KPMG

Audit Committee Magazine

December 2020

Your Partner For What's Next

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 over 1,050 members. For more information on the activities of the ACI, please visit our website **www.kpmg.ie/aci.**

Contents

Welcome

Welcome to the latest edition of *ACI Magazine*, 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
- Financial Reporting Challenges in the COVID-19 Environment
- New Estimates Auditing Standard
- Key Cyber Security Considerations for 2020
- 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 www.kpmg.ie/aci for further information.

David Meagher
Chairman
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How the pandemic is reshaping the views of CEOs

What does the pandemic mean for the economy and the future of work? Company employers and their people have been pondering the question since it became apparent that COVID would be with us for some time. KPMG's 2020 CEO survey sheds some light on the bigger picture of leadership confidence, the economy and redefining the world of work.

The pandemic has both reduced and accelerated demand for goods and services. The attitude of CEOs to the crisis will be instrumental, for example, in shaping how and where many of us work. The most recent research from KPMG provides some topical insights. The KPMG 2020 CEO Outlook provides an in-depth 3-year outlook from thousands of global executives on enterprise and economic growth.

Some of the impacts may not have been so obviously anticipated. For example, 84 percent of CEOs in Ireland believe that remote working has widened their available talent pool. Meanwhile, a majority (81 percent) of Irish CEOs have seen the digital transformation of their businesses accelerating during the pandemic. The biggest advancements have been in the digitisation of operations, where 60 percent say that progress has put them years ahead of where they would have expected to be right now.

Given that CEO confidence sets the context for much decision making, it is of note that optimism in the global and national economies has fallen sharply. Only one third of global CEOs are optimistic about global growth in the next three years compared with 68 percent in January. Meanwhile, 56 percent of Irish CEOs are confident about domestic growth – down from 92 percent in January – a 36 percent drop.

Emer McGrath, Co-Head of Markets with KPMG in Ireland, acknowledges the differences in how the pandemic is impacting various parts of the economy. "Labour intensive sectors such as transport, tourism and hospitality have been badly affected and are areas where appropriate support and clarity is needed to help them plan for recovery." These sectors also play a key role in the regional economy given their geographic spread. On a more positive note, Emer McGrath says that sectors such as healthcare, life sciences, technology and food, whilst seeing changes to purchasing patterns, "have been buoyed by steady or increased demand and have shown their potential to play an important role in economic recovery."

The pandemic is undoubtedly having a severe impact on many sectors and the full consequences will not be known for some time. One of the most obvious impacts on work has been the sharp rise in those out of work. In Ireland, for example, the Central Statistics Office (CSO) have reported that the Covid-19 adjusted unemployment rate rose to 20.2 percent in October, compared to 15.9 percent in September. Inevitably, work involving close human contact has been the most impacted. From travel, leisure and tourism to specific areas such as arts and entertainment, the pandemic has had a deeply negative effect and has hit employment numbers hard.

To support those out of work, over €4 billion has been paid out under PUP (Pandemic Unemployment Payment) to hundreds of thousands of people who lost their jobs. As part of Budget 21, a decision was taken to close PUP for new entrants from the end of 2020. However, the Cabinet has extended this date until 1 April 2021.

Beyond the obvious themes of health and the economy, perhaps the most talked about impacts of COVID has been what it means for individual work patterns. Before

the pandemic, building and retaining trust in remote workplaces was an issue. However, what was thought impossible pre the crisis has now happened – millions of people worldwide have found themselves and their employers having to adapt to a rate and pace of change previously thought unthinkable.

Reflecting on the related point of the acceleration of digitisation, KPMG's Paul Toner says "It's phenomenal, for example, that over 80 percent of CEOs in Ireland say the pandemic has accelerated seamless digital customer experiences. And consumer behaviour is also changing. It was argued that people wouldn't buy high value items online that they wanted to touch and feel first. That's no longer the case and many people are increasingly happy to buy big ticket products like jewellery and cars online."

Meanwhile, from a behavioural perspective, there is an employee and organisational challenge. In some ways, the future of work is being defined by what is being missed. Described recently by commercial property professionals as the '3Cs' – colleagues, culture and collaboration, each of those factors is clearly absent when working from home.

These '3Cs' have, since the pandemic began, focussed minds on just how important face time is with each other. When Google pulled out of one Dublin office deal, it triggered much comment about the future of the office. However, it is worth noting that they are still committed to two more projects representing 360,000 sq. ft of space.

For many, working life will most likely be split into two. This means that space that was previously used for 'full day occupancy' will be converted into safe meeting spaces and individual task work. In many sectors the latter is more likely to be done from home. So, while we continue to debate how we might work, it's likely that CEOs are not writing off the office yet.

About the KPMG 2020 CEO Survey

The survey offers a unique perspective on the mindset shift of CEOs since the lockdown. Initially 1,300 CEOs were surveyed worldwide in January and February, before many key markets were beginning to feel the full impact of the pandemic. In July and August the firm conducted a follow-up survey of over 300 chief executives across the globe, including from Ireland, to understand how CEO thinking has evolved during the crisis. Access the full report **here.**

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New Estimates Auditing Standard

The revisions to ISA (Ireland) 540 (Revised) will have important implications for chief financial officers, financial controllers and management responsible for financial statement preparation and the determination of accounting estimates.

Its impact may be felt outside finance functions where others contribute to the calculation of estimates – for example, valuation specialists, taxation teams or pension specialists.

It will also give rise to additional considerations for audit committees recommending financial statements for approval.

Key questions for Audit Committees

- Have management adequately addressed estimation uncertainty in their process to calculate the estimate?
- Do the annual report disclosures appropriately describe estimation uncertainty for the reader?
- Are there additional risks due to COVID-19 or due to Brexit that need to be factored into financial reporting estimation?
- Does the entity have adequate oversight and governance over the financial reporting process relevant to the estimate?
- Have management performed a proper risk assessment of estimation uncertainty?
- For estimates identified, what are the range of possible outcomes and how have management settled on their point estimate?
- How accurate were estimates in the prior accounting period?

What are the implications?

The new standard requires the auditor to perform additional understanding and risk assessment procedures over estimates, along with other new requirements. This means that:

- More time is needed from management to help the auditor perform these procedures.
- Management will need to articulate their processes and controls around estimates better.
- There will be more dialogue between auditors, management, and those approving financial statements about the critical aspects of estimates.
- There will be a better and more robust audit approach to auditing accounting estimates in the forthcoming financial reporting cycle.

Why was the standard revised?

The preparation of financial statements involves many different elements, but the preparation of estimates is perhaps more complex than others. Estimates are monetary amounts (recognised or disclosed), which are a fundamental part of entities' financial statements. They are subject to estimation uncertainty due to inherent limitations in knowledge or data, and as a result, there may be a wide range of measurement outcomes for any estimate. In forming estimates, management applies methods or models where they make assumptions and use data. They exercise judgement involving complexity and subjectivity when measuring the estimate. Due to the nature of this process, estimation is susceptible to material misstatement, and for the users of financial statements, they are the main focus.

Over time, accounting estimates have become more prominent in financial statements. With increased importance and visibility, however, they have also garnered additional scrutiny. Increasingly complex business environments (now made more complicated due to the COVID-19 pandemic) and the introduction of new accounting standards have given rise to greater use of accounting estimates. Recent changes in accounting standards include dealing with expected credit losses, taxation, revenue recognition, and leases. These management estimates could be complicated and involve judgements; they must, therefore, be reported appropriately and challenged robustly.

The previous version of the ISA 540 standard was written before these changes. In response to these challenges, the Irish Auditing and Accounting Supervisory Authority (IAASA) issued ISA 540 (Revised). It is effective for audits of financial statements for accounting periods beginning on or after 15 December 2019.

What is the aim of the new standard?

The new standard aims to:

1. Address changes in financial reporting standards and business environments that make estimation more difficult.
2. Enhance auditors' professional scepticism, considering recurring audit inspection findings criticising the quality of audits of accounting estimates.
3. Realise public interest benefits through better two-way dialogue between the auditor and management concerning estimates.

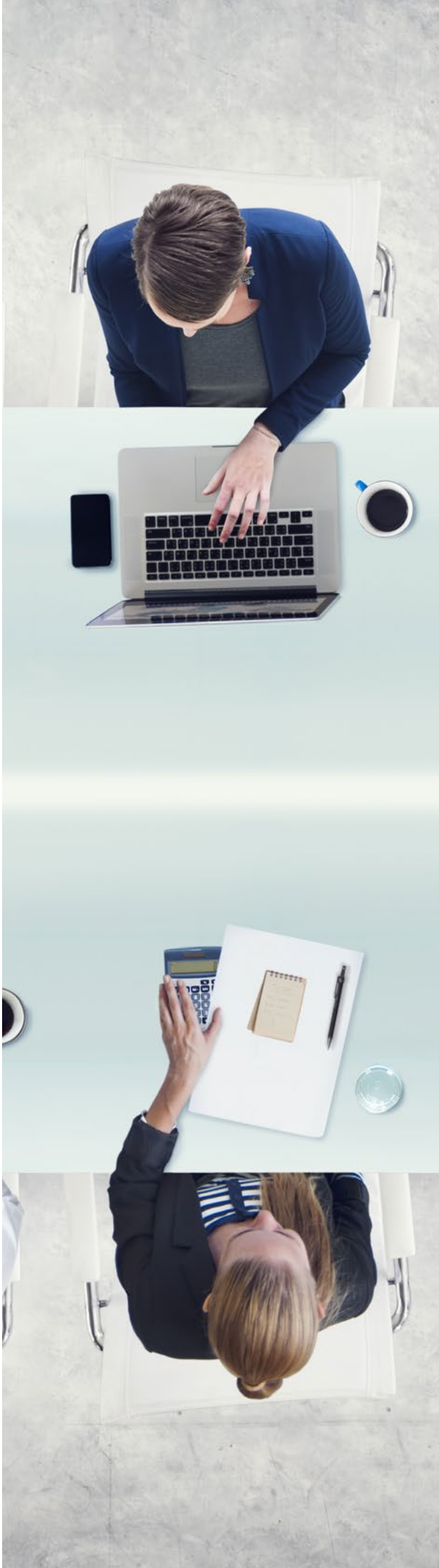
What is new?

Enhancements contained in the new standard include:

- Enhanced risk assessment: the standard requires a robust risk assessment of estimates. The aim is to heighten auditors' understanding of processes and controls around the identification of estimates and the determination of the related monetary amounts. This risk assessment is performed at a granular level and focuses on the models, assumptions, and data used to determine the estimate. The assessment is made with reference to inherent risk factors, including the complexity of the estimate, its subjectivity, and estimation uncertainty.
- Scalability of testing approach: the testing approach options in the old ISA 540 are maintained. These include testing management's calculations of the estimate, developing an independent estimate, or using events after the year-end as audit evidence for the estimate. However, the new standard focuses on aligning the level of procedures performed to the assessed risk. This gives the standard scalability, where the level of audit effort is dictated by the complexity and risk associated with the estimate.
- Professional scepticism: ISA(Ireland) 540 Revised has several provisions designed to enhance the application of professional scepticism. These include:
- A requirement to design and perform further audit procedures in a manner that gives more focus to evidence that may be contradictory.
- A requirement to evaluate the audit evidence obtained regarding the accounting estimates, including both corroborative and contradictory audit evidence.
- Changing the language in the standard to use purposeful words like "challenge", "question", and "reconsider", thus reinforcing the importance of exercising professional scepticism.
- Disclosures: there are enhanced requirements to assess whether the estimate disclosures are "reasonable".
- Communication and representations: there are new requirements to consider matters regarding accounting estimates when communicating with those charged with governance. There is a requirement to request written representations regarding the reasonableness of methods, significant assumptions, and the data used.

Key change	Impact on the auditor	Impact on management
More emphasis on the need for the auditor to exercise professional scepticism	The auditor will perform audit procedures in a manner that is not biased toward obtaining audit evidence that may be corroborative or toward excluding audit evidence that may be contradictory. The auditor will carefully consider all information obtained and whether it corroborates or contradicts judgements and decisions regarding accounting estimates.	The auditor may increasingly challenge aspects of how management derive the accounting estimates.
More granular assessments regarding the risk accounting estimates are materially misstated	The auditor will first consider the conditions and events that are likely to cause accounting estimates to be materially misstated. The auditor will then consider whether the system of internal control you have designed and implemented is likely to prevent material misstatements, or if a material misstatement occurs, is likely to detect and correct it.	The auditor may place more emphasis on obtaining an understanding of the nature and extent of the estimation process and key aspects of the related policies and procedures.
Focus on appropriately responding to the levels of estimation uncertainty, complexity and subjectivity in accounting estimates	The extent of the auditor's required work effort depends on the risk the accounting estimate is materially mis-stated. This risk is impacted by the degree of estimation uncertainty, complexity, and subjectivity involved in making that accounting estimate.	If the auditor determines the risk of your accounting estimate being materially misstated is higher, the work effort will increase, which in turn will likely impact how much, and the type of, information management needs to provide the auditor.
Audit work effort based on the selected approach(es) (testing management's process, developing own estimate, subsequent events), including a more detailed understanding of the significant matters considered in making key judgements and decisions affecting accounting estimates	ISA 540 includes revised audit requirements that are more specifically directed at the components of an accounting estimate. These include methods including models), assumptions and data, including the auditor's understanding and documentation of key elements of the entity and its environment, the linkage of audit procedures to the assessed risks, and significant judgements related to the auditor's determination of whether the accounting estimates and related disclosures are reasonable.	Management may receive more focused requests from the auditor on each of these matters. Management may wish to consider retaining experts to assist with the related work. They may also consider documenting key judgements and decisions in anticipation of auditor requests. Such documentation is likely to provide a basis for more efficient and effective discussions between management and the auditor.
More emphasis on auditing accounting estimate disclosures in the financial statements	In particular, the sufficiency of disclosures regarding estimation uncertainty may receive more scrutiny.	If the auditor determines the risk of material misstatement is higher for certain disclosures, the work effort will increase, which in turn will impact how much, and the type of, information management will need to provide to the auditor.
More detailed written representations	The auditor is required to request written representations from management regarding the reasonableness of the methods, significant assumptions and the data used in determining the monetary amounts of accounting estimates, including the related disclosures, in accordance with the applicable financial reporting framework. The auditor is also required to consider the need to obtain representations about specific accounting estimates, including in relation to the methods, assumptions, or data used.	Management may receive requests for new or changed representations compared to previous years. Therefore, management may wish to ask the auditor to let them know as soon as practicable the details of the written representations they will request.

Source: IAASB's audit client briefing - Considerations for Management Determining Accounting Estimates and Related Disclosures – November 2019.



The impact of new accounting standards on accounting estimates

The change from IAS 39 to IFRS 9 has had a huge impact on accounting for credit losses in banking. The old standard, IAS 39, required that for lending transactions, entities apply the incurred loss approach, that is, to provide for only losses that were incurred at the reporting date. IFRS 9 took a different view. It requires that entities apply the expected credit loss model, or to estimate all future expected credit impairments on lending at the reporting date. In 2017, in preparation for the new standard, there was a flurry of activity within the banking sector to model the new estimate (future expected losses on lending) for recognition in financial statements.

What is the impact on management?

The table above sets out the key changes required by ISA (Ireland) 540 Revised and their impact on auditors and management. This summary was prepared by Chartered Professional Accountants Canada and was adopted by the IAASB (International Auditing and Assurance Standards Board) for its client briefing document dated November 2019.

What happens after implementation?

The standard-setters intend to undertake a post-implementation review after the effective date of ISA (Ireland) 540 Revised to see if the revised standard has achieved its intended objective. They will focus on whether the standard is sufficiently scalable and whether it enhances the exercise of professional scepticism.

Examples of accounting estimates

- Variable revenue consideration
- Share-based payment expense
- The recoverability of deferred tax assets
- The useful life of property, plant and equipment
- Impairment of intangible assets
- The value of intangible assets acquired in business combinations
- Provisions
- Defined benefit pension liabilities
- Uncertain tax positions

First impressions

Having read the new standard and prepared illustrative audit work papers to see it in practice, it is clear that this is a significant change to how auditors will approach the audit of estimates. The key message is that auditors will need to prepare early to perform the detailed understanding and risk assessments procedures. Management will have more to do to help the auditor in their risk assessments, but early communication and engagement between the auditor and management will ensure successful adoption.

In addition to the above, due to the COVID-19 pandemic, developing estimates for expected credit losses, going concern analysis, and related disclosures in particular is more challenging. A focus on the audit of estimates is therefore paramount.

Overall, in a financial reporting environment that is evolving due to changing business environments and accounting frameworks, ISA (Ireland) 540 Revised provides audit practitioners with a good basis to audit estimates and to serve the public interest by fostering audit quality.

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Article by:

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Key Cyber Security Considerations for 2020

Business is changing, and the fourth industrial revolution is underway. Data has become the lifeblood of the organisation as Boards seek to harness the potential of our digital economy, create new customer experiences, transform their services, and drive efficiencies and cost savings says Dani Michaux, Head of Cyber Security at KPMG in Ireland.

The future is being created from a fusion of new business models, new technologies and new partnerships. In this changing world, there are ruthless entrepreneurs who are benefiting financially from this new economy. Unfortunately, they are cybercriminals, and pose new challenges to legitimate businesses. Companies need to think differently about how to protect their competitive advantage and develop new models to become and remain cyber secure.

Also, cyber security professionals need to demonstrate that they can protect the core of the transformed business with the agility of thought and action that recognises the pace and speed at which cybercriminals operate.

They need to assemble collaborative talent — across the enterprise — that can take a proactive stance and meet these issues head-on. The CISO can't do it all. New partnerships are needed, technology is an opportunity, not a threat, and cyber security is becoming a key business enabler.

We have selected six key cyber considerations, briefly summarised below, that are shaping the way we approach security in 2020 and beyond.

Aligning business goals with security imperative

Many organizations have spent massively on cyber security, both on tooling and personnel. Today, some feel the need to cut back. In that sense, the cost of security has become a major focus — perhaps as much as security itself. In an effort to manage costs and ensure that business and security priorities are aligned, companies are automating significant portions of their cyber functionality by putting digitized cyber risk management processes in place to ensure they ladder up to the organization's top-line operational and business strategies.

Digital trust and consumer authentication

Clearly, younger generations of consumers are bringing their expectations to their online lives, particularly in terms of banking and financial services. And many large global brands are feeling threatened. Brick and mortar are slowly disappearing, and whoever reigns supreme in terms of the digital customer experience is likely to enjoy the greatest market share.

The evolving security team

Over the last few years there's been a broad attempt to elevate the importance of cyber security at the board level. In 2020 many board members are well aware of the cyber agenda. While they understand the importance of cyber, one of the biggest challenges for security professionals is translating that knowledge into an actionable appreciation for what it actually means to the business.

The next wave of regulation

When you examine technology risk, you're talking about IT. But when you talk about cyber risk, the ownership and accountability live outside the technology department. The trend we see in the direction and magnitude of cyber-based regulations is moving toward a more holistic approach, focusing on business priorities and responsibilities, such as customer-oriented business activities like building trust; middle-and back-office operational tasks; and Board-driven corporate governance functions. In short, the focus is on management within the first line of defence, as it should be.

Cloud transformation and resilience

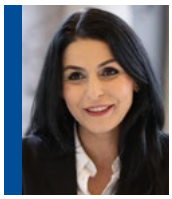
One of the things many companies need to work on is aligning the CISO's organization with the rest of the enterprise regarding the maturation and efficacy of the cloud. The business may say "We're going to do x, y, and z in the cloud over the next 18 months." Meanwhile, down the hall, the CISO and his or her team are developing processes and tooling that are vital to, but may not necessarily be aligned with, the business drivers and the technology needed to support the desired business outcomes. That's got to change.

Automating the security function

We're seeing a convergence of data in the interest of automating security from identity authentication through threat detection and response. A broad set of know-your-customer (KYC) data is being gathered and analysed by many sectors, including financial services, eCommerce/retail, technology, media and telecommunications, and automotive, among others. This information typically has been heavily siloed. But companies are beginning to realize they are sitting on a treasure trove of data that — if better organized and made more efficiently accessible — can be extracted and analysed for a variety of value-added purposes.

Read the full report from Dani and our Cyber team **here.**

Article by:



Dani Michaux,
Head of Cyber Security,
KPMG Ireland

Financial Reporting Challenges in the COVID-19 Environment

Key questions for mutual fund audit committees

Mutual fund financial-statement preparers may face significant reporting challenges as a result of the business disruption and economic uncertainty arising from the COVID-19 response.

The COVID-19 environment is heightening sentiments of insecurity and risk, in the wake of greater volatility in asset prices and currency-exchange rates and a marked decline in long-term interest rates in developed economies.

This paper highlights those areas that will be the most challenging for mutual fund financial-statement preparers in the current environment. We believe that a robust dialogue between management, the auditor, and the audit committee in these areas will best assist the audit committee in fulfilling its oversight responsibilities.

Accounting for the investment portfolio

Valuation of investments

The first and most obvious challenge is the impact that the current market environment resulting from the COVID-19 protocols is having on the value of the investment portfolio and the resulting ramifications to financial accounting and reporting. Certain aspects of the market, such as domestic equities, are still liquid and providing good price transparency. However, other market areas are seeing liquidity decreasing, providing less price transparency. Understanding any strain on pricing procedures, including those performed by pricing vendors, is important to judging the reliability of the valuation estimates being made.

Common questions the audit committee may ask management or pricing vendors include:

- Where in the market are you seeing decrease in liquidity? How does this correlate to what we are seeing from any of our liquidity-information sources?
- For those markets where we are seeing decreased liquidity, what are we doing to assess the reliability of the pricing coming from our pricing sources? What are the findings from those efforts?
- Has the volume of our pricing challenges to our pricing sources changed significantly? If yes, why has this change occurred, and what are we learning from those challenges? How have we incorporated those learnings into the performance of the valuation procedures?
- How are the volume and results of our back-testing procedures?
- Are any other areas of pricing causing us challenges?
- For those using consensus pricing services for private-credit investments: ask questions about the depth of quote sources in the current environment in relation to prior periods.
- What changes, if any, have been made to valuation procedures or methodologies? What was the rationale for the change?
- Do we believe our procedures are robust enough to reflect what is known or knowable to market participants?
- For those with funds with significant investments in alternative-investment funds where net asset value (NAV) as a practical expedient is used in the fair value estimate:
- Are we receiving the underlying fund NAVs on a timely basis?
- Are any of the underlying funds causing us concern? If so, why, and what are we doing to address those concerns?
- What due diligence procedures are we currently employing to assess the reliability of the NAVs we are receiving?
- Have any of the underlying funds placed liquidity constraints on our investment?

Collectability of interest income

- For those with significant investments in fixed income, the issues around the collectability of interest income is another focus area. Common questions the audit committee may ask management include:
- How are we monitoring the portfolio for significant credit downgrades and potential or actual events of default, and how are we factoring this information into our assessment of collectability and ultimately reflecting it in the accounting records?
- For private loans: Have we needed to provide any forbearances or modifications, or are we in an active negotiation or expect to be in an active negotiation for such? If yes, are we reflecting this action in the accounting records timely and accurately? Is portfolio

management informing fund accounting and financial reporting of such situations in a timely manner?

- Do we believe our procedures are robust enough to reflect what is known or knowable to market participants?
- Have any payments been missed recently? If so, have we assessed whether there was market information that reflected this was a probable outcome? Did we reflect the market information in the correct accounting period?
- Are our procedures sufficient to timely and accurately identify non-income-producing investments and to reflect that information in our financial reporting?

Fund-level debt

- Decreases in the value of fund assets can create circumstances where covenant compliance issues arise or where collateral demands impose a burden on the fund. Common questions the audit committee may ask management include:
- For debt and financings with collateral requirements, are we seeing a need to post significantly additional collateral and are such postings creating fund-level liquidity concerns? Are there any resulting regulatory compliance concerns?
- For debt and financings with covenants, are we currently in violation of any covenants or concerned with future covenant compliance? If so, what are we doing to address the matter and how is this impacting fund-level liquidity? Are there any resulting regulatory compliance concerns?
- Are our financial reporting disclosures pertaining to these matters in compliance with the U.S. generally accepted accounting principles (GAAP)
- GAAP requirements? Who was involved in making this assessment?

Related-party transactions

- The current environment, coupled with expanded regulatory relief, has resulted in some additional related-party transactions. Such transactions may include an adviser, sponsor, or sister fund in providing additional financial or liquidity support to a fund or purchasing investments from the fund. Common questions the audit committee may ask management include:
- Have we incurred any additional related-party transactions, such as obtaining financial or liquidity support from affiliates or additional interfund dealings? If so, are fund accounting and financial reporting made known of these arrangements on a timely basis?
- Are our procedures robust enough to assess the accounting and disclosure treatment under U.S. GAAP and reflect that in our accounting records and financial reporting?
- Who is involved in such analysis, and do they have the resources they need to adequately assess the matter and draw appropriate conclusions?

Subsequent events and significant risks and uncertainties

- The current environment's constantly evolving nature and its effects on the markets and companies demand a rigorous focus on identifying subsequent events and their accounting and disclosure ramifications. Moreover, these changing risks and uncertainties could be so significant they will require the modification of existing disclosure or the addition of new disclosure. Common questions the audit committee may ask management include:
- How are we focusing our efforts to identify and assess the accounting and disclosure ramifications of subsequent events?
- How are we assessing the significant risks and uncertainties and assessing whether our financial reporting disclosure requires any updating?
- Are fund accounting and financial reporting receiving the information they need from others in the organization in order to perform their responsibilities?
- Who is involved in such analysis, and do they have the resources they need to adequately assess the matter and draw appropriate conclusions?

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Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

Local Regulatory Update

The Coronavirus (COVID-19) has been the factor with the most impact on the regulatory landscape during 2020. COVID-19 is still a significant challenge for most regulators and industry sectors, the second half of 2020 saw regulators move their primary focus from the initial reaction to the pandemic to addressing the "living with COVID-19" challenge.

This has led to a reduction in COVID-19 focused literature and a realignment from regulators to some of the previous business as usual guidance. In response, the Irish Auditing and Accounting Supervisory Board (IAASA), the Financial Reporting Council (FRC), Central Bank of Ireland and the other industry regulators have identified and reported on a number of auditing and regulatory challenges which Audit Committees and their companies are facing.

COVID-19

Companies (Miscellaneous Provisions) (Covid-19) Act 2020

The commencement order for the Companies (Miscellaneous Provisions) (Covid-19) Act 2020 (the Act) has been published and is effective from 21th August 2020. The Act will provide Audit Committees and their companies with temporary measures to ease the burden of compliance with the requirements of the Companies Act 2014 and the Industrial and Provident Societies Act 1893. The provisions include:

- an extension of time for the holding of the 2020 Annual General Meeting (with the exception of regulated entities);
- proposed amendments to specifically provide that companies can have virtual general meetings to include cancellation and rescheduling of meetings;
- provide for a variation or withdrawal of dividend resolutions; and
- permitting the execution of documents under seal by the use of counterparts.

It also contains similar general meeting provisions for Industrial and Provident Societies.

The measures introduced are temporary and will only remain in operation until 31 December 2020. Due to the evolving nature of the restrictions imposed as a result of COVID-19, the Act also provides for an extension if required. Audit Committees should remain aware of amendments to the Act in order to ensure compliance with either the Companies Act 2014 or the Industrial and Provident Societies Act 1893

The Companies (Miscellaneous Provisions) (Covid-19) Act 2020 is available here

A list of the government covid-19 supports for businesses is available here

IAASA

ISA (Ireland) 701 Thematic Review

On 16th October 2020, IAASA published its International Standards on Auditing ("ISAs") (Ireland) 701 Thematic Review. ISAs (Ireland) 701 requires communication of Key Audit Matters ("KAMs") and an overview of the scope of the audit, including an explanation of how the auditor has applied the concept of materiality in the independent auditor's report. The Thematic Review explores how, for a sample of auditors of public-interest entities, the requirements of ISA (Ireland) 701 were complied with.

Key observations from the Thematic Review include:

- Specific descriptions of the nature of the risks, how the matter was addressed and key observations;
- Specific reporting on how materiality was applied, including thresholds such as performance materiality and the threshold for reporting unadjusted differences. Also, details of qualitative considerations relating to the evaluation of materiality; and
- Specific, granular details of how the scope was influenced by each KAM and how it was influenced by materiality. This may include coverage obtained over certain accounts and, in the cases of group audits, the nature of involvement in the work of the component auditor.

As a result of the Thematic Review, Audit Committees should expect to see more specific and detailed descriptions included within the auditor report regarding KAMs and the planned scope of the audit, including how materiality was applied as the audit firms move away from generic wording in the auditor's report and include more specific detailed information.

The ISA (Ireland) 701 thematic review can be found here

Revised ISA (Ireland) 315, Identifying & Assessing the Risks of Material Misstatement.

In August 2020, IAASA published its consultation on the proposal to revise ISA (Ireland) 315, Identifying and Assessing the Risks of Material Misstatement, in line with the revisions made by the FRC and the International Auditing and Assurance Standards Board (IAASB).

The revised standard was published on the 9th October 2020 and is for audits of financial statements for periods beginning on or after 15 December 2021 with early adoption is permitted.

The effects of the revision to the standard will be far-reaching and Audit Committee should expect to see all audit firms revise their approach to risk assessments. The main areas of the revised ISA (Ireland) 315 include but are not limited to:

- The term "internal control" has been extended to reflect the entity's system of internal control and this includes the entity's risk assessment process and control environment, entity's process to monitor the system of internal control, entity's information systems and control activities;
- distinguishing the nature, and clarifying extent, of work needed for indirect and direct controls in the system of internal control;
- enhanced requirements on exercising professional scepticism and strengthened documentation requirements; and
- a separate assessment of inherent risk and control risk, and five "inherent risk factors" to focus the auditor on the susceptibility of assertions to misstatement.

The auditor has always had a focus on understanding the internal control process within an entity, which included understanding the control environment, the entity's risk assessment process and business processes relevant to financial reporting. The requirement for understanding the components of the system of internal control is a significant aspect of the revised standard. The auditor will evaluate the design of each of these controls relevant to the audit to determine whether it has been implemented effectively. The revised standard also enhances the documentation requirements relating to the auditor's professional scepticism, for example evidences that both corroborates or contradicts managements assertions.

As a result of the revised standard, Audit Committees and management should expect more focus from the auditor on their system of internal control, Audit Committees should take note of the requirements set out in the revised standard, in particular with a focus on their control environment, including the IT and related application processing.

The Revised ISA (Ireland) 315, Identifying & Assessing the Risks of Material Misstatement can be found here:

IAASA Audit Committee event 2020

On the 10th September 2020, IAASA hosted an Audit Committee breakfast briefing. Speakers covered a number of key areas relating to the expanded role of audit committees, current regulatory requirements as well as communications with regulators which included:

- General overview of the regulatory landscape;
- A panel discussion on the Changing role of Audit Committees;
- Current regulatory requirements for Audit Committees;
- Audit Committee perspectives through a European lens; and
- Audit Committee Chair interactions with regulators.

Of particular note to Audit Committees is the discussion held with Stuart Bridges. Stuart spoke about his interactions with the FRC in his capacity as Audit Chair of Caledonia Investments which was subject to inspection by the FRC. The FRC as part of their inspection process conduct interviews with the Audit Chair and it is interesting to heard Stuart's experience from it.

Access to the event and the respective presentations can be found here:

FRC

Major local audit inspection results

On 30th October 2020, the FRC released its inspection findings into the quality of major local audits in England. The scope of the work comprised of reviewing both the audit of the financial statements and the conclusion on arrangements to deliver value for money for each audit selected in 2019/20.

The key areas of concern requiring action by some audit firms were:

- the valuation of property (including investment property) and pension assets;
- sufficiency of audit procedures over the occurrence and completeness of expenditure;
- the response to fraud risks;
- the impairment of receivables; and
- the effectiveness of the Engagement Quality Control review.

Audit committee, in the first instance should challenge managements process particular with respect to the areas of concern noted by the FRC. In addition, Audit Committee will see further challenge from their auditors in respect of these areas.

The FRC's inspection findings report can be found here

Consultation on revised auditing standard for the auditor's responsibilities relating to fraud

On the 20th October 2020, the FRC issued a consultation on proposed revision to ISA (UK) 240 -The Auditor's responsibilities Relating to Fraud in an Audit of Financial Statements. ISA (UK) 240 was first adopted in the UK in 2004. Since then it has not been substantively revised.

In recent years, concerns have been raised that auditors are not doing enough work to detect material fraud. As a result, the FRC is proposing revisions to address these. The revisions include providing increased clarity as to the auditors' obligations and including enhancements to the requirements for the identification and assessment of risk of material misstatement due to fraud and the procedures to respond to those risks. This will no doubt increase the cost of an audit and perhaps significantly.

Audit Committees are encouraged to comment on the consultation and provide their views to the FRC. Comments are due by 29th January 2021. An explanation of the proposed key changes is given in the consultation paper. IAASA will likely adopt the standard for Ireland as such we encourage Irish stakeholders to provide feedback to the FRC.

The consultation paper is available here

The exposure draft is available here

Future of Corporate reporting

On 8th October 2020, the FRC released a discussion paper proposing a principles-based framework for corporate reporting. The discussion paper challenges a common criticism that current annual reports are too long, and information is difficult to access. The proposals in the discussion paper include:

- unbundling the existing purpose, content, and intended audiences of the current annual report by moving to a network of interconnected reports;
- a new common set of principles that applies to all types of corporate reporting;
- objective-driven reports that accommodate the interests of a wider group of stakeholders, rather than the perceived needs of a single set of users;
- embracing the opportunities available through technology to improve the accessibility of corporate reporting; and
- a model that enables reporting that is flexible and responsive to changing demands and circumstances.

Audit Committees are invited to comment on the discussion paper. Comments are due by 5th February 2021.

The discussion paper is available here

Responses can be submitted here

Brexit

Temporary Permissions Regime

Brexit has consequences for those financial institutions based in the UK, who rely on the European Economic Area ("EEA") passport to access the single European market for financial services. As at November 2020 an agreement has not been reached on the future of the passporting framework and as it currently stands from 1 January 2021, UK firms will not have access EU financial services markets.

On the other hand, Audit Committee members of Irish and EU based firms which currently passport into the UK should be aware that they may continue to operating in the UK when the transition period ends on 31 December 2020 provided that they apply to have temporary access through the UK's Temporary Permissions Regime (TPR).

Additional information on the Temporary Permission Regime can be obtained here:

European Securities and Market Authority

On 1st October 2020, the European Securities and Markets Authority (ESMA), updated two statements on its approach to the application of key provisions of MiFID II/MiFIR and the Benchmark Regulation (BMR) as a consequence of Brexit.

The Impact of Brexit on the application of MiFID II/ MiFIR covers the C(6) carve-out, the ESMA opinions on third-country trading venues for the purpose of post-trade transparency, and the position limits regime and post-trade transparency for OTC transactions.

The Impact of Brexit on the Benchmark Regulation (BMR) covers the ESMA register of administrators and 3rd country benchmarks.

Additional information on the ESMA statements can be obtained here:

European Central Bank

On 14th October 2020, the European Central Bank (ECB) published its review of economic analyses on the potential impact of Brexit. The papers focus on the potential impact of Brexit on the United Kingdom and the European Union and looks at:

- the impact of Brexit on the economy and trade;
- possible scenarios for the bilateral relationship between the EU and the United Kingdom after Brexit; and
- the role of the main macroeconomic channels of transmission of the Brexit shock including trade, migration and foreign direct investment.

The ECB review can be obtained here:

Banking

European Regulatory Developments

The European Banking Authority (EBA) issued its Final Report on the Guidelines on loan origination and monitoring. The aim of the guidelines is to improve firms' practices and associated governance arrangements, processes and mechanisms relating to granting credit to ensure they have robust and prudent standards for credit risk taking, management and monitoring, and that newly originated loans are of high credit quality.

These guidelines apply from 30 June 2021. Audit Committees should review these guidelines for best practice and ensure that there are no gaps between their process and the EBA Guidelines.

The EBA Final Report is available here:

European Central Bank

In August 2020, the European Central Bank (ECB) published its report on banks Internal Capital Adequacy Assessment Process (ICAAP) practices. This report summarised the results of the analysis conducted on significant institutions (SIs) describing the range of ICAAP practices observed for a sample of banks. The analysis, underlines areas where banks' practices appear to be further developed, as well as those where the ECB is of the opinion that additional work is warranted across banks. The conclusions presented in this report were drawn before the outbreak of COVID-19.

Audit Committees should undertake efforts to improve their ICAAP practices in line with the report, including challenging management on their stress testing process, identifying new threats and understanding the flow of information, including data quality.

The ECB report is available here:

Single Resolution Board

For Audit Committees of Banking institutions, the requirement for own funds and eligible liabilities is an important aspect as it ensures that the bank maintains sufficient eligible instruments at all times to facilitate the implementation of the preferred and variant resolution strategies. The Single Resolution Board (SRB) is the central resolution authority within the Banking Union (BU). In May 2020, the SRB released its final Minimum Requirements for Own Funds and Eligible Liabilities (MREL) Policy. The policy covers MREL requirements for Global Systemically Important institutions (G-SIIs), changes to the calibration of MREL, including introducing MREL based on the leverage ratio, changes to the quality of MREL (subordination), dedicated rules for certain business models, such as cooperatives, and for resolution strategies, such as multiple point of entry (MPE), provisions on internal MREL, clarifications on third-country issuances and how these changes will be phased in.

MREL is a key tool in enhancing a banks resolvability and Audit Committees should understand the new policy and challenge management regarding its implementation.

The SRB MREL policy is available here:

European Banking Authority Working Priorities

The EBA has published the EBA annual work programme 2021. The programme describes the activities and tasks of the Authority for the coming year and highlighting its key strategic areas of work.

In 2021, the EBA will focus on six strategic areas:

- supporting the deployment of the risk reduction package and the implementation of effective resolution tools;
- reviewing and upgrading the EU-wide EBA stress testing framework;
- becoming an integrated EU data hub by leveraging on the enhanced technical capability for performing flexible and comprehensive analyses;
- contributing to the sound development of financial innovation and operational resilience in the financial sector;
- building the infrastructure in the EU to lead, coordinate and monitor AML/CFT supervision; and
- providing the policies for factoring in and managing Environmental, Social and Governance (ESG) risks.

The EBA annual work programme 2021 is available here:

Asset Management

Final Guidelines on certain aspects of the MiFID II compliance function requirements

In June 2020, the European Securities and Markets Authority (ESMA) published its Final Guidelines on certain aspects of the MiFID II compliance function requirements, in respect of which competent authorities and firms must make every effort to comply with.

The guidelines are addressed to investment firms and credit institutions providing investment services and activities, investment firms and credit institutions selling or advising clients in relation to structured deposits, UCITS management companies in addition to external AIFMs when providing investment services and activities in accordance with the UCITS Directive and the AIFMD.

The guidelines set out requirements in respect of a number of areas, including compliance risk assessment, monitoring and reporting obligations, advisory and assistance obligations and the effectiveness of the compliance function.

The Final Guidelines are available here:

Trends, Risks and Vulnerabilities (TRV) Report No. 2 2020

In September 2020, ESMA published its Trends, Risks and Vulnerabilities (TRV) Report No. 2 2020, which analyses the impact of COVID-19 on financial markets during Q1-Q2 2020 and highlights the risk of a potential decoupling of financial market performance and underlying economic activity.

The TRV report also highlights specific risks for financial stability and investors regarding model risk in collateralised loan obligations, EU fund industry interconnectedness, MiFID II research unbundling and closet index funds' costs and performance. The report notes that although markets experienced a remarkable rebound during Q2, assisted by public policy interventions, the market environment remains fragile, and foresees a prolonged period of risk to institutional and retail investors, with the potential for significant market corrections.

The TRV report is available here:

European Securities and Markets Authority Work Programme

In October 2020, the ESMA published its Work Programme for 2021 setting out its increased focus on supervisory convergence, given a higher profile to investor protection and entrusting the direct supervision of certain benchmarks and data service providers to ESMA.

ESMA's key priorities in 2021 are:

- Supervisory convergence - building an EU common risk-based and outcome-focused supervisory culture;
- Risk assessment - emphasis on integrating the new focus on financial innovation and ESG into ESMA's risk analysis, providing data for risk-based supervision and to support policy and convergence work;
- Single rulebook - priority areas will include legislative reviews of MiFID and AIFMD and identifying possible rulebook changes in support of the CMU; and
- Direct supervision - focus on third country central counterparty supervision as critical financial market infrastructures under EMIR 2.2 and prepare for the new supervisory mandates regarding Benchmarks and Data Service Providers.

The ESMA work programme is available here:

Insurance

Impact of ultra-low yields on the insurance sector

In July 2020, EIOPA published a report on the impact of ultra-low yields on the insurance sector, including first effects of the Covid-19 crisis. The ultra-low interest rate environment remains a key concern for the insurance market and constitutes an important source of systemic risk for insurers. The low interest rate environment has been compounded by the Covid-19 outbreak and this has severely affected macroeconomic and market conditions worldwide, increasing the likelihood of a "low for long" scenario with adverse implications for the insurance sector. As a result, insurers are significantly challenged in terms of asset allocations, profitability, solvency issues and business model adaptation.

The EIOPA report is available here:

Risk Dashboard

In August 2020, EIOPA published its updated Risk Dashboard based on the first quarter of 2020 Solvency II data. The results show that the risk exposures of the European Union insurance sector remain generally high as a result of the COVID-19 outbreak. The pandemic has continued to cause disruptions in all financial sectors and economic activities.

Audit Committees should remain mindful that insurers are particularly exposed to very high levels of macro risk, while market, credit, profitability and solvency risks are also at a high level.

The EIOPA Risk Dashboard is available here:

Active Central Bank consultations

There is currently no active Central Bank consultation.

The list of closed Central Bank consultations can be accessed here:

Financial Reporting Update

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

Overview

Since the last edition of the Financial Reporting update, Covid-19 has continued to have a significant impact on businesses in Ireland and across the world.

From a financial reporting perspective, the continuing challenging environment means it is very important that the impact of Covid-19 on operations is clearly considered in the preparation of upcoming annual reports and financial statements. To assist with considering the potential impacts and disclosures, KPMG released the 2020 illustrative disclosure guide for annual financial statements which in the current year includes a Covid-19 supplement specific to disclosures that may need to be provided as a result of Covid-19 e.g. availing of government support, impacts on hedging etc. The KPMG Covid-19 resource centre also continues to be updated as significant accounting and reporting issues arise.

IAASA, ESMA and the FRC also recently issued their focus areas for 31 December 2020 year- ends and the impact of Covid-19 is a common theme throughout, therefore reinforcing the need for the financial statements to clearly disclose the impact of Covid-19. The Regulators have also issued certain guidance notes to assist companies with the application of financial reporting requirements. Audit Committee members therefore are recommended to consider the guidance available to ensure that they are satisfied that entities are including appropriate disclosures in their annual financial statements.

In relation to the "normal" changes to IFRS since the last edition, there were a number of narrow scope amendments to IFRS and exposure drafts published, further detail of which have been provided below.

From a local GAAP perspective, there were amendments published to FRS 101 to incorporate the results of the annual review performed by the FRC and also to align the effective date of previous amendments made to FRS 101 in respect of IFRS 17 Insurance Contracts to the IASB effective date. There were also amendments made to FRS 102 to include guidance on how a lessee should account for a rent concession.

IFRS activity

KPMG resources to assist you with the financial reporting implications arising from COVID-19

The impact of the COVID-19 pandemic is continuing to have a significant impact on most companies, either directly or indirectly, and the increased economic uncertainty and risk may have significant financial reporting implications. As highlighted in the last edition, KPMG has developed an online resource centre which focuses on the financial reporting impacts for 2020 period ends and is continuously updated as significant accounting and reporting issues arise. The COVID-19 financial reporting resource centre also has a podcast which audit committee members can listen to which further explains potential financial reporting implications.

It is again recommended that Audit Committee members look at the page to understand the types of areas that should be considered for financial reporting purposes. The KPMG financial reporting resource centre is available **here**

KPMG release 2020 illustrative disclosure guide and supporting documents

KPMG have released the 2020 illustrative disclosures guide for annual financial statements which illustrates one possible way of meeting the disclosure objectives. This year the illustrative disclosures guide includes a Covid-19 supplement which illustrates additional disclosures that entities may need to provide on accounting issues arising from the pandemic. There is expected to be significant disclosures in respect of the impact that Covid-19 has had on entities and the changes that an entity may have made to their credit and risk management policies etc. 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. KPMG have also released a disclosure checklist to support the illustrative disclosures guide. The KPMG 2020 illustrative disclosures publication and supporting documents are available **here**

IAASA observations document and ESMA 2020 enforcement priorities

Financial Reporting Regulators IAASA and ESMA released their 2020 observations document and 2020 enforcement publication setting out particular areas that will be looked at by them in their performance of reviews of 2020 annual reports. We have set out below a number of the specific areas highlighted by them so that audit committee members are aware of these items and have also provided links to the publications where further information can be found.

IAASA

In September 2020, IAASA released their "Observations on selected financial reporting issues – years ending on or after 31 December 2020" publication. This publication outlines matters that will be subject to detailed scrutiny by IAASA in their examination of 2020 financial statements and serves as a guide to assist in the preparation of high- quality disclosures on selected financial reporting topics. Items covered in the 2020 Observations publication include:

- Covid-19 disclosures in the management report should be entity specific and provide sufficient detail to allow users to understand the impact that the Covid-19 restrictions have on the issuer's current and future financial performance, financial position, cash flows and risks. Certain examples that IAASA have provided include where waivers of loan covenants have been negotiated that they are disclosed, and the terms explained; and a discussion of the impact of Covid-19 on the economies or markets where the entity operates.
- Reassessment of the reporting of changes in liquidity risk and funding arising from the impacts of Covid-19 and the provision of liquidity and funding information that is entity specific and describes the approach to liquidity risk management and any changes to the approach.
- Disclosures around compliance with bank covenants. In instances of breaches and rectifications, the disclosures under IAS 1, IAS 10 and IFRS 7 should be carefully prepared and reviewed.

- The following observations are highlighted by IAASA in the context of an entity's approach to determining fair value in accordance with IFRS 13 in a Covid-19 environment:
  - Whether valuations (e.g. independent valuation reports) contain material uncertainty clauses and, if so, the implications for compliance with IFRS 13.
  - Whether fair values are based upon pre-or post Covid-19 market transactions and assumptions.
  - Whether changes in the valuation techniques and assumptions have been applied in order to maximise the use of observable inputs and minimise the use of unobservable inputs.
  - Whether changes are required to discount rates, own credit risk, liquidity risk and other risk premium.
  - Enhanced fair value disclosures and additional fair value sensitivity disclosures are required to be disclosed in accordance with IFRS 13 and IAS 1 that reflect Covid-19 transactions and assumptions.
- Many entities are expected to have indications of impairment present in their 2020 financial statements which therefore necessitates an impairment test in accordance with IAS 36. Entities will need to ensure that the key judgements made in performing impairment tests and disclosure requirements of IAS 36 are included in the financial statements.
- The continued application of IFRS 9 Financial Instruments including particular focus on the expected credit loss model for both financial and non-financial institutions.
- The continued application of IFRS 15 Revenue from Contracts with Customers with particular attention directed towards the disaggregation of revenue in the financial statements and the provision of the required contract asset and liability disclosures.
- The key judgements applied in relation to IFRS 16 Leases including the determination of the incremental borrowing rate and the lease term.
- The disclosure of alternative performance measures in the financial statements using the ESMA Guidelines on Alternative Performance Measures.
- The determination of the Chief Operating Decision Maker in accordance with IFRS 8 Operating segments.
- The disclosure of any government supports obtained in accordance with IAS 20.
- The appropriateness of disclosure of items on the income statement as exceptional items.
- Where an entity prepares parent company individual company accounts, the disclosure of an entity's determination of the recoverable amount of the investment in subsidiary and impairment of intergroup loans, receivables and guarantees.

ESMA

On 28 October 2020, ESMA released their 2020 enforcement priorities for 2020 financial statements. These priorities reflect the changes that have been made to financial reporting standards and disclosures required in the financial statements. European enforcers will particularly consider these priorities when examining 2020 financial statements of listed companies. Many of the enforcement priorities that ESMA have released overlap with those published in the IAASA Observations document above. In addition, in setting the 2020 priorities, ESMA focused on the need to provide adequate transparency regarding the consequences of the Covid-19 pandemic on entities.

The enforcement priorities of ESMA for 2020 IFRS financial statements are as follows:

- The application of IFRS 9 Financial Instruments continues to be a focus point for ESMA with the enforcement priorities for 2020 placing emphasis on the IFRS 9 expected credit loss model for credit institutions, and IFRS 7 Financial Instruments: Disclosures with particular emphasis placed on providing disclosures in relation to risks arising from financial instruments especially liquidity risk and sensitivities to market risks.
- Where an entity has applied the IASB's amendment to IFRS 16 which provides relief to lessees when

accounting for lease concessions, the entity should provide adequate disclosures. In addition, more general disclosures are also highlighted including the information required in relation to expenses and depreciation charges and separately disclosing those relating to variable lease payments.

- The recognition, measurement and disclosure requirements of IAS 36 particularly because of the adverse impact of Covid-19 which provides a strong indication that one or more of the impairment indicators in IAS 36 have been triggered for many entities.
- Transparent and sufficiently detailed disclosures on the ability of the entity to continue as a going concern and any material uncertainties that may cast doubt on the ability of the entity to continue as a going concern, particularly entities whose liquidity conditions have been most significantly impacted by Covid-19.
- Sufficiently detailed disclosures about the judgements that management has made in the process of applying the entity's accounting policies that have the most significant effect on the effect on the amounts recognised in the financial statements and the major sources of estimation uncertainty, with information about the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculations.
- ESMA has highlighted that entities should be cautious of separately presenting the impacts of Covid-19 in the profit or loss statement. This is because a separate presentation may not faithfully represent an entity's current and future overall financial performance. Therefore, ESMA has encouraged entities to disclose qualitative and quantitative information on the significant impacts of Covid-19 in a way that provides a clear and unbiased picture.
- There continues to be focus on disclosures on any progress made by an entity in the area of social and employee matters, including any measures that have been put in place in response to Covid-19 (such as remote working).
- Entities are required to provide a brief description of their business model and their definition of value creation including how the business model impacts on and is being impacted by non- financial matters taking into account the goals of the entity.
- There is continued focus on disclosures relating to environmental matters and climate change and key performance indicators relating to non-financial policies.
- ESMA also set out considerations on the application of the ESMA guidelines on APMs in relation to Covid-19

Audit Committee members are recommended to read IAASA's Observations publication and ESMA's enforcement priorities publication so that they have an understanding of the level of disclosure expected by the regulators in the 2020 annual reports.

The link to IAASA's "Observations on selected financial reporting issues – years ending on or after 31 December 2020" is included **here**

The link to the ESMA common enforcement priorities is included **here**

Additional IAASA publications and Financial Reporting Council (FRC) publications

IAASA

In addition to the publication of the Observations document, IAASA also published a number of information notes during the period which complement certain of the financial reporting matters that they have highlighted in their Observations document. Therefore, these publications may be useful reference points for Audit Committee members in considering the Regulator's expectation with regard to certain financial reporting matters as follows:

1. Information note: **IFRS 8 Operating Segments – Identification of Chief Operating Decision Maker**
2. Information note: **IFRS 16 Leases – Review of disclosures on initial application**
3. Information note: **Reporting the impact of Covid-19**

FRC

In November 2020, the FRC issued a letter on their perspective on key matters relevant to the 2020/ 2021 financial reporting season. The letter was specifically addressed to CEOs, CFOs and Audit Committee members and is intended to be a useful aide in highlighting topics that the FRC expects to scrutinise over the coming year.

The publication includes a number of the same areas as IAASA and ESMA but also includes further guidance on the UK Corporate Governance Code and the section 172 statement. It also provides links to additional FRC publications which may be of assistance including guidance on covid-19, their annual review of financial reporting which includes a short summary produced for CFOs, Audit Committees and other senior management on the results of their reviews performed by the FRC during the year. Therefore, we recommend that audit committee members read the publication at the below link and consider whether any of the links included in the document would be of additional assistance for the coming year **here**

Newly-effective IFRSs

Newly effective IASB IFRSs and IFRS as adopted by the EU for 31 December 2020 and 31 March 2021 year-end financial statements

For those companies which are preparing their year-end financial statements for the years ended 31 December 2020 and 31 March 2021 i.e. annual periods beginning on or after 1 January 2020 and 1 April 2020 in accordance with IASB IFRS and IFRS as adopted by the EU (except where indicated by *), the following will be mandatory for the first time in their year- end financial statements:

- Amendments to IAS 1 and IAS 8: Definition of material
- Amendments to References to Conceptual Framework in IFRS Standards
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
- Amendments to IFRS 3 Definition of a Business
- Amendments to IFRS 4 Extension of the Temporary Exemption from Applying IFRS 9*
- **This has not been brought through the endorsement process of EU IFRS yet therefore does not apply to IFRS as adopted by the EU.*

Upcoming IASB IFRSs and IFRS as adopted by the EU for periods beginning subsequent to 1 January 2020 and 1 April 2020

The following standards/ amendments are available for early adoption by companies during the accounting periods noted above but are not mandatory until accounting periods beginning on or after 1 June 2020 and after and therefore the standards noted below are not mandatory in the 31 December 2020 or 31 March 2021 financial statements but will be relevant for upcoming interim financial statements and if a company decides to early adopt them. The table below is based on IASB IFRSs therefore it is indicated by * where a standard or amendment is not yet endorsed by IFRS as adopted by the EU:

Standards available for early adoption (IASB IFRS)	Mandatory effective date
Amendment to IFRS 16 - COVID-19-Related Rent Concessions	1 June 2020
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform – Phase 2	1 January 2021*
Amendments to IAS 37 - Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022*
Annual Improvements to IFRS Standards 2018-2020	1 January 2022*
Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022*
Amendments to IFRS 3 - Reference to the Conceptual Framework	1 January 2022*
IFRS 17 Insurance Contracts	1 January 2023*
Amendments to IAS 1 - Classification of liabilities as current or non-current	1 January 2023*
Amendments to IFRS 17 Insurance Contracts	1 January 2023*
Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Optional*

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 **here:**

KPMG Tool for generating newly effective and upcoming IFRS

For further information on all of the above new and upcoming IFRS and amendments to IFRS, please refer to the KPMG webtool KPMG which allows you to generate a customised list of newly effective and forthcoming IFRS standards for both IASB IFRS and EU IFRS depending on the accounting period of your entity and which contains links to further guidance on each standard or amendment.

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

This is a helpful resource for audit committee members in looking at newly effective and upcoming IFRS.

Forthcoming IFRSs and narrow scope amendments

We have outlined below the listing of forthcoming IFRSs and narrow scope amendments and their expected publication dates. We have also provided a brief summary of each upcoming IFRS/ narrow scope amendment so that audit committee members are up to date on forthcoming changes to IFRS.

For further information, please see the following publications:

- Accounting policies and accounting estimates (amendments to IAS 8)

The amendments to IAS 8 were primarily focused on revising the definition of "accounting estimates" and clarify that:

(i) accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty;

(ii) such monetary amounts are outputs of measurement techniques used in applying accounting policies; and

(iii) an entity uses judgements and/or assumptions in developing an accounting estimate.

IASB press release and related publications on the amendments to IAS 8 are available at the following link **here.**

IFRSs and narrow scope amendments	*Within 6 months*	*After 6 months*
Accounting policies and accounting estimates (amendments to IAS 8)	√	
Disclosure initiative – accounting policies	√	
Deferred tax related assets and liabilities arising from a single transaction (amendments to IAS 12)	√	

Disclosure initiative – accounting policies

The amendments to IAS 1 Presentation of Financial Statements to require entities to disclose their material accounting policies rather than their significant accounting policies. To support this proposed amendment, the Board is also proposing to amend IFRS Practice Statement 2 Making Materiality Judgements to explain and demonstrate the application of the four- step materiality process to accounting policy disclosures.

IASB press release and related publications on the amendments are available at the following link **here.**

Deferred tax related assets and liabilities arising from a single transaction (amendments to IAS 12)

The proposed amendments to IAS 12 Income Taxes would require an entity to recognise deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The proposed amendments would apply to transactions such as leases and decommissioning obligations.

IASB press release and related publications on the amendments are available at the following link **here.**

IASB exposure drafts

The following exposure drafts are expected to be released by the IASB with indicative dates provided as follows:

Exposure draft	2020 H2	2021 H1
Lease liability in a sale and leaseback	√	
Rate regulated activities		√
Management commentary		√
Disclosure initiative – targeted standards – level review of disclosures		√
Lack of exchangeability (amendments to IAS 21)		√

Further information on these projects is available on the IASB website **here.**

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

Since the last edition, there have been a number of amendments made to the following local GAAP standards:

1. FRS 101 Reduced Disclosure Framework (FRS 101)
2. FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)
3. FRS 104 Interim Financial Reporting (FRS 104)

Amendments to FRS 101

2019/ 2020 Cycle

The first amendment made to FRS 101 was to incorporate the results of the annual review performed by the FRC of FRS 101 into the standard. The amendments were published in the document "Amendments to FRS 101 Reduced Disclosure Framework – 2019/ 2020 Cycle". The amendments were as follows:

(1) Provision of an exemption from the disclosure of cash flows required by paragraph 24(b) of IFRS 6 Exploration for and Evaluation of Mineral Resources.

(2) Removal of the condition that the disclosure exemption from paragraph 33(c) of IFRS 5 Non -current assets held for sale and discontinued operations is only available provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated. This is for consistency with the exemption from the presentation of a statement of cash flows.

A copy of the amendments is available at the link **here**.

Effective date of IFRS 17

The amendment to FRS 101 was made to align the effective date of previous amendments made to FRS 101 in respect of IFRS 17 Insurance Contracts to 1 January 2023.

This amendment arose because in June 2020, the IASB amended IFRS 17 to change the effective date from 1 January 2021 to 1 January 2023. Previous amendments made to FRS 101 in relation to IFRS 17 had been made with an effective date of 1 January 2021.

A copy of this amendment is available at the link below:

https://www.frc.org.uk/getattachment/86265e09-20ec-45a5-9bd7-149d9d04fa6f/Amends-to-FRS-101-Web-Ready.pdf

Amendments to FRS 102

Covid-19 related rent concessions

In October 2020, the FRC issued amendments to FRS 102 and FRS 105 in relation to covid-19 related rent concessions.

The reason for the amendments is because many lessees have been granted rent concessions (e.g. a temporary rent reduction or rent holiday) as a result of the Covid-19 pandemic. FRS 102 had not explicitly said how to account for changes in lease payments that result from rent concessions. The amendments require entities to recognise changes in operating lease payments that arise from Covid-19 related rent concessions on a systematic basis over the period that the change in lease payments is intended to compensate. The requirements apply only to temporary rent concessions occurring as direct consequence of the Covid-19 pandemic and within a limited timeframe.

The effective date of these 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 **here.**

Amendments to FRS 104

Going concern

In October 2020, the FRC issued "Amendments to FRS 104 Interim Financial Reporting – Going concern". The amendments were made to FRS 104 in response to an unintentional difference noted between the requirements for assessing and reporting on the going concern basis of accounting when preparing interim financial reports in accordance with EU-adopted IFRS and FRS 104. IAS 1 requires management to assess an entity's ability to continue as a going concern and disclose any related material uncertainties when preparing interim financial statements which applies to IAS 34. FRS 104 is based on the requirements of IAS 34 but did not previously contain any requirements that explicitly covered the assessment and reporting on the going concern basis of accounting. Therefore, these amendments introduce requirements covering going concern in a similar way to EU-adopted IFRS.

The effective date of these amendments is accounting periods beginning on or after 1 January 2021 with earlier application permitted.

A copy of the amendments to FRS 104 is available **here**

Ongoing FRC Projects

The FRC has two ongoing projects in respect of local GAAP which are set out below.

Project	Status
FRED 74 Draft amendments to FRS 102 – Interest rate benchmark reform (phase 2)	On 29 May 2020, the FRC issued FRED 74 Draft amendments to FRS 102 – Interest rate benchmark reform (phase 2). It proposes amendments to provide relief to minimise discontinuities in the accounting for financial instruments and leases and avoid unnecessary discontinuation of hedge accounting as agreements are modified in order to transition to alternative benchmark rates as interest rate benchmarks are being reformed.
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 projects being undertaken by the FRC can be accessed **here.**

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 digitalized world

The guide is available for download here.

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

ACI Publications since Quarterly 38

Access the below publications **here**

1. On the 2020 Audit Committee agenda
2. On the 2020 Board agenda
3. On the 2020 Nomination Committee agenda
4. On the 2020 Healthcare agenda

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.

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 **here.**

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 **here**.

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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