



**Deloitte.**

# Technically Speaking Approaching a New Frontier

Accounting & Auditing  
20th Edition – November 2015



# Contents

<b>Welcome .....</b>	<b>3</b>
<b>Foreign Currency Translation “Tax”ing on Your Business? .....</b>	<b>4</b>
<b>The Auditor’s Responsibilities Relating to Other Information .....</b>	<b>6</b>
<b>Amendments to the JSE Debt Listing Requirement &amp; Pro-Active Review of Debt Issuers’ Financial Statements .....</b>	<b>8</b>
<b>Disclosure of Directors’ and Prescribed Officers’ Remuneration: Frequently Asked Questions .....</b>	<b>9</b>
<b>In Closing: A Note from the Editor .....</b>	<b>12</b>

# Welcome



Dear colleagues

Welcome to our twentieth edition of Technically Speaking!

This edition includes articles on the following topics:

### **Foreign Currency Translation “Tax”ing on Your Business?**

This article provides insight to the accounting impact of trading in a foreign jurisdiction and how to account for the difference in the tax values due to foreign currency fluctuations.

### **The Auditor’s Responsibilities Relating to Other Information**

Following the release of ISA 720 (Revised), this articles gives a snapshot on what constitutes “other information”, the responsibilities that the auditor has and what preparers should be aware of.

### **Amendments to the JSE Debt Listing Requirement & Pro-Active Review of Debt Issuers’ Financial Statements**

Key changes have been released affecting the issuing of debt instruments on the JSE listed. This article provides an overview of these changes and how they will impact the auditors and preparers of listed debt filers.

### **Disclosure of Directors’ and Prescribed Officers’ Remuneration: Frequently Asked Questions**

With directors’ and prescribed officers’ obligations constantly under the spotlight, this article gives guidance on the necessary disclosures of remunerations to these individuals in the financial statements.

We look forward to your comments on this publication.

Kind regards

A handwritten signature in black ink that reads "N. RANCHOD".

**Nita Ranchod**

Business Unit Leader  
Accounting & Auditing

# Foreign currency translation “tax”ing on your business?



Article by:

**Bilal Suleman**  
Manager  
Accounting & Auditing

## Introduction

Investing into new regions comes with its challenges which require strategic decisions both before and after investment. One of those decisions may be the functional currency of the entity as required by International Financial Reporting Standards (IFRS). This may be particularly challenging in emerging economies. In the event that the functional currency of the entity is different to that of the local currency of the region, there will be specific deferred tax consequences to be accounted for. For example, a company operating in Mozambique may decide the functional currency is the dollar as opposed to the metical.

In this article, we look at the financial reporting and operational challenges of the functional currency decision on deferred tax, specifically related to non-monetary assets, and why this issue was highlighted and presented to the IFRS Interpretations Committee (Interpretations Committee). We answer the question of whether deferred tax may arise in a company as a result of the translation of the tax base to the functional currency of the company, due to movement in exchange rates, assuming there were no additional movements on the non-monetary assets' carrying amount or tax base.

## Why has this been highlighted now?

The Interpretations Committee received a query regarding the recognition of deferred taxes when the tax base of an entity's non-monetary assets and liabilities is determined in a currency that is different from its functional currency. The submitter requested clarity on whether the translation of the tax base represents a temporary difference which would result in a deferred tax charge which should be credited to profit or loss.

IAS 12 *Income Taxes* define deferred taxes as the future consequences of recovering or settling the carrying amount of an asset or liability. Deferred taxes are calculated as follows:

$$\text{Carrying Amount} - \text{Tax base} = \text{Temporary difference} \times \text{Tax rate} = \text{Deferred tax asset/liability}$$

According to IAS 12:41, temporary differences arise consequent to changes in exchange rate when the tax base of an entity's non-monetary assets and liabilities is determined in a currency that is different from its functional currency. The resulting deferred taxes on such temporary differences are charged or credited to profit or loss.

## Example

Fix-it-up Limited prepares and submits its tax returns in local currency, Mozambique metical (MZM). Its functional currency for its IFRS financial statement is U.S dollars. The following table provides the relevant financial information for Fix-it-up Limited:

		Carrying amount (functional currency)	Tax base (local currency)	Exchange rate	Tax rate
Dec 20x4	Plant	\$110	MZM1200	MZM12-\$1	50%
Dec 20x5	Plant	\$110	MZM1200	MZM15-\$1	50%

During the financial period, Entity A has no movement in the carrying amount of its non-current asset, tax base and tax rate for submission in local currency, however Entity A's jurisdiction experiences a devaluation in its local currency. What is entity A's deferred tax as at December 20x4 and December 20x5 respectively?

December 20x4	Carrying amount	Tax base (MZM1200/12)	Temporary difference	Deferred tax @50%
At functional currency	\$110	\$100	\$10	\$5
December 20x5	Carrying amount	Tax base (MZM1200/15)	Temporary difference	Deferred tax @50%
At functional currency	\$110	\$80 ↓	\$30 ↑	\$15 ↑

In applying the principles of IAS 12:41, Fix-it-up Limited will be required to translate its tax base for its non-current asset from its local currency using the exchange rate at the reporting date. The carrying amount of the non-current asset will not be affected as it is already denominated in its functional currency in the financial statements.

## Foreign currency translation “tax”ing on your business?

Therefore if movement in exchange rates was the only variable for the financial period, Fix-it-up Limited will report a higher deferred tax liability (20x4: \$5; 20x5: \$15) solely as a result of this devaluation in Fix-it-up Limited’s local currency, Mozambique metical, and will record a tax expense of \$10.

### What does this mean?

Applying the guidance in IAS 12:41 will result in the following financial statement impacts:

- The net asset value of a company will be impacted should local currency exchange rates value (net asset value increases) or devalue (net asset value decreases) significantly in relation to the company’s functional currency.
- The translation of an entity’s tax base represents a valid temporary difference and an actual tax charge in the statement of profit or loss, and should not be presented as foreign exchange gains or losses.
- The Interpretations Committee affirmed that in the event that the deferred tax expense is significantly exposed to fluctuation in foreign currencies, entities should make additional disclosures in their financial statements to enable users to understand these translation effects.

The following example provides an illustration of the impact on the financial statements of Fix-it-up Limited (utilising the figures produced in the example above):

Statement of financial positions		
	31/12/20x4	31/12/20x5
	\$	\$
Carrying amount – Asset	110	110
Deferred Tax Liability	(5)	(15)
Net Asset	105	95

Statement of profit or loss		
	31/12/20x4	31/12/20x5
	\$	\$
Forex Gain/Loss	0	0
Deferred Tax Expense	5	10
Net Loss	5	10

### What to look out for?

**Functional Currency** Exposure to volatility in deferred taxes arising solely due to foreign currency differences can skew results over different reporting periods. E.g. Zambian Kwacha devalued against the dollar by 45% during the 2015 year as a result of falling copper prices.

Companies should assess whether the functional currency determined is appropriate for their business. This should be in line with the guidance in IAS 21 *The effects of changes in foreign exchange rates*. A change in functional currency is accounted for prospectively.

**Laws and regulations** Determining whether IAS 12:41 should be applied by your company would require careful consideration of the relevant laws and regulations of the jurisdiction that you are operating in. Some of the questions to consider are:

- Does local legislation require companies to keep a local currency set of financial records?
- Do the revenue authorities require the tax returns to be prepared in local currency?

# The Auditor's Responsibilities Relating to Other Information

What impact will the changes have on the audit performed by my auditor?



Article by:

**Andri Groenewald**  
Manager  
Accounting & Auditing

While auditors report on the financial statements, companies may publish additional information such as sustainability reports, corporate social responsibility reports etc. This auditing standard describes the auditor's responsibilities with regard to such additional information.

The auditor has always had a responsibility relating to Other Information ("OI"), but the scope of the Revised Standard has been extended to close the expectation gap of users and preparers of financial statements.

The International Auditing and Assurance Standards Board issued the International Standard on Auditing (ISA) 720 (Revised) – *The Auditor's Responsibilities Relating to Other Information and Related Conforming Amendments* in April 2015. The Revised Standard will be effective for audits of financial statements for periods ending on or after 15 December 2016.

## The main impacts are:

The auditor is now required to include a specific paragraph in his report stating:

- Which OI the auditor has performed procedures on (and in the case of listed entities, also which OI he/she expects to perform procedures on after the date of the auditor's report);
- What procedures the auditor has performed on the OI; and
- Describe any uncorrected material misstatements in the OI.

OI is now defined as financial and non-financial information included in an entity's annual report. An annual report contains or accompanies the financial statements and the auditor's report thereon. The annual report could be a single document, or a combination of documents.

The definition of an "annual report" is as per the auditing standards. In a South African context, we are familiar with this term in light of JSE Listings Requirements. An annual report under the auditing standards however has a wider meaning than the annual report typically issued in a South African environment.

It is our view that the following reports now fit within this definition, since it typically includes financial information and although generally issued after the financial statements, it is intended to accompany the

financial statements and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters:

- Annual report/annual integrated report/integrated annual report – May include summarised or full financial statements, typically includes chairman statement, sustainability report, audit committee report, risk report, remuneration report, and other disclosures required by the JSE; and
- Integrated report – Typically includes summarised financial statements, together with information on the entity's strategy, risks, social responsibility etc.

The following reports either do not meet the definition of "annual report" or are specifically scoped out from the Revised Standard:

- Risk and capital management reports (Banks);
- Preliminary/provisional/abridged reports;
- Short form announcements;
- Circulars/prospectus/pre-listing statement which includes historical financial information;
- Cautionary announcements/trading statements; and
- Other regulatory reports e.g. pension funds and medical schemes reports on assets.

The OI may be made available to users in printed form, or electronically, including on the entity's website. A document (or combination of documents) may meet the definition of an "annual report", irrespective of the manner in which it is made available to users.

## The Auditor's Responsibilities Relating to Other Information – what impact will the changes have on the audit performed by my auditor?

### **Auditor's responsibility relating to Other Information:**

It is important to note that the auditor's responsibility when reading the OI is to consider:

- Whether the OI is consistent with the financial statements; and
- Whether the OI is consistent with the auditor's knowledge obtained in the audit i.e. the auditor is not expected to go and obtain further knowledge about the other information – the auditor's assessment is based on what knowledge he/she already has.

However, the auditor must still be alert for indications of a material misstatement in OI which would not typically be within the scope of the auditor's knowledge gained during the audit. Therefore if something is clearly inaccurate, the auditor still has a responsibility to respond even if that information is outside the scope of the auditor's knowledge. This was not previously a requirement of the auditor.

The nature and extent of the procedures performed by the auditor is left to the professional judgement of the auditor and is not at the same level of the audit procedures.

### **Other relevant changes:**

- An upfront discussion with the auditor to determine which document(s) comprise the OI and to agree with the auditor the manner and timing of the issuance of the document(s).
- In the case where some or all of the document(s) will not be available until after the date of the auditor's report, a written representation to be signed stating that the final version of the document(s) will be provided to the auditor when available, and prior to the issuance by the entity.
- In reading the OI, the auditor may become aware of new information that has implications for the auditor's understanding of the business and, accordingly, the auditor may need to revise his risk assessment. This will lead to further audit work being performed to support the audit opinion.

### **Benefits of the Revised Standard for users and preparers of financial statements:**

- There is transparency in the auditor's report for the users of the financial statements in terms of which document(s) the auditor has performed procedures on, thereby giving the users comfort in the credibility of the OI, even though no assurance is expressed thereon; and
- The procedures performed under this Standard will enhance the auditor's understanding of the business he/she is auditing.

# Amendments to the JSE Debt Listings Requirements and Pro-Active Review of Debt Issuers' Financial Statements



Article by:

**Chris Pretorius**  
Associate Director  
Accounting & Auditing

## Introduction and rationale

The JSE has, by means of, Bulletin 1 of 2015, made amendments to the JSE Debt Listings Requirements, the most important one of which is the Accreditation of Auditors.

As with the equity market where auditors and the advisors of issuers are accredited with the JSE, the JSE has taken steps to also accredit auditors and the advisors of issuers listed on other markets operated by it, including the interest rate market. The amendments will help the JSE in its oversight in respect of the auditors and their advisors and ensuring compliance with the provisions of the Listings Requirements.

The effective date of Bulletin 1 of 2015 is 4 August 2015. Notwithstanding the effective date, the JSE will issue a note to debt sponsors on the effective implementation date by the JSE of the amendments dealing with (i) auditor accreditation and (ii) submission of financial statements in due course.

## Appointment of auditors

An applicant issuer may only appoint as its auditor, an audit firm and individual auditor who are accredited as such on the JSE list of Auditors and their advisors, as set out in Section 22 of the JSE Listings Requirements. This requirement must be considered by the audit committee when recommending an auditor for appointment at the annual general meeting.

Within 90 days of an audit firm or individual auditor being removed from the JSE list of Auditors and their advisors, an applicant issuer must replace its auditor with an auditor who is accredited on the JSE list of Auditors and their advisors. This change should be made before the auditor signs the next audit report, failing which the applicant issuer must caution holders of debt securities as to the status of its auditor. This warning must appear whenever reference is made to the audit report in an announcement or in the financial statements themselves.

The above requirements with regard to the auditor apply equally to those foreign registered entities (i.e. all entities incorporated outside the Republic of South Africa) with debt securities listed on the interest rate market and/or the main board of the JSE. In this instance, the audit firm and

individual auditor registered in a jurisdiction other than South Africa need to be accredited on the JSE list of Auditors and their advisors. The specific requirements and eligibility criteria, as set out in Section 22 and Schedule 8 of the JSE Listings Requirements, are, however, slightly different for auditors registered in a jurisdiction other than South Africa. The JSE is still to issue further guidance on the accreditation process for foreign auditors

In a bid to improve the level of corporate reporting, the JSE will also be pro-actively monitoring the annual financial statements of issuers of debt securities. The JSE will assess an entity's level of compliance with its accounting reporting framework. Where an entity issues both equity and debt instruments in the market using different legal entities, this may result in two separate reviews of each of these legal entities. As debt issuers will often structure special purpose vehicles to issue debt instrument into the market, the JSE has identified areas of focus of their reviews to include but will not be limited to IFRS 7 *Financial Instruments: Disclosure and IAS 7 Statement of Cash Flows*. Preparers of financial instruments may consider whether their disclosures provide adequate information with respect to areas such as: credit quality of advances, specific versus portfolio impairments, classification of investments in advances.

## Impact and conclusion

The above amendments will affect issuers with debt securities listed on the JSE's interest rate market, in that their auditors and individual audit partner will have to be accredited with the JSE in order to sign-off issuer's financial statements and programme memorandums. The audit firms would also need to ensure that the individual audit partners who audit the issuers with debt securities get accredited with the JSE.

Debt issuers can expect to be a financial statement review by the JSE at least once in a five year cycle. The process will mirror the current process followed for listed equity issuers and will require those parties charged with governance to respond in writing to comments and queries raised by the JSE on the entity's financial statements.

# Disclosure of directors' and prescribed officers' remuneration

## Frequently Asked Questions



Article by:

**Nabilah Soobedaar**  
Manager  
Accounting & Auditing

The Companies Act, 2008 (the Act) requires certain companies to include the disclosure of directors' and prescribed officers' remuneration in the annual financial statements. The disclosure requirements became particularly topical in March 2015 when the Companies and Intellectual Property Commission (CIPC) withdrew the non-binding legal opinion which had stated that only public companies and state owned companies needed to make the required disclosures in the annual financial statements. The effect of the withdrawal of the opinion is that private companies no longer have a defence against complying with the directors' and prescribed officers' remuneration disclosure requirements of the Act and, accordingly, must make the necessary disclosures in the annual financial statements where applicable.

Many companies have struggled with the interpretation of section 30(4) to (6) of the Act which deals with the disclosure requirements, and for that reason we have collated a number of the frequently asked questions. Included below are selected questions from our list. The complete list of frequently asked questions on this topic is available on [the Deloitte website](#).

### 1. Which companies need to apply the requirements of S30(4) of the Companies Act (the Act)?

Section 30(4) of the Act applies to each company that is required in terms of the Act to have its annual financial statements audited. Companies that fall into this category are:

- Public companies
- State-owned companies
- Any company that in the ordinary course of its primary activities, holds assets in a fiduciary capacity for persons who are not related to the company, and the aggregate value of such assets held at any time during the financial year exceeds R5 million
- Any company that has a public interest score of 350 or more OR at least 100 if the annual financial statements for that year were internally compiled
- Any non-profit company if it was incorporated by the state, an organ of the state, a state-owned company, an international entity, foreign state entity or a foreign company; or a non-profit company that was

incorporated to perform a statutory or regulatory function as per Regulation 28(2)(b)(i) and (ii)

It should be noted that companies who do not fall in the above categories and are audited in terms of a requirement in the company's MOI are considered to be audited voluntarily. Accordingly, the provisions of S30(4) would not apply to such companies.

### 2. Must we disclose remuneration paid to directors and prescribed officers that relates to their services rendered to other group companies?

Section 30(5) of the Act requires that the disclosure must show the amount of any remuneration or benefits paid to or receivable by persons in respect of

- a. services rendered as directors or prescribed officers of the company, or
- b. services rendered while being directors or prescribed officers of the company
  - i. as directors or prescribed officers of any other company within the same group of companies, or
  - ii. otherwise in connection with the carrying on of the affairs of the company or any other company within the same group of companies.

The effect of these requirements is that all remuneration paid to or receivable by a director or prescribed officer must be disclosed – thus, not only the remuneration paid to or received by the director or prescribed officer for services to the company, but also all other remuneration received by the director or prescribed officer for services rendered as a director or prescribed officer to any other company within the group, or in connection with the carrying on of the affairs of the company or any other company within the group. One person's remuneration may have to be disclosed by more than one company in the same group of companies.

In order to ensure compliance a company will have to make a list of all its directors and prescribed officers (the individuals for which disclosure will be made), and then determine the structure of the group of which the company forms a part.

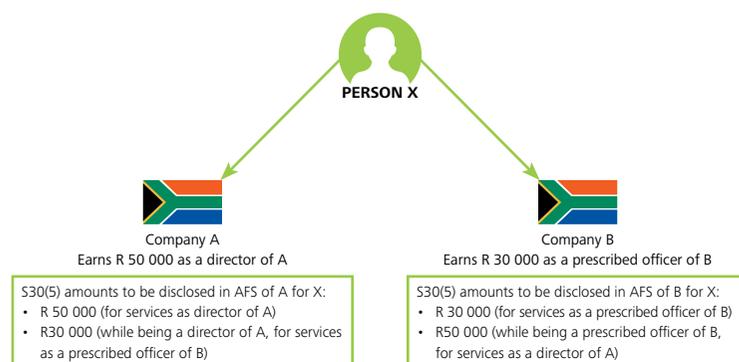
## Disclosure of directors' and prescribed officers' remuneration

### Frequently Asked Questions

#### Consider the following:

Company A and Company B are in the same group of companies. Both companies are incorporated in South Africa. Person X is a director for A, for which he earns R50 000. Person X is also a prescribed officer for B, for which he earns R30 000. Assume that Person X does not perform any other services in the group of companies.

#### 3. What is the meaning of "otherwise in connection with the carrying on of the affairs of the company"?

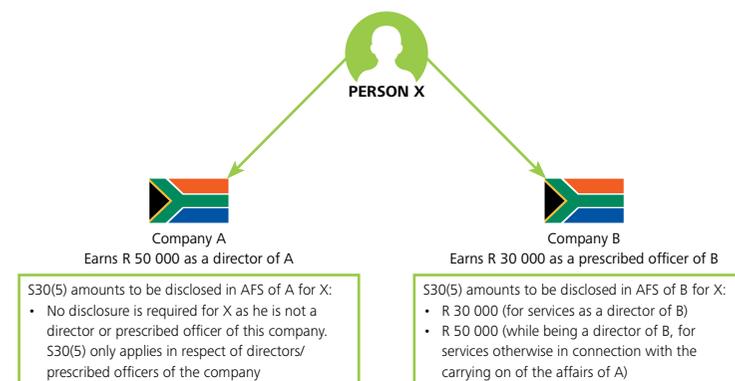


In May 2015, we obtained legal opinion regarding the interpretation of the terms "otherwise in connection with the carrying of the affairs of the company" as stated in section 30(5)(b)(ii). Based on the legal opinion, we understand that "carrying on of the affairs of the company" is wide enough to include any services, whether in the capacity of an employee or otherwise, to any company in the same group.

Section 30(5)(b)(ii) refers to the word "otherwise" which is indicative of the fact that remuneration and benefits received by a director/prescribed officer for services other than those rendered as a director/prescribed officer of the company, must be additionally disclosed.

#### Consider the following:

Company A and Company B are in the same group of companies. Both companies are incorporated in South Africa. Person X is an employee (financial manager) of A, for which he earns R50 000. Person X is not a director nor a prescribed officer of A. Person X is also a director for company B, for which he earns R30 000. Assume that Person X does not perform any other services in the group of companies.



#### 4. Should the company only disclose amounts received by the directors and prescribed officers for their services to South African companies, or should the disclosure also include the remuneration for services to other entities, such as trusts and foreign subsidiaries?

The Companies Act requires the company to disclose all amounts received by the directors and prescribed officers of the company, for their services as directors and prescribed officers to this company, as well as to any other company within the group. As a result, the requirement applies only with respect to all "companies" within the group. In terms of the Companies Act, a "company" is a juristic person incorporated in terms of the previous or current Companies Act, i.e. only South African companies. Therefore, any amounts paid to directors and prescribed officers for services rendered

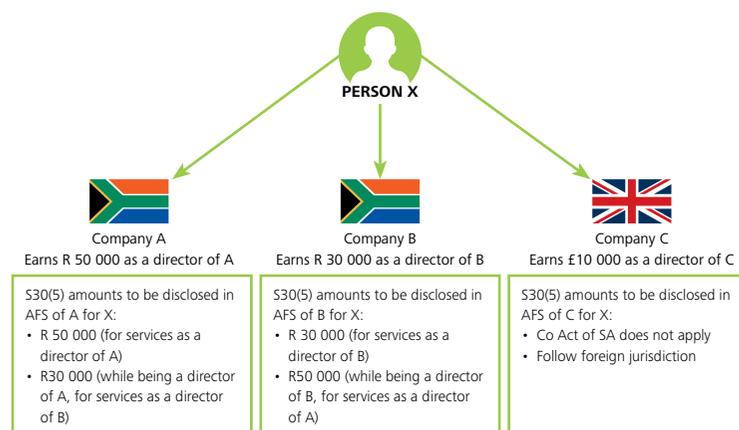
## Disclosure of directors' and prescribed officers' remuneration

### Frequently Asked Questions

to a trust or a foreign subsidiary within the group would not be included in the disclosure, since a trust or a foreign subsidiary (company) is not a "company" for purposes of the Companies Act.

#### Consider the following:

Companies A, B and C are in the same group of companies. Companies A and B are South African companies. Company C is incorporated in the UK. Person X is a director for A, B and C for which he earns R50 000, R30 000 and £10 000 respectively.



#### 5. Should the source of the payment of the remuneration be considered?

The Act requires all remuneration paid to or receivable by directors and prescribed officers to be disclosed – it does not only account for remuneration paid by the company, or another company in the group. Rather, it focuses on the amounts a director or prescribed officer earns for services as a director or prescribed officer (to the company or any other company within the group), or for carrying on the affairs of the company (or any other company within the group). A situation may arise where a person is employed by Company A but spends all his time as a director of Company B. Let's assume that Company A and B are not in the same

group of companies. Company A pays the person a salary of R250 000, which is effectively an amount paid for services as a director of Company B (as 100% of this person's time is spent in that capacity). In the AFS of Company B, the director's remuneration earned for services to company B is shown as R250 000.

Where a person receives a lump sum for services as a director of many companies, it would be necessary for such a director to determine the amount received in respect of services for each company, in order to make the appropriate remuneration disclosure for each company. This should be done on a rational apportionment basis (for e.g. a time apportionment basis).

Accordingly, for the purpose of disclosure of director and prescribed officer remuneration, the source of the payment of the remuneration does not necessarily need to be considered. Rather, one would need to consider the reason for which the remuneration is paid or payable.

# In closing

## Note from the Editor



Article by:

**Nyamu Makhuvha**  
Manager  
*Accounting & Auditing*

Dear colleagues

I hope you have enjoyed reading this 20th issue of Technically Speaking. I hope that this issue has given you some insights into the accounting and regulatory world.

Please continue to send your comments and suggestions that you may have to improve our future issues to: [technicallyspeaking@deloitte.co.za](mailto:technicallyspeaking@deloitte.co.za).

Kind Regards  
**Nyamu Makhuvha**



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (DTTL), its network of member firms and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's more than 225 000 professionals are committed to making an impact that matters. Deloitte serves 4 out of 5 Fortune Global 500® companies.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2015. For information, contact Deloitte Touche Tohmatsu Limited

Designed and produced by Creative Services at Deloitte, Johannesburg. (810646/sue)