

27 November 2017

The Director Standards
Independent Regulatory Board for Auditors
Email: IVanker@irba.co.za or standards@irba.co.za

Dear Sir/Madam

FRSC SUBMISSION ON INVITATION TO COMMENT ON PROPOSED SAAPS 2 – FINANCIAL REPORTING FRAMEWORKS AND THE AUDITOR’S REPORT

In response to your invitation to comment on the Proposed SAAPS 2 – Financial Reporting Frameworks and the Auditor’s Report, attached is the comment letter of the Financial Reporting Standards Council (FRSC) of South Africa based on the input of its Financial Reporting Technical Committee (FRTC).

This comment letter is a result of the FRTC’s review and deliberations that included representatives from public accounting, professional bodies, members in business, academia, standard-setting bodies, regulators, government and users.

We are grateful for the opportunity to provide comments on this document. Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,



Suresh Kana

Chairman of the FRSC

PROPOSED SAAPS 2 – FINANCIAL REPORTING FRAMEWORKS AND THE AUDITOR’S REPORT

We support the Independent Regulatory Board for Auditors (IRBA) in updating SAAPS 2 with new developments in financial reporting in South Africa. Our comments are primarily limited to financial reporting matters in the proposed SAAPS 2. Our first comment is on the specific question, while the other comments are on additional matters regarding specific paragraphs in SAAPS 2.

Specific Question

1. *Whether you agree that in the case of public sector entities, the National Treasury is a recognised accounting standard setter in South Africa as a result of the Modified Cash Standards? This is in addition to the Accounting Standards Board (ASB), which was already recognised in the extant SAAPS 2 (Revised November 2013).*

We agree that the National Treasury is a recognised accounting standard setter for public sector entities in South Africa as a result of the introduction of the Modified Cash Standard by them. However, we believe that the roles of the Financial Reporting Standard Council (FRSC) and the Minister of Trade and Industry in developing private sector standards in South Africa are not sufficiently incorporated in SAAPS 2, as explained further in the other matters discussed below.

Other Matters

1. Paragraph 8

We believe that paragraph 8 could also refer to the accrual basis of accounting or the modified cash basis applied in some of the prescribed applicable financial reporting frameworks identified in SAAPS 2 as examples of the term “basis of accounting”.

2. Paragraph 15

In the last sentence of paragraph 15 we suggest that the word “historical” be removed before “financial information” since some estimations in financial statements could be based on assessing future expectations, such as fair value or impairment calculations. We further propose that “based on these characteristics” be added to the end of the last sentence to clarify under which circumstances a framework might still be acceptable.

3. Paragraph 20

We believe that paragraph 20 does not sufficiently explain why the International Accounting Standards Board’s (IASB) standards are applied in South Africa. Further, this paragraph does not acknowledge the roles of the FRSC and the Minister of Trade and Industry in developing standards for the private sector in South Africa.

We believe there are two options to resolve the identified issues. The first is to remove paragraph 20 altogether and then update paragraph 22 with the issues identified above, as explained in point 4 below.

The second, and preferred option would be to update paragraph 20. This would be done by stating that the IASB’s standards are applied in South Africa through legal backing in the Companies Act Regulations, and through the JSE Listing Requirements in the listed environment. In addition, to identify that the FRSC may develop guidance that applies the IASB’s standards to South African specific circumstances for entities that are in the scope of the Companies Act through developing Financial Reporting Pronouncements (FRPs) or Financial Reporting Guides (FRGs). The implementation of the FRPs is subject to the approval of the Minister of Trade and Industry.

4. Paragraph 22

We believe that the powers granted in identified Acts, Listings Requirements and directives regarding the development of financial reporting standards in South Africa are not completely explained in paragraph 22.

Regarding the Companies Act and Regulations, the fact that regulation (Companies Act, 2008, Regulation 27) has been issued to determine when companies, including state-owned entities, should apply International Financial Reporting Standards (IFRS) or IFRS for Small and Medium-sized Entities (SMEs) is not mentioned. This regulation creates legal backing for the IASB's standards in South Africa, and we believe that this fact should be stated in SAAPS 2. The Companies Act also empowers the FRSC to develop guidance that applies the IASB's standards to South African specific circumstances (Companies Act, 2008, Section 204(a)) through developing FRPs or FRGs. The implementation of the FRPs is subject to the approval of the Minister of Trade and Industry. The FRSC has developed several FRPs that are in the process of being approved by the Minister of Trade and Industry.

The role of the JSE Listings Requirements in prescribing a financial reporting framework in South Africa is also not explained.

We also propose that the last sub-paragraph under paragraph 22 should be referenced to paragraph 19 to establish a link to how a recognised accounting standard setter is identified.

5. Paragraph 27

We are concerned that paragraph 27 creates the perception that IFRS and IFRs for SMES are approved and issued by standard setters in South Africa. The IASB develops these standards and these standards are applied in South Africa through legal backing in the Companies Act and through the JSE Listing Regulations. We suggest that the wording in paragraph 27 being changed to identify that the listed standards are applied in South Africa.

6. Paragraph 31

We do not understand the relevance of referring to "as the users may not understand the basis of accounting" in paragraph 31. We do not think that such a reference is the main reason why the auditor should consider whether financial statements may be suitable for general purposes.

6. Updating of qualitative characteristics in the auditing standards

We agree that the characteristics of suitable criteria used in paragraph 13 are correctly identified in terms of International Standards of Auditing (ISA) 210 and ISA 800. We, however, request that the IRBA considers contacting the International Auditing and Assurance Standards Board (IAASB) to update these characteristics in ISAs to incorporate changes made in the IASB's Conceptual Framework for Financial Reporting and the ASB's Conceptual Framework for General Purpose Financial Reporting regarding qualitative characteristics to create consistency in the characteristics applied in Financial Reporting and Auditing Standards. We are concerned that new developments in the thought process of qualitative characteristics implemented in financial reporting standards are not incorporated in the ISAs.

7. Reduced disclosure framework

The FRSC is in the process of developing a reduced disclosure framework for application in South Africa. The reduced disclosure framework proposes another financial reporting framework in South

Africa, and therefore would require revisions to SAAPS 2 in the future. Normally, FRPs only clarify the application of IFRS to certain South African circumstances, but in the Discussion Paper 1/2017, FRP 6 – Reduced Disclosure Framework, issued October 2017, a separate financial reporting framework is proposed for application in South Africa.

We also acknowledge that the future of this project will depend on the constituents in South Africa reacting positively to the introduction of such a framework, on the clarification of the auditing of such a framework with the IRBA and on changing Regulation 27 of the Companies Act to incorporate a reduced disclosure framework in the ambit.