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Audit - Technical (External)

TechnicallySpeaking

Simply speaking!

Word of Welcome

Dear Sir / Madam,

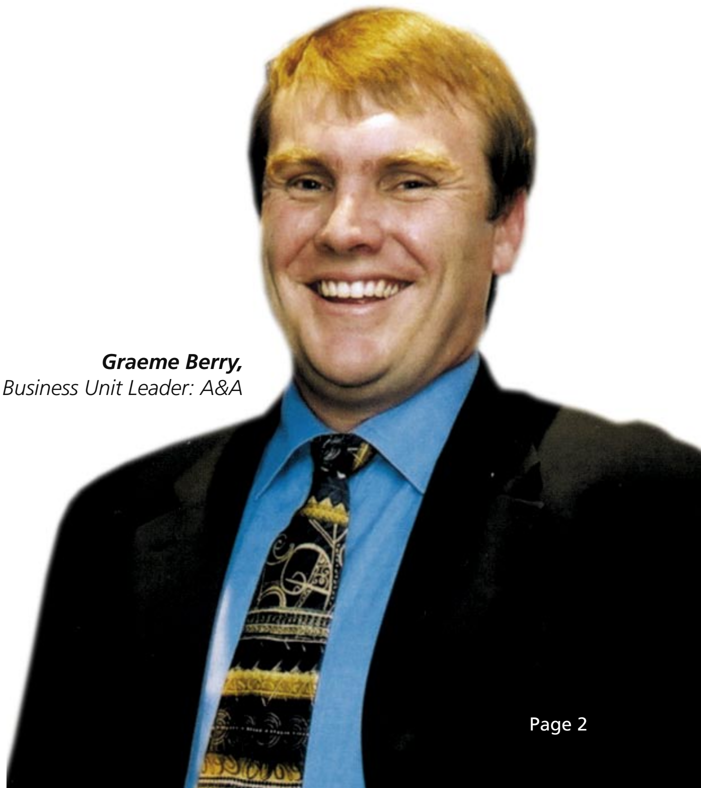
*Welcome to our first external edition of "**Technically Speaking**"!*

This quarterly publication aims to provide insights, guidance and summaries of issues that are affecting the accounting, auditing and regulatory environment as well as other matters of general interest.

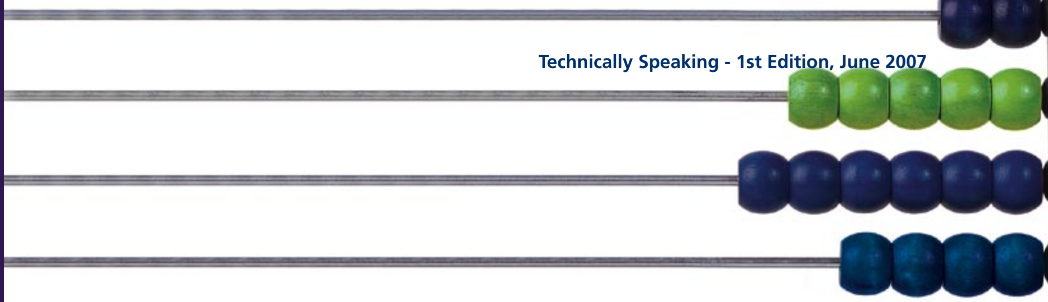
*We welcome your comments on the publication and ask that you contact our editor **Nicolette Meadows (nmeadows@deloitte.co.za)** if you have any questions or suggestions for future issues.*

Kind regards

Graeme Berry



Graeme Berry,
Business Unit Leader: A&A



Accounting Update

by Fatima Abba

Constant change is an attribute of today's dynamic business environment. During the past two years many companies have invested significantly in their financial reporting processes as a result of adopting International Financial Reporting Standards (IFRS).

The IASB has issued a number of amendments and exposure drafts in recent months. The most significant of these amendments is the issue of **IAS 23 (revised) - Borrowing costs**. This revised standard includes the removal of the option to immediately expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Companies are now required to capitalise these borrowing costs as part of the cost of such assets.

The revised standard is only applicable to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. Earlier application is permitted.

This effective date is in line with the IASB's announcement in July 2006 that they will not require the application of new IFRS's under development or major amendments to existing standards before 1 January 2009.

This provides ***four years of stability*** in the IFRS platform of standards for those companies that adopted IFRS in 2005. The establishment of this approach does not preclude the publication of new standards before that date, and companies would be permitted to adopt a new standard on a voluntary basis before its effective date. Interpretations and minor amendments to deal with potential issues identified during implementation would not be subject to this approach.

For more information, see IAS Plus.

BEE and the Financial Sector Charter

by Nicolette Meadows

In 2006, Cabinet approved the Codes of Good Practice on Broad Based Black Economic Empowerment (BBBEE). In line with this, the Financial Sector Charter (the Charter) and the Construction Sector Charter were gazetted on the 9 February 2007.

The Financial Sector Charter consists of a framework and principles upon which BEE will be implemented in the financial sector. The Financial Sector Charter Council (the Council) has been established to oversee the implementation of the Charter.

All financial institutions (that meet the definition in the charter) must publish an annual BEE report which will include the audited scorecard and an account of progress in discharging their responsibilities. These ratings will be taken into account by all organs of state when they conduct business with the sector, thus providing an incentive to financial institutions to transform and promote BBBEE.

The institutions' reports are required to be reviewed by external auditors or the ratings are to be verified by external verifiers (who have the appropriate membership). Deloitte is available to provide such verification.

Please contact your client service partner in this regard.

Company Law Reform in a Nutshell...

by Jurie de Kock

South Africa's legislative framework has undergone a major programme of reform in the last 10 years, driven by a new democratic dispensation and the pace of change in the global economy. Companies have a very important role to play in this process as they are critical to any country's economy and prosperity, both for wealth creation and social renewal.

To realise this vision for the economy and the particular challenges that face South Africa, the proposed company law should promote the following:

- Competitiveness and development of the economy by encouraging entrepreneurship;
- Enterprise development and employment opportunities by simplifying the procedures for forming companies and reducing the costs of maintaining their existence;
- Innovation and investment in South Africa by providing for flexible design and organisation of companies as well as a predictable and effective regulatory environment; and
- Efficient management of companies and encouragement of transparency and high standards of corporate governance.

The process has been set out in 2 phases:

- *Phase 1* - Issuance of the more important amendments to the current Companies Act (Act of 1973), commonly referred to as the Corporate Laws Amendment Act; and
- *Phase 2* - Issuance of the new Companies Act, which will replace the current Companies Act of 1973 as well as the Close Corporations Act of 1985. Phase 2 will incorporate the 2006 Companies Act Amendments as well as certain new provisions.

The Corporate Laws Amendment Act, No 24 of 2006 *(Phase 1)* was signed into law on **17 April 2007**. *Phase 2* is expected after due consultation by the Department of Trade and Industry (dti) with commenting parties, to be enacted during 2009.

The 2006 amendments included:

- Giving legal backing to accounting standards and introducing measures to independently monitor compliance to financial reporting standards;
- Promoting auditor independence;
- Legislating aspects of good corporate governance; and
- Changing provisions permitting companies to provide financial assistance for the purchase of its own shares.

The overriding issue for any market-based economy is vibrant capital information and deployment. The above amendments attempt to improve the quality of the information and governance which impacts these processes. It has been aptly said that company law is to business as the shell is to the oyster: *'It is what goes on inside that counts most'*.

Deloitte have engaged with the dti on the development of this project and will continue to do so in a positive manner.

Jurie de Kock,
Manager in A&A

ISRE 2410 - Review of Interim Financial Information

by Helen Bimbassis

ISRE 2410 is effective for reviews of financial information for periods beginning on or after 15 December 2006.

ISRE 2400 is no longer applicable for the review of interim financial information. The new standard, ISRE 2410 provides greater clarity on the differences between reviewing interim financial statements and the performance of an audit of financial statements.

ISRE 2410 follows a more risk based approach than the previous standard and therefore does not include the same list of minimum procedures that were previously required. It does however prescribe that the auditor should obtain evidence that the interim financial information agree or reconciles with the underlying accounting records as well as consider going concern and other significant uncertainties.

In applying a more risk-based approach, the auditor is required to obtain an understanding of the entity and its environment, including internal controls, as it relates to the preparation of both annual and interim financial information. As a result thereof, the information gained by the auditor when obtaining an understanding of the entity and its environment, including internal controls, during the review of the interim financial information may also be used for the annual audit.

As before, the auditor's review procedures consist mainly of enquiry and analytical procedures.

Helen Bimbassis,
Manager in A&A

IFRS Current Issues

by Nicolette Meadows

Due to the complexities surrounding the implementation of IFRS, we give a brief synopsis of some of the issues that are currently receiving some attention:

- Disclosure of bad debt provisions under IFRS – IAS 32.94(i) requires, for each class of financial asset, disclosure of the nature and amount of any impairment loss recognised in profit or loss. Under IAS 32, the cumulative impairment loss recognised in profit or loss at year-end should be disclosed (e.g. bad debts allowance balance at year-end). This could be disclosed either as a narrative sentence or as part of a reconciliation of the trade receivables balance.

  Under IFRS 7, the impairment loss recognised in the profit or loss in the current period will need to be specifically disclosed in accordance with IFRS 7.20(a)(e). In addition, where the cumulative impairment loss is presented in a separate allowance account (e.g. bad debt allowance account), a reconciliation of changes in that account during the period will also be disclosed in accordance with IFRS 7.16. In the light of IFRS 7, we would encourage clients still applying IAS 32 to disclose the impairment loss recognised in profit or loss in the current period.

- Disclosure of past due financial assets under IFRS 7 – IFRS 7.37(a) introduces a new requirement to disclose an analysis of the age of financial assets that are past due at the reporting date but not impaired. This new disclosure is likely to raise practicability issues as the entity will need to identify the credit terms for each class of financial asset in order to be able to prepare the required analysis. Keep in mind that even though IFRS 7 is only effective from 1 January 2007, comparative information for the 2006 year-end will be required.

- Disclosure of the ultimate controlling party under IFRS – IAS 1.126(c) requires an entity to disclose the name of its parent and ultimate parent of the group. There is no exception to this requirement when the parent or ultimate parent is an individual.

International Financial Reporting Standards (IFRS) for Small and Medium-sized Entities (SMEs)

by Jacobus Badenhorst

Over the past years, IFRS have consistently increased in complexity and volume.

In response to the difficulties encountered by SMEs in applying IFRS, the International Accounting Standards Board (IASB) has developed IFRS for SMEs which is intended to apply to general purpose financial statements. The IASB defines SMEs in terms of public accountability.

In developing the IFRS for SMEs, the starting point was the full text of IFRS. The main areas for modification were as follows:

- Irrelevant topics are omitted;
- The simpler accounting policy option is included where a choice is offered;
- Accounting recognition and measurement simplifications; and
- Deletion of some disclosure requirements.

The IASB has issued the proposed IFRS for SMEs for public comment. The closing date for comment letters is **1 October 2007**.

It is currently expected that the IFRS for SMEs will be issued as a final document in the second half of 2008.

Deloitte locally and internationally, has been involved in the development of the proposed IFRS for SMEs. Locally, Graeme Berry and Jacobus Badenhorst of A&A are involved in the South African Institute of Chartered Accountant's (SAICA) task team on SMEs. The task team considers financial reporting guidelines for SMEs in South Africa and the necessity to issue South African specific guidance for SME reporting.

For more information, see IAS Plus - Agenda.

Jacobus Badenhorst,
Manager in A&A

Editor's Notes

In Closing

Dear Sir / Madam,

*Thank you for reading the first edition of our externally focused technical publication "**Technically Speaking**", which we hope you enjoyed. In future you can subscribe to receive a copy of our quarterly publication on the website **www.deloitte.com**. You will receive automatic e-mail alert whenever a new issue is published:*

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*If you have any questions regarding the matters discussed in "**Technically Speaking**", they can be e-mailed to **technicallyspeaking@deloitte.co.za**.*

Kind regards

Nicki

Nicolette Meadows

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