



The Director: Standards
Independent Regulatory Board for Auditors

Email: standards@irba.co.za

30 November 2017

Dear Mr Vanker

Proposed South African Practice Statement (SAAPS) 2 Financial Reporting Frameworks and the Auditor's Report

We thank you for the opportunity to provide comment on Proposed SAAPS 2.

Please do not hesitate to contact me on +27 (12) 429 0299 or Leon Kies on +27 (11) 797 5370 should you wish to discuss any of our comments.

Yours sincerely,

Annerie Pretorius
Associate Director

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Part A: Comment in response to request for specific comments

“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 its introduction of the Modified Cash Standard? This is in addition to the Accounting Standards Board (ASB), which was already recognised in the extant SAAPS 2 (Revised November 2013).”

1. In response to the question above, we are of the view that the act of introducing a standard by a body, does not, in itself, result in that body being regarded a “recognised accounting standard setter”. This view appears to be consistent with the last sentence of paragraph 22 of Proposed SAAPS 2 which indicates that “...a body authorised by statute to prescribe financial reporting frameworks to be applied in the preparation of financial statements by certain entities does not automatically constitute a recognised accounting standard setter.”
2. Furthermore, the term “accounting standard setter” is not used within the International Standards of Auditing (ISAs). Instead, the ISAs refer to “an authorised or recognised standards setting organisation” (refer e.g. ISA 200 par A5, ISA 210 par 18). In this regard our view is that Proposed SAAPS 2 should be amended to be consistent with the terminology used within the ISAs.
3. It is our view that the more pertinent question is whether the Modified Cash Standard as issued by National Treasury can be considered an acceptable financial reporting framework, which is one of the preconditions for audit (refer ISA 210 par 6 (a)). ISA 210 par A8 states that “at present, there is no objective and authoritative basis that has been generally recognised globally for judging the acceptability of general purpose frameworks. In the absence of such a basis, financial reporting standards established by organisations that are authorised or recognised to promulgate standards to be used by certain types of entities are presumed to be acceptable for general purpose financial statements prepared by such entities, provided the organisations follow an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders.”
4. The information provided in Proposed SAAPS 2 is not sufficient to enable one to draw a conclusion about whether National Treasury followed “an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders.” In terms of the above it follows that if National Treasury did not follow such a process, it cannot be presumed that the Modified Cash Standard is acceptable for the general purpose financial statements prepared by public sector entities.
5. Par 7 (b) of ISA 700 (Revised) states that “the term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:
 - Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial



statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or

- Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation, of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

6. We noted that paragraphs 18 to 20 of the Modified Cash Standard acknowledge that it may be necessary to depart from the standard in order to achieve fair presentation, and as such that the Standard contains one of the fair presentation acknowledgements discussed in the previous paragraph.

Part B: Comment in response to request for general comments

1. The purpose of paragraph 7 of Proposed SAAPS 2 is not clear and does not provide the basis for the conclusion presented in that paragraph. The term “identified financial reporting framework” is also not used elsewhere in the document. For these reasons we are of the view that the paragraph should be removed.
2. “IFRS”, “IFRS for SMEs” and “GRAP” are listed in the diagram in Appendix 2 as special purpose fair presentation financial statements. This is not correct since those standards are prepared to meet the common information needs of a wide range of users and are therefore general purpose financial reporting frameworks. We therefore recommend that the references to those standards be deleted from the block below “fair presentation framework” in the “special purpose financial statements” branch of the diagram.
3. Appendix 3 can in our view be shortened by combining some of the line items in the table. This is in light of the fact that in most instances IFRS or IFRS for SMEs is the prescribed financial reporting framework. As an example, in respect of private companies the table contains six line items. However, in five of those instances the prescribed financial reporting framework is IFRS or IFRS for SMEs. In the sixth no particular financial reporting framework is prescribed. The table can be shortened by including only two line items for private companies, i.e. one line item for private companies with public interest scores below 100 where the financial statements are internally compiled, and another for all other private companies.