

On 22 March 2019, the Minister signed the European Union (Anti-Money Laundering: Beneficial Ownership of Corporate Entities) Regulations 2019 into Irish law.

These regulations require details of beneficial owners of Irish incorporated companies and Industrial Provident Societies to be provided to a newly established central register of beneficial owners of companies.

Failure to comply with the regulations, which imposes obligations on the officers of the company to obtain information on the beneficial owners and on the beneficial owners to provide the information, can carry a penalty of up to €500,000 and up to 12 months in prison.

Read the full Regulation here: http://www.irishstatutebook.ie/eli/2019/si/110/made/en/pdf

Companies (Amendment) Act 2019

On 11 April 2019, the Minister enacted the Companies (Amendment) Act 2019. This amendment reduces the administrative burden on companies whereby it extends the time a company has to file its annual return from 28 days to 56 days.

At present, a company must file its annual return together with its statutory financial statements (if applicable) with the Companies Registration Office (CRO) within 28 days of its annual return date. Where the annual return is filed electronically, section 344 of the 2014 Act grants companies an extra 28 days to deliver the accompanying financial statements to the CRO. Given that all annual returns (Form B1) must now be filed electronically, this section has become redundant and will be deleted.

In addition, companies will now have a straight 56 days after their annual return date to file both their annual return and financial statements

The amendment can be found here: https://data.oireachtas.ie/ie/oireachtas/act/2019/10/eng/enacted/a1019.pdf

Investment Management Regulation

UCITS and AIFMD Funds

On 29 March 2019, the Central Bank issued the 25th edition of the Central Bank UCITS Q&A and the 33rd edition of the Central Bank AIFMD Q&A. Both versions include a new Q&A in relation to Irish UCITS/AIFs which acquire Chinese bonds through the Bond Connect infrastructure.

The Q&A clarifies that if an Irish authorised UCITS/AIF proposes to acquire Chinese bonds through Bond Connect, the depository of the UCITS/AIF, or an entity within its custodial network, must ensure it retains control over the bonds at all times.

Read the 25th edition of the UCITS Q&A here: https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/funds/ucits/guidance/190326_ucits-qa-25-edition-clean_fos-docx.pdf?sfvrsn=2

Read the 33th edition of the AIF Q&A here: https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/funds/aifs/guidance/qa/190329_aifmd-qa-version-33_clean.pdf?sfvrsn=2

ESAs propose amendment to PRIIPs Key Information Document to clarify application to investment funds.

On 8 March 2019, the European Supervisory Authorities (ESAs) submitted to the European Commission, draft regulatory technical standards (RTS) to amend the Delegated Regulation covering the rules for the Key Information

Document (KID) for Packaged Retail and Insurance-based Investment Products (PRIIPs). The proposed RTS is in response to the agreement to amend the date in Article 32 of Regulation (EU) No 1286/2014 (PRIIPs Regulation). The amendment will extend the time period for which UCITS and relevant non-UCITS are exempted from preparing a PRIIPs KID until 31 December 2021.

Read the draft regulatory technical standards here: https://www.esma.europa.eu/sites/default/files/library/jc-2019-17_joint_letter_kid_for_packaged_retail_and_insurance-based_investments_products.pdf

Investor Money Requirements

On 10 December 2018, the CBI published revised Guidance and revised Q&As on Investor Money Requirements. The Investor Money Requirements Guidance and Q&A's are published to assist fund service providers in complying with the Regulations. The CBI has therefore revised its Guidance and Q&A's on this topic to be consistent with Part 7 of the Regulations.

The updated Q&A document can be accessed here: https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/funds-service-providers/regulatory-requirements-guidance/investor-money-requirements-questions-and-answers_december-2018.pdf?sfvrsn=2

The guidance can be accessed here: https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/funds-service-providers/regulatory-requirements-guidance/investor-money-requirements-guidance_december-2018.pdf?sfvrsn=2

Central Bank consultations

There are currently no active Central Bank consultation. The list of closed Central Bank consultations can be accessed here: https://www.centralbank.ie/publication/consultation-papers

Financial reporting update

This section provides an overview of the key developments in accounting standards since our last edition.

Overview

Since our last edition of ACQ in October 2018, there have been a small number of changes to local GAAP while there are minimal changes to IFRS.

In local GAAP, there were amendments published to FRS 102 to include explicit requirements for how an entity shall transition from defined contribution accounting to defined benefit accounting. In addition, there are proposed amendments to FRS 101 incorporated in FRED 70 to propose that insurance entities will not be able to apply FRS 101 if IFRS 17 becomes adopted by EU IFRS.

From an IFRS perspective, the new accounting standards IFRS 9 Financial Instruments (IFRS 9) and IFRS 15 Revenue from contracts with customers (IFRS 15) were included in the 31 December 2018 annual reports of companies. Attention has therefore now turned to the adoption of IFRS 16 Leases which is effective for accounting periods beginning on or after 1 January 2019. The adoption of this standard is also expected to have an impact on a significant number of entities with many entities having to release their first results under this standard in their 30 June 2019 interim financial statements.

To assist preparers, reviewers and Audit Committee members with determining the level of disclosures required in the financial statements for the year end 30 June 2019, KPMG has released annual financial statement disclosure guidance.

FRC Accounting standards – FRS 100, FRS 101, FRS 102, FRS 103, FRS 104 & FRS 105

Amendments to FRS 102: *Multi employer defined benefit plans*

In May 2019, the FRC issued amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland: Multi-employer defined benefit plans.

The amendments to FRS 102 set out new and explicit requirements which will be incorporated into section 28 of FRS 102 for how an entity shall transition from defined contribution accounting to defined benefit accounting.

The effective date for the amendments is accounting periods beginning on or after 1 January 2020 with early application permitted.

A copy of the amendments to FRS 102 is available at the link below:

https://www.frc.org.uk/getattachment/cebf3f2f-cd8b-4e10-afff-1da71230a064/Amendments-to-Basis-for-Conclusion-FRS-101-Web-Ready.pdf

Ongoing FRC Project

The FRC has one ongoing project in respect of local GAAP which is set out below.

Further detail on the above ongoing project being undertaken by the FRC can be accessed at: https://www.frc.org.uk/accountants/accounting-and-reporting-policy/uk-accounting-standards/on-going-projects

IFRS activity

IFRS 9 and IFRS 15 effective from 1 January 2018

The major standards, IFRS 9 and IFRS 15 are effective for the first time for companies with an annual reporting period beginning on or after 1 January 2018. As noted below, the European Securities and Markets Authority (ESMA) and Ireland's accounting enforcer, IAASA, are continuing to focus on reviewing the adoption of the new standards. It is very important that entities disclose sufficient information to comply with the requirements of the new standards and the impact that the transition to those standards has had on the financial statements.

KPMG has released the 2018 illustrative disclosures guide for annual financial statements which illustrates one possible way of meeting the disclosure objectives. It is recommended that Audit Committee members look at the illustrative disclosures

to understand the level of detail that is expected to be provided in the annual report. The KPMG 2018 illustrative disclosures for annual financial statements publication is available
at the link below:

https://www.frc.org.uk/getattachment/f265b11d-ba22-47c5-8c38-db0ab1e0b6f3/Amendments-to-FRS-102-Web-Ready.pdf

FRED 70 Draft amendments to FRS 101 *Reduced Disclosure Framework – 2018/ 2019 cycle*

The FRC issued FRED 70 Draft amendments to FRS 101 Reduced Disclosure Framework – 2018/ 2019 cycle on 29 January 2019.

It proposes that insurance entities shall not be permitted to apply FRS 101 if IFRS 17 Insurance Contracts is part of EU adopted IFRS.

The comment period ended on 30 April 2019 and FRED 70 is available at the link below:

https://www.frc.org.uk/consultation-list/2019/fred-70-draft-amendments-to-frs-101

Ongoing FRC Project

The FRC has one ongoing project in respect of local GAAP which is set out below.

Project	Issued date
Implementation issues (ongoing)	As communicated in the last Audit Committee publication, the Corporate Reporting Council and its UK GAAP Technical Advisory Group are performing reviews of any issues arising relating to the implementation of FRS 102 as those issues arise. Decisions about the best way to addresses issues such as editorial points, areas where FRS 102 is silent, and areas where divergent accounting practice seems to be emerging in practice etc. are being taken on a case-by-case basis.

Further detail on the above ongoing project being undertaken by the FRC can be accessed at:

https://www.frc.org.uk/accountants/accounting-and-reporting-policy/uk-accounting-standards/on-going-projects

IFRS activity

IFRS 16 effective from 1 January 2019

IFRS 16 became effective for annual reporting periods beginning on or after 1 January 2019. Therefore many companies will be releasing their results under IFRS 16 in their 30 June 2019 interim financial statements. This will be the first opportunity to communicate the nature and effect of the change after the date of initial application. The level of disclosures provided in the interim financial statements will depend on the impact that IFRS 16 has on the individual companies. IFRS 16 does not explicitly require new disclosures in interim financial statements, however entities are required under IAS 34 to ensure that they include all information that is relevant to understanding any significant changes since the last annual reporting date, and an entity's financial position and performance during the interim period. To assist companies with the presentation of their interim financial statements, KPMG has released proforma illustrative 2019 interim financial statements which are available at the link below:

https://home.kpmg/content/dam/kpmg/xx/pdf/2019/04/2019-Interim-IFS.pdf

In addition, we would like to remind preparers, reviewers and audit committee members that KPMG has released a number of publications to assist companies in their adoption of IFRS 16 which are available at the link below:

https://home.kpmg/xx/en/home/services/audit/international-financial-reporting-standards/leases.html

IFRS 9 and IFRS 15 effective from 1 January 2018

The major standards, IFRS 9 and IFRS 15 became effective for annual reporting periods beginning on or after 1 January 2018. KPMG released the 2018 illustrative disclosures guide for annual financial statements which illustrates one possible way of meeting the disclosure objectives. This document will continue to be relevant for companies with 31 March 2019, 30 June 2019 and 30 September 2019 year- end financial statements.

https://home.kpmg.com/content/dam/kpmg/xx/pdf/2018/09/2018-ifs.PDF

New IFRS standards and amendments

There were no new amendments issued for IFRS since our last update.

We await the final publication of the following upcoming IFRS amendments:

Forthcoming IFRSs, narrow scope amendments and IFRIC Interpretations

IFRSs and narrow scope amendments	Within 6 months	After 6 months
Classification of liabilities as current or not current (amendments to IAS 1)	✓	
Availability of a refund (amendments to IFRIC 14) *		
Property, plant and equipment: proceeds before intended use (amendments to IAS 16) *		

** No indicative publication date provided*

For further information, please see the following publications:

- IASB press release and related publications on the amendments to IAS 1 are available at the following link: http://www.ifrs.org/projects/work-plan/classification-of-liabilities/

- IASB press release and related publications on the amendments to IFRIC 14 are available at the following link: http://www.ifrs.org/projects/work-plan/availability-of-a-refund/

- IASB press release and related publications on the amendments to IAS 16 are available at the following link: https://www.ifrs.org/projects/work-plan/property-plant-and-equipment-proceeds-before-intended-use/

IASB exposure drafts

The following exposure drafts were published by the IASB during the period since our last edition:

- Exposure Draft: *Fees in the 10 per cent test for de-recognition of financial liabilities (amendments to IFRS 9)*

  This exposure draft was published to address uncertainties arising from the financial reporting implications of the Interbank Offer Rates Reform (IBOR Reform).

  Interest rate benchmarks such as IBORs play an important role in global financial markets. However cases of attempted market manipulation of some interest rate benchmarks, along with a decline in liquidity in interbank unsecured funding markets undermined confidence in the reliability and robustness of some existing interest rate benchmarks. In some jurisdictions, there is a move towards replacing the existing interest rate benchmarks with alternative, nearly risk free interest rates that are based on transaction data. This has therefore led to uncertainty about the long term viability of some existing interest rate benchmarks. The IASB noted two groups of issues that could have financial reporting implications which are:

  1. Issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate; and

  2. Issues that may affect financial reporting when an existing interest rate benchmark is replaced with an alternative interest rate (replacement issues).

  IASB press release and further guidance regarding the exposure draft is available at the following link: https://www.ifrs.org/projects/work-plan/ibor-reform-and-the-effects-on-financial-reporting/#published-documents

- Exposure Draft: *Lease incentives (amendment to illustrative example 13 accompanying IFRS 16)*

  This exposure draft was published to address potential confusion for preparers in applying IFRS 16 Leases because of how illustrative example 13 accompanying IFRS 16 illustrates the requirements for lease incentives. It was unclear why illustrative example 13 had not considered the reimbursement relating to leasehold improvements to be a lease incentive as defined in IFRS 16. The publication proposes an amendment to remove the illustration of payment from the lessor relating to leasehold improvements from illustrative example 13 IFRS 16.

  IASB press release and further guidance regarding the exposure draft is available at the following link: https://www.ifrs.org/projects/work-plan/lease-incentives-ifrs-16/#current-stage

- Exposure Draft: *Subsidiary as a first time adopter (amendments to IFRS 1)*

  This exposure draft was published as part of annual improvements to FRS standards 2018 to 2020. The Board proposes to require a subsidiary that elects to apply D16(a) of IFRS 1 First-time adoption of International Financing Reporting Standards to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRSs.

IASB press release and further guidance regarding the exposure draft is available at the following link: https://www.ifrs.org/projects/work-plan/subsidiary-as-a-first-time-adopter/

- Exposure Draft: *Taxation in fair value measurements (amendments to IAS 41)*

  This exposure draft was published as part of annual improvements to FRS standards 2018 to 2020. The Board proposes to remove the requirement in paragraph 22 of IAS 41 Agriculture for entities to exclude cash flows for taxation when measuring fair value applying IAS 41.

  IASB press release and further guidance regarding the exposure draft is available at the following link: https://www.ifrs.org/projects/work-plan/taxation-in-fair-value-measurements/

- Exposure Draft: *Updating a reference to the Conceptual Framework (amendments to IFRS 3)*

  This exposure draft was published with three proposed amendments to IFRS 3 *Business Combinations*. The three proposed amendments are as follows:

1. Remove from IFRS 3 a reference to an old version of the Board's Conceptual Framework ("the Framework for the preparation and presentation of financial statements" issued in 1989) with a reference to the current version ("the Conceptual framework for financial reporting").

2. The addition to IFRS 3 of an exception to its recognition principle. For liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if incurred separately, an acquirer should apply IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework to identify the obligations it has assumed in a business combination.

3. Make the IFRS 3 requirements regarding contingent assets more explicit so that IFRS 3 will include an explicit statement that an acquirer should not recognise contingent assets acquired in a business combination.

IASB press release and further guidance regarding the exposure draft is available at the following link:

https://www.ifrs.org/projects/work-plan/updating-a-reference-to-the-conceptual-framework-ifrs-3/

Further exposure drafts and discussion papers are expected to be released as follows:

Exposure draft	2019 H2	2020 H1
Amendments to IFRS 17 Insurance contracts	✓	
Deferred tax related to assets and liabilities arising from a single transaction (amendments to IAS 12)	✓	
Primary Financial Statements	✓	
Disclosure initiative – accounting policies	✓	
Disclosure initiative – targeted standards – level review of disclosures *		
Rate regulated activities	✓**	
Goodwill and impairment (amendments to IAS 36)	✓	
Business combinations under common control		✓
Management commentary		✓

**Indicative date has not been provided*
*** It is not yet clear whether an exposure draft or discussion paper will be released.*

Newly-effective IFRSs

IFRSs as adopted by the EU for 31 December 2018 year-end financial statements

For those companies which are preparing their year-end financial statements for the year ended 31 March 2019 i.e. annual periods beginning on or after 1 April 2018 or for the year ended 30 June 2019 i.e. annual periods beginning on or after 1 July 2018 under IFRSs as adopted by the EU, the following will be mandatory for the first time in their year-end financial statements:

- IFS 15 Revenue from Contracts with Customers.
- IFRS 9 Financial Instruments.
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions.
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.
- Amendments to IAS 40 Transfers of Investment Property
- Annual improvements to IFRS 2014 to 2016 Cycle - (Amendments to IFRS 1 and IAS 28).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

Please note as per the last edition of this publication, the same newly effective IFRSs as adopted by the EU apply to 31 December 2018 year-end financial statements (i.e. accounting periods beginning on or after 1 January 2018).

The following standards are not mandatorily effective but are available for early adoption at 31 March 2019 and 30 June 2019 for EU IFRS

Standards available for early adoption (EU IFRS)	Mandatory effective date
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IFRS 9 Prepayment Features with Negative Compensation	1 January 2019

Newly effective IASB IFRSs for 31 March 2019 and 30 June 2019 year-end financial statements

For those companies which are preparing their year-end financial statements for the year ended 31 March 2019 i.e. annual periods beginning on or after 1 April 2018 or for the year ended 30 June 2019 i.e. annual periods beginning on or after 1 July 2018 under IASB IFRS, the following will be mandatory for the first time in their year-end financial statements:

- IFS 15 Revenue from Contracts with Customers.
- IFRS 9 Financial Instruments.
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions.
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.
- Amendments to IAS 40 Transfers of Investment Property
- Annual improvements to IFRS 2014 to 2016 Cycle - (Amendments to IFRS 1 and IAS 28).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

Please note as per the last edition of this publication, the same newly effective IFRSs apply to 31 December 2018 year-end financial statements (i.e. accounting periods beginning on or after 1 January 2018).

The following standards are not mandatorily effective but are available for early adoption at 31 March 2019 and 30 June 2019 for IASB IFRS

Standards available for early adoption (IASB IFRS)	Mandatory effective date
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IAS 19 Plan Amendment, Curtailment or Settlement	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards	1 January 2019
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3 Definition of a Business	1 January 2020
IFRS 17 Insurance Contracts	1 January 2021
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Optional

KPMG Tool for generating newly effective and upcoming IFRS

As highlighted in the last round up of this publication, KPMG have released a webtool which allows you to generate a customised list of newly effective and forth-coming IFRS standards for both IASB IFRS and EU IFRS.

The tool gives a list of standards that are mandatory to apply for the first time depending on effective date and accounting period selected, and also provides a list of standards that are available for early adoption and that are upcoming in the future. The tool is available at the below link:

https://home.kpmg/xx/en/home/services/audit/international-financial-reporting-standards/ifrs-toolkit/ifrs-new-standards-effective-dates-tool.html

Please note the endorsement status of IFRS as adopted by the EU can be monitored on the European Financial Reporting Advisory Group's endorsement webpage which can be accessed at the link below:

http://www.efrag.org/Endorsement?AspxAutoDetectCookieSupport=1

Publications

Audit Committee Handbook

The Audit Committee Institute launched an updated version of the Audit Committee Handbook in late 2017. This publication, written for both the Irish public and private sectors, highlights the Audit Committee's role and provides guidance to help Audit Committees gain a better understanding of the processes and practices that help create effective Audit Committees. The guide is designed to be an easy reference guide to a range of topics from the Irish regulatory landscape to the duties of audit committees and communications with shareholders.

A selection of what the book can offer is as follows:

- ACI guiding principles for audit committees reflecting the committee's ever-increasing workload
- Step-by-step guide on how to approach an audit tender process
- Complete set of audit committee fundamentals, leading practices and ready-to-use tools
- Best practice guidance on audit committee member induction
- Extensive guidance to assist audit committee chairs in their important role
- Risk oversight essentials in the digitalised world

The guide is available for download at:

https://home.kpmg.com/content/dam/kpmg/ie/pdf/2017/10/ie-aci-handbook-2017.pdf

Word versions of the various questionnaires, and other appendices - which can be customised to a company's specific circumstances - are also included.

ACI publications 2019

On the 2019 Remuneration Committee agenda- January 2019
https://home.kpmg/content/dam/kpmg/ie/pdf/2018/12/ie-on-the-2019-remuneration-committee-agenda.pdf

On the 2019 Nomination Committee agenda- January 2019
https://home.kpmg/content/dam/kpmg/ie/pdf/2018/12/ie-on-the-2019-nomination-committee-agenda.pdf

On the 2019 Audit Committee agenda - January 2019
https://home.kpmg.com/content/dam/kpmg/ie/pdf/2018/12/ie-on-the-2019-audit-committee-board-agenda.pdf

Let us know what you think

We are always grateful for feedback regarding topics for breakfast seminars, roundtables and *Quarterly*.

Let us know what you would like covered by phoning us at +353 (1) 410 1160 or e-mailing us at aci@kpmg.ie.

Training certificate

If you wish to receive a training certificate in relation to attendance at the ACI events, please e-mail us at aci@kpmg.ie or phone us at +353 (1) 410 1160.

ACI International

The Audit Committee Institute, sponsored by KPMG, is an international initiative with thousands of members sharing resources across borders. A list of affiliated sites is available at http://home.kpmg.com/ie/en/home/services/audit/audit-committee-institute/aci-international-sites.html

Many members of ACI in Ireland are board members of international companies or often spent a significant amount of time in other jurisdictions. Please feel free to follow the links of our affiliated members in order to register for publications from or events in their countries.

For ease of reference, registration for ACI UK can be achieved by emailing auditcommittee@kpmg.co.uk. Registration for ACI US can be achieved by following the instructions at www.kpmg-institutes.com/content/kpmg-event-management/registration.html

Contact us

If you have feedback on this issue or would like to suggest a topic for a future edition, please contact:

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