



Institute of Chartered Accountants of Namibia

17 February 2010

CIRCULAR 2010 / 02

ADOPTION OF IFRS FOR SMES AS A NAMIBIAN GENERALLY ACCEPTED ACCOUNTING FRAMEWORK and SPECIMEN AUDIT REPORT

On 9 July 2009 the International Accounting Standards Board (IASB) issued the IFRS for SMEs.

In terms of this Circular, ICAN adopts the IASB IFRS for SMEs as a statement of Namibian Generally Accepted Accounting Practice. The original text of the IASB statement is adopted without any change.

This Statement of GAAP comprises:

- IFRS for SMEs
- Basis for Conclusion on IFRS for SMEs (which accompanies but is not part of IFRS for SMEs); and
- Implementation Guidance: (Illustrative Financial Statements, Disclosure Checklist and Present Value Tables).

Within the body of the IFRS for SMEs, Basis for Conclusions and Implementation Guidance any reference to International Financial Reporting Standards or International Accounting Standards is synonymous with Statements of GAAP.

Further this circular addresses the following

- Application of the scope of the IFRS for SMEs by the Institute of Chartered Accountants of Namibia;
- Effective date of the IFRS for SMEs
- Requirement to prepare consolidated financial statements;
- Audit reporting considerations; and
- Transitional arrangements

1. Application of the scope of the IFRS For SMEs by the Institute Of Chartered Accountants of Namibia

Council of the Institute has decided that the IFRS for SMEs may be applied by

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- 1.1 Council of the Institute has decided that the IFRS for SMEs may be applied by: a “public company” or a “private company”, as defined in the Companies Act, 1973 if it does not have public accountability as defined in Section 1 of the IFRS for SMEs.
- 1.2 For entities other than companies where the founding document or other regulation requires compliance with a “fair presentation framework” as contemplated by the International Federation of Accountants (“IFAC”) the IFRS for SMEs may be applied, if the entity does not have public accountability as defined in Section 1 of the IFRS for SMEs, except in the circumstances described in 1.4 below.
- 1.3 For entities where legal provisions or other regulations require compliance with a specific financial reporting framework (other than the IFRS for SMEs), such an entity may not apply the IFRS for SMEs even if it does not have public accountability as defined in Section 1 of the Statement of IFRS for SMEs.
- 1.4 For entities whose financial reporting framework is not set out by legal provisions, the founding statement or other regulations, if such an entity does not have public accountability, as defined in Section 1 of the Statement of IFRS for SMEs, it should assess whether it is appropriate to apply the IFRS for SMEs.

2. Effective date of the IFRS For SMEs

An entity may apply IFRS for SMEs for annual financial statements that are authorized for issue after the date of issue of this circular.

3. Requirement to prepare consolidated financial statements

- 3.1 The requirement to present consolidated financial statements as set out in paragraphs 9.2 and 9.3 of the IFRS for SMEs is as follows:

*9.2 Except as permitted by paragraph 9.3 a **parent** entity shall present consolidated financial statements in which it consolidates its investments in **subsidiaries** in accordance with this IFRS. Consolidated financial statements shall include all subsidiaries of the parent.*

9.3 A parent need not present consolidated financial statements if:

- a. *both of the following conditions are met:*
 - i. *the parent is itself a subsidiary; and*
 - ii. *its ultimate parent (or any intermediate parent) produces consolidated **general purpose financial statements** that comply with full **International Financial Reporting Standards** or with this IFRS; or*

- b. it has no subsidiaries other than one that was acquired with intention of selling or disposing of it within one year. In this case, the parent shall account for such a subsidiary;*
 - i. at a fair value recognized in profit or loss, if the fair value of the shares can be measured reliably, or*
 - ii. otherwise at cost less impairment (see paragraph 11.14)*
- 3.2 The exemption in 9.3 (a) will apply if the ultimate or intermediate parent produces consolidated financial statements that comply with IFRS, Statements of GAAP or the IFRS for SMEs.
- 3.3 Except where the criteria in paragraph 9.3 of the IFRS for SMEs are met, the preparation of consolidated financial statements will be required. Where an entity does not prepare consolidated financial statements when required to do so by the IFRS for SMEs, this will result in non-compliance with the IFRS for SMEs. Non-compliance with the IFRS for SMEs will result in a modified audit report when the effect on the financial statements is material.

4. Audit reporting considerations

- 4.1 A precondition for an audit is that management determines an acceptable financial reporting framework for the entity, and it is the auditor's responsibility to assess whether the framework applied is appropriate.
- 4.2 The IFRS for SMEs may constitute an acceptable financial reporting framework for entities within the scope of the IFRS for SMEs, as issued by the APB. It is also a "fair presentation framework".
- 4.3 Consequently, an auditor may express an opinion that financial statements are "presented fairly", in all material respects, in accordance with the IFRS for SMEs.
- 4.4 When an auditor issues an audit report on an entity applying the IFRS for SMEs, the audit report should identify the accounting framework as the 'International Financial Reporting Standards for Small and Medium-sized Entities'.

5. Transitional arrangements

5.1 First time adoption of the IFRS for SMEs

The IFRS for SMEs states that an entity is a first-time adopter of the standard when in its first financial statements the entity makes an explicit and unreserved statement of compliance with the IFRS for SMEs. This is the case regardless of whether its most recent financial statements were prepared under full IFRS or national requirements that are not consistent with the IFRS for SMEs in all respects.

5.2 Accordingly, companies or other entities, currently using:

- IFRS,
- NAC001, or
- An entity specific basis of accounting

will all be classified as first-time adopters of the IFRS for SMEs when they adopt that standard. The transition provisions of Section 35 of the IFRS for SMEs will apply.

The effective date for the use of the revised audit report wording is the date of issue of this Circular.

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Financial statements of a company within the scope of the International Financial Reporting Standard for Small and Medium-sized Entities have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities

Unmodified opinion

INDEPENDENT AUDITOR' S REPORT

To the Members of ABC (Proprietary) Limited

We have audited the annual financial statements of ABC (Proprietary) Limited, which comprise the statement of financial position at 31 December 20X1, and the statements of comprehensive income, changes in equity and cash flows¹ for the year then ended, and the notes to the financial statements, which comprise a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages to

Directors' Responsibility for the Financial Statements

The company' s directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and in the manner required by the Companies Act of Namibia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

1 The introductory paragraph in the report uses the terminology from the IFRS for SMEs to describe the individual statements that comprise the financial statements. This should be adjusted where appropriate to conform to the language in the entity's financial statements. For example:

- If the entity refers to the "balance sheet" but not to the "statement of financial position" (both terms are acceptable under the IFRS for SMEs), we should use the same term as the entity uses.
- If the entity presents a separate income statement and a separate statement of comprehensive income instead of a single statement of comprehensive income, we should refer to both the income statement and statement of comprehensive income.

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC (Proprietary) Limited at 31 December 20X1, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and in the manner required by the Companies Act of Namibia.

Firm Name

Registered Accountants and Auditors

Chartered Accountants (Namibia)

Date of auditor' s repøt

Auditor' s address