ICAJ/PAB Seminar for Practitioners – IFRS Financial Statements

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ICAJ/PAB Seminar for Practitioners
IFRS Financial Statements

Agenda

- ICAJ Accounting Standards Committee (ASC) & Published Financial Statements
- Findings from reviews
- Reasons given by practitioners for findings
- Recommendations arising from the findings
- Reminder on IFRS presentation and disclosure standards

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ICAJ ASC & Published Financial Statements

- ICAJ as part of discharging its responsibility to the profession requires periodic reviews of published FS, especially for listed and regulated entities (PIEs)

- ASC carries out this mandate for the ICAJ

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Process used by ASC

- Each year a selection of published financial statements is reviewed
- Reviews usually cover entities listed on the main and junior markets of JSE
- Readily available IFRS checklists etc. are used in these reviews
- Findings, if any, are discussed with practitioner and, as required, reports are made to Council of ICAJ

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Findings - Non-compliance with IFRS

- Incorrect accounting treatments - Item amounting to millions of dollars that, on the face of it is an item of expense, is charged to OCI rather than P & L. Had that item been passed through P & L, as it should have, it would have resulted in the entity reporting a loss of, say, 5m (not considering the tax impact) rather than a profit of, say,18m!
- In accordance with IAS 33.2(a)(ii) – a company that files or is in the process of filing its financial statements with a regulator for the purpose of issuing shares to the public should apply IAS 33 and therefore disclose earnings per share. No such disclosure was made.

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Findings - Non-compliance with IFRS cont'd

- Share capital year on year moved by tens of millions but there was no indication, in the referenced note to the financial statements, as to what caused the change.
- Property plant and equipment – in the basis of preparation of financial statements there is an indication that PPE are carried at valuation but the policy note on PPE gives no indication on whether valuations are carried out, frequency of valuations, how revaluation surpluses/deficits are accounted for etc.
- Where standard requires movement for say 2 years, e.g. PPE - a 1 year movement is given.

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Findings - Non-compliance with IFRS cont'd

- Nature of related party relationships not given. Director's current account etc. not disclosed as related party.
- Statement of cash flows – items such interest and tax paid not disclosed. No disclosure is given for effect of changes in foreign exchange rate on cash though there are holdings of cash in foreign currency. Further items misclassified among operating, investing, financing activities.
- Policy notes too succinct e.g. not clear whether PPE are at cost or valuation; entity has finance leases but no policy note on leases (other required disclosures about leased assets and minimum lease payments etc. not given).

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Findings - Non-compliance with IFRS cont'd

- Risk management notes – for liquidity risk note undiscounted cash flows same as SOFP disclosures while the latter is based on discounted cash flows; non-compliance with IFRS 7 disclosures on credit risk, credit quality, ageing of past due not impaired etc.
- Lease expense disclosed but no lease commitments disclosed
- Dividends paid during the year – only disclosed in primary statement with no note disclosure on dividends per per share etc.

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Findings - Non-compliance with IFRS cont'd

- Errors in classifying items as current/non-current in the SOFP

- Errors in classifying items even within categories in the SOFP

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Findings - Basic errors

- Outdated versions of audit report used, e.g. sections on auditor and management responsibility from previous versions of ISA 700
- Lack of consistency in the audit report
- Reference in the audit report to statements not in the FS or which have different names
- Audit opinion speaks to Pages 1 to 35 constituting the FS but there is no Page 35 in the FS
- Presenting consolidated FS and the audit opinion speaks to group and company FS but only group statements are presented

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Findings - Basic errors cont'd

- Errors in disclosures of standards adopted during the year or in issue not yet adopted
- Basic spelling errors, addition errors (**many**), amounts in some primary statements not in agreement to disclosures in other primary statements (for example retained earnings and total equity in the SOFP quite different from what is in the SOCIE) or supporting detailed notes
- Note on tax reconciliation in FS starting with a profit that does not agree to P & L
- Inherent contradictions

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Findings - Other

- Information given in FS dated – cannot be related to anything seen in the FS
- Terms of loans e.g. related party loan, not given though classified as long term
- No indication whether long term loans payable are secured or unsecured
- Redeemable preference shares disclosed but no indication when they are redeemable etc.

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Findings - Other cont'd

- OCI includes amounts disclosed as net of tax while supporting notes indicate no tax deduction, so question arises whether there should have been an adjustment for tax that was not done
- Annual Report MD & A says 25% profit increase while the included audited FS shows an 8% increase; At the same time net profit and gross profit in Annual Report does not agree to amounts disclosed in the audited FS included in the same document

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Reasons given by practitioners for errors noted above:

- No quality control review (inadequate experienced staff within the practice to perform such reviews - perhaps sole practitioner),
- Did not ‘know’ – lack of knowledge
- Given existing circumstances and workload - unable to keep up with pace of changes in IFRS/ISA
- Consulted with fellow practitioner but received wrong advice
- Late changes made to FS so all notes not updated
- Did not see/review annual report presented to regulator or what was put on regulator’s website