

# BusinessMatters

A Newsletter for Chartered Accountants in Business

## Budget boosts economic prospects



*Austin Hughes, Economist with KBC Bank with Tom Fitzpatrick, President of Chartered Accountants Ireland at the announcement of the Survey results.*

Minister Brian Lenihan's December budget has been given a broad thumbs-up by Chartered Accountants working in business according to the latest survey in the KBC Ireland/Chartered Accountants Ireland Business Sentiment series. Generally the survey finds that business activity continues to stabilise though there are few signs that any significant recovery is underway.

The Winter survey was conducted immediately after the Budget and the results were published in the run up to Christmas (December 21st). The survey has been conducted each quarter since the Spring of 2007.

60% of respondents believed that the Budget had got the balance right between public spending reductions and supporting economic activity, only 19% disapproved. If anything respondents would have like the spending reductions to be tougher – while 59% were happy with the level of cuts imposed by the Government, 40% were not. A similar number (58%) believed that the Budget would have a positive impact on Ireland's economic fortunes. However there is no expectation that any upturn arising from the stimulus measures announced by Minister Lenihan would be significant. 54% said that the impact of the VAT and excise reductions would be negligible while 45% described any possible stimulus as modest. The sense that the Budget was just a further step in a long road to recovery is clearly evident. Not surprisingly, the Budget's success was reflected in the figures relating to confidence in the Government to handle the economy – this figure increased threefold to 42%.

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Despite the positive noises about the Budget, no dramatic upturn is predicted for the Irish economy by these Chartered Accountants. While the survey reports that the worst of the downturn is now behind us, members are not predicting any dramatic recovery in our economic fortunes. This pattern is mirrored in the findings on employment which suggest the worse of the job shedding is also behind us and a larger than previously seen cohort of companies now expanding their payrolls. Improvement in the cost environment, arguably the only positive to emerge in the year's batch of reports, continues.

The extent to which businesses have responded to the downturn is revealed in the finding that 93% of companies have taken some form of ameliorative action. The major adjustment here has been in headcount reductions – almost half the respondents indicated that their companies had cut jobs – though pay cuts have also figured prominently (66%).

A full survey report and press release are available at

<http://www.charteredaccountants.ie/General/News-and-Events/IIB-Survey/>

## Clear on Clarity?

New auditing standards have now arrived! Members may be aware of a recent development in the auditing sphere known as “the Clarity Project”. With the Clarity Project now concluded by the International Auditing and Assurance Standards Board (IAASB) and new auditing standards recently issued by the Auditing Practices Board (APB), below is a brief overview of these ‘new look’ international standards of auditing.

In 2004, the Clarity Project was undertaken by the IAASB to carry out a detailed review of the ISAs. The main aim of the project was to enhance the understanding of the ISAs to ensure that they are applied in a uniform manner and to encourage the adoption of the standards internationally.

In October 2009, the APB published its new clarified ISAs (UK and Ireland). These standards replace the existing ISAs (UK and Ireland) and ISQC (UK and Ireland) 1 with effect for audits of financial statements **for periods ending on or after 15 December 2010**.

Both the clarified and existing standards are now available on CHARIOT which can be accessed by logging on to:

<http://www.charteredaccountants.ie/Members/Technical/CHARIOT-/>

So, what's different? The clarified ISAs (UK and Ireland) and ISQC (UK and Ireland) 1 have a new structure, in which information is presented in separate sections: Introduction, Objective, Definitions, Requirements, and Application and Other Explanatory Material. This reflects the original purpose of the Clarity Project – to make the requirements of the standards easier to understand and to clearly differentiate between what is required and what is guidance. However, more substantive changes have also been made that will have implications for audit documentation and training. The main areas of change concern:

- Group accounts;
- Related parties;
- Estimates; and
- Communicating deficiencies in control.

The impact of the changes will obviously vary from audit to audit, but is likely to be greatest on groups, particularly where subsidiaries are audited by different audit firms. Conversely the impact on the typical stand-alone family controlled company is likely to be much less significant. According to a survey conducted by APB on the impact of the new standards, auditing practitioners estimate that the audit cost will increase on average 13.9% in the first year, with a 9.6% increase in recurring years.

### Support is at hand

In December 2009, Chartered Accountants Ireland launched a new web resource dedicated to the new clarified international standards of auditing, known as ‘ISA Clarity’. This resource provides information on the background to the clarified ISAs and what it means for members, as well as some of Chartered Accountants Ireland initiatives in this area. The microsite also contains articles and a dedicated resource guide which provide ample reading for Members to kick-start 2010! This resource can be accessed by logging on to:

<http://www.charteredaccountants.ie/Members/Technical/Auditing-and-Assurance/ISA-Clarity/>

## A Gala Occasion



*The Annual Dinner of Chartered Accountants Ireland, which took place in the Round Room of the Mansion House in late November, was a great success. Guest speaker was Mr. Enda Kenny TD, leader of the Fine Gael party. Entertainment was provided by Vladimir Jablovok and his string quartet, and by tenor Sean Costello.*

## Presidential Launch



*Reviewing the Gallery of Institute Past Presidents at the official opening of Chartered Accountants House were Pat Costello, Chief Executive; President of Ireland, Mrs. Mary McAleese; current Institute President, Tom Fitzpatrick; and Vincent Sheridan, Chairman of the Premises Committee.*

Chartered Accountants House, the new training centre and headquarters for Chartered Accountants Ireland, was formally opened by the President of Ireland, Mrs. Mary McAleese, on 8th December 2009, with great celebration.

Welcoming the guest of honour, the Institute President, Tom Fitzpatrick, said there were a number of reasons why Chartered Accountants Ireland undertook this project. The first is to create a better synergy between members and their Institute by bringing them into their own premises – including prospective members, our students, who will do a great deal of their training here.

He continued “Excellence is at the heart of everything we try to do and it makes sense that if our goal is to train the best, then we should provide them with the best facilities possible. We believe we have done that.

“Equally, it seemed that an Institute as old and as prestigious as ours needed a home that reflected our history and perhaps, more importantly in these difficult times, our intention to continue to serve Ireland’s business community with confidence into the future.”



## Investment Outlook 2010

David Glennon, Corporate Consultant, Zurich Life

### **Overall:** Strong earnings' growth should be supportive of equities, but risks remain.

After a near calamitous start, 2009 turned out to be a strong year for risk assets. Massive economic stimulus by almost all policymakers stabilised the economic situation and provided the catalyst for a strong rebound in financial market sentiment. Looking ahead, the main support for equity markets is likely to be the significant recovery in corporate profits expected during 2010. There are still some questions, however, over the sustainability of the economic recovery.

### **Economic Growth:** Will developed economies gain traction as the stimulus dial is turned down?

- Massive fiscal deficits and unprecedented central bank action have brought economies back from the brink, helping to reverse a downward spiral that threatened a repeat of the Great Depression.
- Employment levels have fallen sharply and will continue to lag positive developments in the real economy.
- Strong growth in Asian economies, such as China, was also a hugely important support in 2009. Some concerns have emerged that risks of overheating may have to be countered by policy action.
- In more developed economies, policymakers have a delicate operation to perform - preventing risks of a double-dip without fuelling concerns over long-term fiscal sustainability.

### **Interest Rates & Bonds:** Interest rate hikes are expected in Q2 and Q3, although there is a risk that rates will be left unchanged for longer.

- Currently, US and UK base rates are forecast to rise in Q2, with the ECB expected to move during Q3, 2010.
- The risks are that interest rates stay lower for longer. The received wisdom is that Japan hiked rates too quickly during its slump and western central bankers are not likely to do the same.
- It is likely that there will be periodic sell-offs in interest rate markets due to strong economic data and increased bond issuance. However, central banks will keep rates accommodative for longer to ensure a self-sustaining economic recovery.
- Long-end rates have risen relative to the short end and that spread is now at an all-time high in the US.
- Inflation expectations will be very much on the radar screen during 2010, with investors weighing short-term inflation dynamics – which are still relatively benign – versus the long-term consequences of easy money and high fiscal deficits.

### **Equity Markets:** While policy error remains a risk, equities could progress further on the back of stronger earnings.

- Strong Asian economies and stabilised-to-improving developed economies provide the backdrop for better corporate earnings.
- While the current consensus is for earnings' growth around 20% for 2010, better operating leverage and strong cost control could generate positive surprises.
- Valuations are reasonable, provided earnings' growth materialises as expected.
- Merger & acquisition activity - which was quiet last year – could provide additional support during 2010.
- Equity markets could be challenged by policy adjustments during the year, meaning that volatility could re-emerge.
- These adjustments could be in the form of rising long-term interest rates or premature withdrawal of liquidity.

### **Currency Markets:** Will the euro remain strong in 2010?

- The US dollar was broadly flat versus the euro during 2009, but that fact masks plenty of volatility. The dollar rallied in the last quarter due to position squaring and concerns about the fiscal situation in Greece. A lack of liquidity leading into Christmas exacerbated this move. This trend is likely to continue in the early part of 2010.
- Over the medium term, the strength of the euro could well reassert itself. The desire for a strong currency is part of the ECB's DNA, while the closed nature of the US economy enables it to live with a weaker currency. The fiscal issues facing the US are also a headwind to dollar strength in the longer term. A test of the 2008 €//\$ highs would not be a surprise at some stage during 2010.
- The UK economy more closely resembles that of the US than Europe. In that vein, €/£ can be expected to follow a similar trajectory to €//\$ but the magnitude of moves will be smaller.
- The demand for a revaluation of the Chinese renminbi continues by central banks and governments around the world. The Chinese have so far been unwilling to move and they are not expected to change in the short-term.

*This outlook of potential investment market developments in 2010 does not constitute an offer and should not be taken as a recommendation from Zurich Life. Advice should always be sought from an appropriately qualified professional.*



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## Finance Leaders Journal

Finance Leaders Journal is a dedicated journal for senior finance professionals which includes contributor pieces, relevant news and developments and Chartered Accountants Ireland services appropriate to the breadth of the role of a senior finance professional. It will be published on a bi-monthly basis.

The first issue, published in December 2009, included features on The Future of UK and Irish GAAP, and Making Mobile Working work for You, along with an interview with Cathal O Caoimh, Group Finance Director, FBD Holdings plc. The publication also contains Financial Reporting News, Legal and Regulatory News and Governance issues, as well as reading recommendations and other information. You can access this free eJournal on [www.charteredaccountants.ie](http://www.charteredaccountants.ie) by clicking onto News & Events and selecting the appropriate journal name from the eNewsletters listed. If you would like to be included on the distribution list, please click on Subscribe.

## The Future of UK and Irish GAAP

Chartered Accountants Ireland was pleased to join with the Consultative Committee of Accountancy Bodies in Ireland (CCAB-I) to facilitate the recent public events in Belfast and Dublin to discuss the proposals published by the Accounting Standards Board in the UK (ASB) regarding the *Future of UK and Irish GAAP*. The meetings were exceptionally well attended, emphasising the fundamental importance of the proposals under discussion.

At both meetings Ian Mackintosh, Chairman of the ASB, outlined the proposals, which would impact the vast majority of companies and arguably represent the most significant development in financial reporting in Ireland and the UK over the past twenty years. The ASB intends to converge Irish and UK GAAP, to the fullest extent possible, with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). 'Publicly accountable' entities, as defined in the ASB's Consultation Document, would be required to prepare their financial statements in accordance with *EU-endorsed IFRS*, while the ASB proposes to adopt the new *IFRS for SMEs*, published by the IASB in July 2009, for all 'non-publicly accountable' entities (with the exception of small entities as defined under company law, for whom the ASB's Financial Reporting Standard for Smaller Entities (FRSSE) would also be available).

At the Dublin meeting Paul Pacter, IASB Director of Standards for SMEs, described the IASB's process of development, field-testing and consultation of the IFRS for SMEs and future plans for updating and review of the standard. He also summarised some of the key simplifications in the IFRS for SMEs compared to full IFRS. At the Belfast event, John Hannaway (Vice President of Chartered Accountants Ireland and Chairman of the Representation and Technical Policy Main Committee) presented from the practitioner's perspective whilst other speakers at the Dublin event included Michael Kavanagh (Head of Financial Reporting Supervision at IAASA), Paul Rooney (European Commission) and Terry O'Rourke (Chairman of the Accounting Committee at Chartered Accountants Ireland).

Chartered Accountants Ireland encourages all Irish stakeholders to participate in the consultation process, the response period for which ends on 1st February 2010. Links to the ASB's Consultation Document and other relevant material and the slide presentations from the above meetings are available online at <http://www.charteredaccountants.ie/Members/Technical/Future-of-UK-and-Irish-GAAP/>

## Congratulations



Robert McNally FCA, Chief Executive,  
Brandeaux Administrators Ltd.



Jennifer Coyne ACA,  
Head of Finance, Gorta.

## Delivering Christmas Cheer



*Simon Goldsmith, AIB Card Services (sponsor); Gerry Cully, The Children's Medical & Research Foundation; Aisling Molloy Chair, Young Professionals; Brother Kevin Crowley, Capuchin Day Centre for the Poor and Stephen Molloy, Chartered Accountants Ireland pictured at the handover of nearly €10,000 raised for the two charities through the recent Charity Fire and Glass Walk.*

## Diary Dates

<b>January</b>	21	Young Professionals: Life Coaching Interactive Workshop	Business, Dublin
	26	Commercial Property Update	CAILS, Dublin
<b>February</b>	4	Young Professionals/Young Solicitors Table Quiz	Business, Dublin
	8	Getting Credit – Dealing with the Bank	CPD, Dublin
	9	Managing the auditors	CPD, Dublin
	10-17	Finance Bill: Dundalk, Sligo, Galway, Athlone, Waterford, Cork, Killarney, Limerick, Dublin.	CPD
	16	Charities & Not for Profit Evening Meeting	Business, Dublin
	18	IFRS – The Core Standards	CPD, Dublin
	TBC	Joint Meeting with Institute of Bankers	CAUS, Belfast
<b>March</b>	TBC	Leinster society Lunch; Pat Farrell, Chief Exec., IBF	CALS, Dublin
	2	Tax Update for the busy Accountant	CPD, Belfast
	4	Understanding Funds	CPD, Dublin
	4	IFRS for Public Benefit Entities	CPD, Belfast
	5	Accounting for Charities	CPD, Belfast
	11	Leinster Society Lunch; Matthew Elderfield, Chief Executive, Financial Regulator	CALS, Dublin
	11	MS Excel 2003 – Level 1	CPD, Belfast
	11	Ulster Society Annual Dinner	CAUS, Belfast
	15	Accounting for Financial Instruments, IAS 39 & 32	CPD, Dublin
	23	Spreadsheet Tips & Tools for Accountants	CPD, Dublin
	23	Forensic Accounting	CPD, Belfast
	24	Corporate Finance Review for Small Companies	CPD, Dublin
25	Excel 2003 Intermediate	CPD, Dublin	

Please go to the events webpage on [www.charteredaccountants.ie](http://www.charteredaccountants.ie) and check the events calendar for upcoming events and courses.

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