



Future development in standards setting and financial reporting

What's happening 2021



February 2021 :

- Disclosure of Accounting Policies Amendments to IAS 1 and IFRS Practice Statement 2, effective 1 January 2023– Further assault on “significant,” replaced with “material” and greater emphasis on judgement.
- Definition of Accounting Estimates – further guidance (deletion of definition of change in accounting estimate) effective 1 January 2023.

• March 2021

- 3 different IFRS Taxonomy updates - General Improvements and Common Practice
 1. IAS 19 Employee Benefits
 2. Presentation of information in primary financial statements
 3. Amendments to IFRS 17 and related

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What's happening 2021



March 2021

- IFRS 16: Covid-19-Related Rent Concessions under para 46A and B previously 30 June 2021 pushed to June 2022 as Covid has proved to be long-lasting.
- May 2021
- IAS 12: Considers deferred tax consequences of individual actions particularly in light of IFRS 16 and requires a DT asset and liability to be computed on the right of use and lease liability. (Because of various considerations including the possibility that differing tax treatments could well result in different DT.)

Coming up



- Disclosure initiative — Subsidiaries that are SMEs: The objective of the project is to develop an IFRS Standard (reduced disclosure IFRS Standard) that will permit subsidiaries that are small and medium-sized entities (SMEs) to apply IFRS Standards but with reduced disclosure requirements.
- Disclosure initiative — Disclosure review: Responds to concerns that people tend to use a “checklist approach” and to have disclosures that seemingly have “no objective” or are “inconsistent.” (See IAS 1 amendment on “significant” vs. “material” for example and popular use of redundant disclosures.

Coming up



- Financial instruments — Macro hedge accounting

“The IASB’s objective => alternative macro hedging model that will ultimately replace the macro fair value model in IAS 39 and have wider applicability to other risks.”

- *IFRS Practice Statement Management Commentary*

- IFRS Practice Statement on Management Commentary:
“The Practice Statement is not an IFRS. Consequently, entities applying IFRSs are not required to comply with the Practice Statement, unless specifically required by their jurisdiction. Furthermore, non-compliance with the Practice Statement will not prevent an entity's financial statements from complying with IFRSs, if they otherwise do so.”

Coming up



- Primary Financial Statements => Is it time to rethink IAS1?
The board has been actively considering it.
- Areas of focus => introduction of
 - defined subtotals and categories in statement of profit or loss
 - requirements to improve aggregation and disaggregation Management Performance Measures (MPMs) and accompanying disclosures in financial statements
 - targeted improvements to the statement of cash flows
- *IFRS Practice Statement Management Commentary*
- Rate regulated activities. ED issued on Regulatory Assets and Regulatory Liabilities

Coming up



- SUSTAINABILITY REPORTING
 - in September 2020, IFAC called for a global solution led by an International Sustainability Standards Board to sit alongside the International Accounting Standards Board under the IFRS Foundation.
 - IFRS Foundation Trustees published a consultation paper in September 2020 to determine:
 - whether there is a need for global sustainability standards;
 - whether the IFRS Foundation should play a role in developing such standards; and
 - what the scope of that role could be.
 - proposed establishment of an International Sustainability Standards Board (ISSB) within the governance structure of the IFRS Foundation.
- the IFRS Foundation Professional Accountancy Institute.

Coming up



- SUSTAINABILITY REPORTING
- in September 2020, IFAC called for a global solution led by an International Sustainability Standards Board (in formation) to sit alongside the International Accounting Standards Board under the IFRS Foundation.
- ISSB plan => use a so-called “building blocks approach” to develop IFRS sustainability standards for use by all jurisdictions. These standards are intended to form a baseline of decision useful information (disclosure topics and metrics) that addresses sustainability impacts
- relevant to short-, medium-, and long-term enterprise value.
- Will lead to consistent integrated reporting.



INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF KENYA

Chief Judge comments

J Gichuki

Co-Chief Judge 2020 Fire Awards

Findings



- What does it take to get the highest mark of 85?
- 3 minor errors e.g.
 - Auditor used a very slightly outdated version of the report
 - Failed to outline key sources of estimation uncertainty
 - Failed to use IAS 24/ IPSAS 20 classifications on key management personnel remuneration

Findings



- Failure to disclose policies relating to key elements in the summary of significant accounting policies: - Key financial statement items should have an accounting policy. (In future this will be material items.)

Findings



- Failure to disclose the methods and, where a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities:
- Failure to provide qualitative disclosures for each type of risk arising from financial instruments.

Findings



- (c) reserves, including a description of the nature and purpose of each reserve within net assets/equity
- Failure to disclose the amount of any significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity and/or a management commentary

Findings



- Failure to provide information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital – e.g. contents of official circulars on capital management

Findings



- IAS 1:113 Failure to present, as far as practicable, notes in a systematic manner.
- IAS 1:79(b) a description of the nature and purpose of each reserve within equity.
- "IAS 24:17 short-term employee benefits; (failure to classify properly or at all)
- IAS 7:19 cash flows from operating activities using the direct method. Bonus given! (Only one did)
- "IAS 24:18(b)" i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement;

Banks



- Maturity analysis for liabilities has the same figures as b/s despite the fact that it should be undiscounted. (IFRS B11D - IFRS 7 & para 39a)
- There was a wide variety of different issues mostly IAS 1 and IFRS 7 naturally
- However - little or no clustering = no systematic failure to comply with presentation requirements.
- One complied with complied with the IAS 12.82A! (tax & profit distribution)

Findings - ICS



- IFRS 7:36(a) the amount that best represents its maximum exposure to credit risk omitted
- IFRS 7:36(b) a description of collateral held as security etc. omitted
- IAS 1:10(b) Failure to indicate "for the period"
- IAS 40:79(e) the fair value of investment property omitted

Findings - Agriculture



- IAS 10:17 failure to disclose the names of the directors authorising financial statements.
- IAS 16:77(e) for each revalued class of PPE, the carrying amount that would have been recognised under the cost model;
- "IAS 24:17(a)" failure to disclose post employment component
- IAS 40:75(e) failure to state that the valuer has experience in class and location...

Findings - Insurance



- IAS 1:77 Failure to present either in the statement of financial position or in the notes, further sub-classifications of the line items presented...
- IAS 12:81(e) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the statement of financial position;

Findings - Insurance



- IAS 1:77 Failure to present ...further sub-classifications of the line items presented...
- ISA 700:40 Audit report not signed.
- IAS 1:82(b) Where there is evidence of borrowing (overdraft) one expects the interest to be shown as finance costs.
- IAS 12:81(e) Does not mention the expiry date of tax losses.

Findings



- Similar observations arose in the Sacco and NFP groups.

Findings some other comments



- “Auditors” or “auditor?”
- Surplus from fair value changes in biological assets
- Gearing ratio computed for a non-leveraged entity – redundant overcommunication?
- Generally lenient on Public Sector when it comes to Governance and Integrated reporting. This needs to improve.

Findings– Some other comments



- Gratuity falls under the definition of a DB scheme – often forgotten
- F/S should not be mixed up with other statements. (Someone had an “Embedded Value” statement embedded in the F/S)
- Sacco auditors’ reports were **ALL** but one non-compliant with the Co-operative Societies Act which prescribes some of their content.

Findings – Some other comments



- Some Sacco auditors attempted to address Sasra requirements in the audit report which was also incorrect.
- A retirement Benefits Scheme had a Cash Flow Statement – which wasn't required. And then got penalised because it lacked X-refs. Be careful what you wish for.
- Inventories expensed during the year.

Findings – Some other comments



- Reporting non-relevant issues. Notoriously common.
- *Quote from the Conceptual Framework –*
- *Understandability*
- *QC30 Classifying, characterising and presenting information clearly and concisely makes it understandable.*
- *QC31 Some phenomena are inherently complex and cannot be made easy to understand. Excluding information about those phenomena from financial reports might make the information in those financial reports easier to understand. However, those reports would be incomplete and therefore potentially misleading.*

Findings Some other comments



- *QC33 Enhancing qualitative characteristics should be maximised to the extent possible. However, the enhancing qualitative characteristics, either individually or as a group, cannot make information useful if that information is irrelevant or not faithfully represented.*
- *Information must be both relevant and faithfully represented if it is to be useful. Neither a faithful representation of an irrelevant phenomenon nor an unfaithful representation of a relevant phenomenon helps users make good decisions.*