FINANCIAL REPORTING INVESTIGATION PANEL (FRIP)

OMISSIONS AND ERRORS : SEPTEMBER 2002 – FEBRUARY 2014

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND STATEMENTS OF GENERALLY ACCEPTED ACCOUNTING PRACTICE

The reference to AC/IAS/IFRS paragraph numbers reflects the relevant standard and paragraph prevailing in the relevant time frame when the omissions/errors occurred and that the AC paragraph references are *different* in the dual numbered IAS(AC) or IFRS (AC), but the content is virtually or actually identical.

1. **IAS 1(AC 101) – Presentation of Financial Statements**

1.1 Departure from a requirement of GAAP with inadequate, incomplete and misleading disclosure.

- AC 101 para. 14 requires that in the "extremely rare circumstances" (which did *not* exist) where compliance with GAAP would be misleading and departure from GAAP necessary to achieve fair presentation, then various details relating to the departure must be disclosed.
- The "extremely rare circumstances" resulting in misleading financial statements only arise when the treatment required by a Statement "is clearly inappropriate" – AC 101 para. 17. Departure from GAAP is not appropriate simply because another treatment would also give a fair presentation.
- An inappropriate accounting treatment cannot be rectified by disclosure of the accounting policies used, or by notes or explanatory material (AC 101 para. 13).
- Reference should also be made to Schedule 4 at para. 5, which requires disclosure of the particulars of any departure from GAAP, the effects and reasons.

1.2 No disclosure of staff costs as required by AC 101 para. 84.

1.3 Offsetting of interest received and paid contrary to the requirements of AC 101 para. 35 read with para. 76.

1.4 Non-disclosure of number of employees at end of period or average for the period as required by AC 101 para. 103.

1.5 No classification of expenses as required by AC 101 para. 78.

1.6 Failure to disclose any analysis of expenditure either according to nature or function as contemplated by AC 101 para. 78.

1.7 Income Statement ended at "income available for distribution" being an amount reached after various transfers from reserves accumulated in prior years. Income statement ended at "headline earnings / loss" and reconciliation presented to "core headline earnings / loss". Presentation contrary to, inter alia, AC 101 para. 76.

1.8 Changing of comparative figures contrary to the provisions of AC 101 para. 28, permitting such change, viz. presentation and classification should be retained from one period to the next unless:

- a significant change in nature of operations demonstrates that the change will result in more appropriate presentation;
- change required by statement of GAAP.

1.9 Comparatives changed without the required disclosures, i.e. when the presentation or classification is amended, the comparative amounts should be reclassified to ensure comparability disclosing the following regarding the reclassification:

- nature
- amount
- reason

1.10 Failure to provide a split between current and non-current assets and liabilities contrary to the requirements of AC 101 para. 54/55.

1.11 No disclosure of accounting policies for accounting for certain significant transactions, contrary to the requirements of AC 101 para. 92, e.g. no disclosure of:

- manner of measurement of valuation of certain investments
- manner in which assets and liabilities in foreign currencies accounted for
- accounting for "deferred income"
- accounting policy for associates
- accounting policy for financial instruments

1.12 Failure to disclose the existence of contingently payable additional purchase consideration for businesses acquired. Apart from other relevant statements of GAAP, AC 101 para. 92 requires the disclosure of additional information that is not presented on the face of the financial statements but that is necessary for a fair presentation.

1.13 No disclosure that entire reported profit was attributable to a single transaction. Apart from other relevant statements of GAAP, AC 101 para. 92 requires the disclosure of additional information that is not presented on the face of the financial statements but that is necessary for a fair presentation.

1.14 Loss on sale of subsidiary accounted for directly in Statement of Changes in Equity contrary to the requirements of IAS 1 para. 78.

1.15 No disclosure on the face of the Income Statement of interest paid as required by IAS 1 para. 81(b).

1.16 Omission of disclosure of gain/loss on revaluation of investment, credit arising on release of provision, interest incurred on finance leases, foreign exchange difference, "other income" and "investment revenue", required in terms of IAS 1 para. 86.

1.17 Omission of accounting policies for financial instruments, deferred tax, leases, construction contracts and revenue recognition (all of which were relevant to the entity) as required by IAS 1 para. 108.

1.18 Loans payable with no fixed terms of repayment mis-classified as non-current liabilities, contrary to IAS 1 para. 60.

1.19 Set-off of goodwill arising on an acquisition of a subsidiary against the credit arising on the acquisition of another subsidiary contrary to IAS 1 para. 32.

1.20 Anomalous reference to partial compliance with IFRS, contrary to IAS 1 para. 14.

1.21 Failure to disclose nature and amount of material income separately, as required by IAS 1, para 97.

2. **IAS 2(AC 108) – Inventories**

2.1 No disclosure of the cost of inventories recognised as an expense during the period (or of the operating costs classified by their nature) as required by AC 108 para 34.

2.2 Non-disclosure of component elements of inventories, contrary to IAS 2 para. 36(b).

3. **IAS 7(AC 118) – Cash Flow Statements**

3.1 Required disclosure with regard to acquisition and disposal of subsidiaries omitted, contrary to AC 118 para. 45, viz.:

- total consideration
- portion of consideration in cash
- cash in subsidiary disposed of / acquired
- summary of assets and liabilities in subsidiary at date of acquisition / disposal.

3.2 Failure to report separately on major classes of cash receipts and cash payments, e.g. proceeds from sale of investments and acquisition of investments dealt with as a "change in investments".

3.3 Erroneously accounting for non-cash flow items in cash flow statement.

3.4 Cash flow statement reflecting dividend paid but no indication of any dividend outstanding from prior years or paid in current year.

3.5 No disclosure of cash flow in respect of costs incurred capitalized to development costs during the year.

3.6 Erroneous reflection in the cash flow statement of acquisition paid by share issue and of foreign currency translation difference – both non-cash flow items in terms of IAS 7 paras 6 and 43.

3.7 Erroneous classification of insurance recovery proceeds from fixed asset as cash generated from operating activities instead of investment activities. Insurance proceeds analogous to proceeds and disposal of fixed assets – IAS 7 para 6, 11, 14, 16(b).

4. IAS 8(AC 103) – Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

4.1 Write-down of portion of the cost of subsidiary directly against reserves in the company financial statements, contrary to AC 103 which requires this to be recognised in income for the period. (Subsidiary had not been accounted for as available-for-sale asset as contemplated in AC 133).

4.2 In the group financial statements, the write-down (on consolidation the excess over attributable net asset value being goodwill) dealt with directly against share premium, also in contravention of AC 103 (and AC 131).

4.3 By-passing the income statement - direct crediting to reserves of portion of profit arising on sale of previously acquired interests contrary to the requirements of AC 103 para. 06 and 07 and AC 131.

4.4 Correction of prior year fundamental error without the disclosure required by AC 103 para. 35.

4.5 Change of comparative as a consequence of cancellation in current period of transaction effected in prior period. (Cancellation occurred after date of preparation of prior period financial statements). Only circumstances under which comparative can be changed in terms of AC 103 are a change in accounting policy or fundamental error - cancellation not falling into either of these categories. Change of comparative contrary to AC 103 para. .06.

4.6 No disclosure that a single transaction yielded the entire reported profit, contrary to AC 103 para. 15.

4.7 There was no specific IFRS for a transaction. Should have first considered requirements of IFRS for similar issues, as required by IAS 8 para 11(a).

5. IAS 10(AC 107) – Events After the Balance Sheet Date

5.1 As at balance sheet date, transaction accounted for, which transaction would only come into effect after year-end and subject to the occurrence of certain events after year-end (which had, in any event, not occurred at date of publication of results).

5.2 Accounting contrary to AC 107 – the "event" had not occurred by publication date and, even if it had, the event did not relate to conditions which existed as at the balance sheet date.

6. **IAS 12(AC 102) – Income Taxes**

6.1 No accounting policy for taxation disclosed, contrary to provisions of AC 102 (and AC 101).

6.2 No proper reconciliation of the tax charge appearing in the income statement as required by AC 102, para. 85.

6.3 Amount of unused tax loss carried forward not disclosed as required by AC 102 para. 85.

6.4 Required reconciliation of changes in deferred tax balance not provided as required by AC 102 para. 85.

6.5 No disclosure of evidence supporting the recognition of a deferred tax asset as required by AC 102 para. 86.

6.6 No disclosure of the extent to which tax loss used to reduce deferred tax which would otherwise have been provided, contrary to the requirements of AC 102, para. 85(g)(ii).

6.7 No quantification of amount of unutilised tax losses available, contrary to the requirements of AC 102 para. 85.

6.8 Deferred tax asset from historic tax losses not recognised in group financial statements on acquisition of subsidiary, but in subsequent years group financial statements a deferred tax asset (in respect of the tax losses existing at acquisition) was raised. In these circumstances, AC 102 para. 72 requires that the acquirer adjusts the carrying amount of goodwill that would have been recorded if the deferred tax asset had been recognised as at the date of the business combination and recognises the reduction in the net carrying amount of the goodwill as an expense.

6.9 Recognition of a deferred tax asset in respect of tax losses in subsidiary where, prior to period end, negotiations were underway for disposal of subsidiary. At date of preparation of the financial statements, it was known that the group would not realise the recovery of the deferred tax asset or utilise the tax loss, as subsidiary sold out of the group and selling price did not recover the deferred tax asset raised. Recognition contrary to AC 102 para. 38.

6.10 Disclosures required in respect of each type of temporary difference as required by AC 102 para. 85(g) was omitted.

6.11 Omission of disclosure requirements in respect of income tax charge and deferred tax balance as required by IAS 12 paras. 79, 81(c), 81(g) and 82.

7. **IAS 14(AC 115) – Segment Reporting**

7.1 No segment reporting provided, despite the existence of widely diverse operations in different industries.

7.2 AC 115 requires the disclosure of the relevant matter for a distinguishable component of an enterprise that is subject to risks and returns different from other business segments (AC 115 para. 10).

7.3 Disclosure required for different segments that account for 10% or more of total revenue or total result or total assets of all segments.

7.4 Disclosure of different operating businesses in annual report in apparent contradiction to the geographic identification of reportable segments for purposes of IAS 14.

8. **IAS 16(AC 123) – Property, Plant & Equipment)**

8.1 Non-disclosure of the required reconciliation of carrying amount at beginning and end of period.

8.2 No disclosure of the portion of the revaluation surplus attributable to outside shareholders (AC 123 para. 70).

8.3 No disclosure as to how property values are determined in the years between independent valuations, as required by AC 123 para. 33.

8.4 No depreciation of buildings (which are not investment property), contrary to the requirements of AC 123 para. 32.

8.5 No disclosure made of what the carrying amount of the land and buildings revalued would have been had those assets not been revalued but carried at cost less depreciation, as required by AC 123 para. 68(3).

8.6 No disclosure of the date of the valuation of land and buildings as required by AC 123 para. 68(b).

8.7 No disclosure of the portion of the depreciation charge relating to the revaluation as required by AC 123 para. 68(g).

8.8 No disclosure of assets encumbered as required by IAS 16 para. 74.

8.9 Failed to commence depreciation at correct date, viz. from date asset available for use. IAS 16, para 55.

9. **IAS 17(AC 105) – Leases**

9.1 Failure to disclose, in respect of operating leases, the total of future minimum lease payments categorised in periods and the other disclosure as contemplated in AC 105 para. 29.

9.2 Absence of certain of the disclosure requirements in respect of finance leases, viz.

- reconciliation between total minimum lease payments and present value;
- total of minimum lease payments and present value split up in future time periods;
- description of lessees' significant leasing arrangements.

(AC 105 para. 25(b) & (e))

9.3 Omission of the disclosure of the net carrying amount of capitalised leased assets as required by AC 105 para. 25.

9.4 Non-disclosure of:

- carrying amount of assets held under finance lease;
- reconciliation between future minimum lease payments and present value;
- description of material leasing arrangements.

(IAS 17 paras. 31(a), 31(b) and 31(e)).

10. **IAS 18(AC 111) – Revenue**

10.1 Revenue smoothed by adjustment for long term average return.

10.2 No disclosure of the amount of each significant category of revenue contrary to AC 111 para. 39 (b) & (c).

10.3 No disclosure of interest received as required by IAS 18 para. 35(b).

10.4 Non-refundable deposit treated as revenue instead of as proceeds on sale of asset. Amounts received erroneously treated as revenue based on legal form, instead of substance, being payments of purchase price.

11. **IAS 19(AC 116) – Employee Benefits**

No disclosure of the amount of expenditure for employees' defined contribution plans as required by AC 116 para. 47.

12. **IAS 21(AC 112) – Accounting for the Effects of Changes in Foreign Exchange Rates**

12.1 Accounting policy provided that transactions in foreign currency were translated at the forward exchange contract rate, contrary to AC 112. AC 112 para. 10 provides that foreign currency transactions should be recorded at the spot rate.

12.2 Profit on translation of foreign entity included in group profit. In terms of AC 112 para. 31, all exchange differences arising from the translation of a foreign entity should be classified as equity and not dealt with in the income statement. (Treatment adopted was that in relation to a foreign operation that is integral to the operations of a reporting enterprise).

12.3 No disclosure of the foreign currency risk management policy as required by AC 112 (and AC 125).

12.4 No disclosure of rate used to translate income statements of foreign subsidiaries as required by AC 101 para. 98 and AC 112 paras. 28 and 31.

12.5 Accounting policy to capitalise cost of forward cover, contrary to AC 112 read with AC 133.

13. **IAS 24(AC 126) – Related Party Disclosure**

13.1 No disclosures provided in respect of related party transactions as required in terms of AC 126 despite it being clear that such transactions existed.

13.2 Non-disclosure of the nature of the related party relationship as required by IAS 24 para. 17.

13.3 Non-disclosure of amount of transactions with related parties, as required by IAS 24, para 18.

14. IAS 27(AC 132) – Consolidated Financial Statements and Accounting for Investments in Subsidiaries

14.1 Non-consolidation of share trust, contrary to AC 132 and Companies Act. Share trust should be included in the consolidated financial statements in terms of AC 132 para. 04 and 09. Consolidation of share trust also required by the Companies Act section 1(3)(a) read with section 1(3)(c) and section 289.

14.2 Failure to recognise and account for loss of control of subsidiary based on substance of transaction. IAS 27 para 4 and 34.

14.3 Failure to account for a business as a subsidiary when had power to govern the financial and operating policies to obtain benefits. To be considered in substance, not merely legal form. Framework para 35.

15. IAS 28(AC 110) – Accounting for Investments in Associates

15.1 No disclosure of nature of business of associates required by AC 110 para. 27.

15.2 No disclosure as to how foreign associate operating in hyper-inflationary circumstances was accounted for in the group (AC 124).

15.3 Despite disclosure that significant influence was exercised over a company, investment was not equity accounted, contrary to the requirements of AC 110 paras. 03 and 04.

15.4 Equity accounted an associate which had an investment in the investor and failed to eliminate profit in associate procedure arising from revaluation of associate's investment in investor (cross holding). This profit should have been eliminated. Procedures for application of equity method similar to consolidation procedures (AC 110 para .15).

16. IAS 32(AC 125) – Financial Instruments: Disclosure & Presentation

16.1 No disclosure at all in relation to financial instruments, although clear that both financial assets and financial liabilities existed within the group.

16.2 Absence of the disclosures of risk management policies and information about extent and nature of financial instruments and accounting policies adopted for financial instruments, as required by AC 125 para. 45A and 49.

16.3 Loan liability and accounts receivable erroneously set off contrary to IAS 32 para. 32. Legal right of set off resided with the lender, not the reporting entity (borrower) and economic substance and financial reality was that the loan (secured by accounts receivable ceded to lender) was continually re-advanced and analogous in relevant respects with secured overdraft facility.

16.4 No disclosure of terms of loans payable.

16.5 Incorrect accounting for single stock futures (SSFs) purchased on the company's own shares. The SSFs were fair valued annually and the differences dealt with in the income statement. Required treatment in terms of IAS 32 was to debit equity with the initial amount (if any) paid to purchase SSFs; create a liability for the present value of the forward price to be paid with corresponding debit to equity, and an annual increase to the liability for the implicit interest in the SSFs with a corresponding charge against profit. (See IAS 32 IE5, read with IAS 39).

17. IAS 33(AC 104) – Earnings per Share

17.1 No disclosure of diluted earnings per share despite the existence of share options with dilutive effect, as required by AC 104 para. 48.

17.2 Omission from calculation of diluted earnings per share of the future share issues to be made in settlement of additional purchase consideration payable in terms of earn-out arrangements, contrary to AC 104 para. 25 and 30.

17.3 Omission of diluted earnings per share data where contingently issuable shares existed, as required by IAS 33 para. 52.

17.4 Failure to take into account shares to be issued for an acquisition in calculation of diluted earnings per share – IAS 33 para 5, 7, 30, 66 and 70.

18. IAS 34(AC 127) – Interim Financial Reporting

18.1 Interim financial results presented based upon an estimate of the annual position and not using the actual results for the interim period.

- Treatment contrary to AC 127 paras. 17, 22, 29, 38 and 40.
- Reference should also be made to AC 101 para. 13, that inappropriate accounting treatment cannot be rectified by disclosure, notes or explanations.
- Effect of treatment adopted was to convert reported interim results to an indication of annual results based on projections of management and did not reflect the economic reality for the period then under review. AC 127 already caters specifically for seasonality issues.

18.2 Smoothing adjustment through the income statement in order to account for average historic long term return. Adjustment contrary to AC 127 as set out above. Adjustment also contrary to AC 101 and AC 111.

18.3 Omission in provisional results publication of the disclosure required by IAS 34 para. 16(i) read with IFRS 3 para. 66 – 77 dealing with information relating to an acquisition effected during the period.

18.4 Omission of diluted earnings per share in provisional results publication, in circumstances where contingently issuable shares existed – disclosure required by IAS 34 para 11 read with IAS 33 para. 52.

18.5 Disclosure of segment revenue and result as required by IAS 34 para. 16(g), was omitted.

18.6 Omission of comparative information for parts of interim report and reflection of pro-forma comparatives instead of actual – contrary to IAS 34 para. 20.

18.7 Failure to perform impairment assessment at date of interims – contrary to IAS 34 para. 28 read with IAS 36 para. 10 and IAS 39 para. 65.

19. **IAS 35(AC 117) – Discontinued Operations**

Required disclosures in respect of discontinuing operation not provided as required by AC 117.

20. **IAS 36(AC 128)– Impairment of Assets**

20.1 Reversal of prior impairment of an intangible asset. The amount reversed was the original carrying value of the intangible asset.

20.2 An impairment loss may not exceed the carrying amount that would have been determined (net of amortisation) had no impairment loss been recognised in prior years (IAS 36 para 117).

21. **IAS 37(AC 130) – Provisions, Contingent Liabilities & Contingent Assets**

21.1 Despite the existence of material provisions, no disclosure as required by AC 130, e.g.:

- carrying amount beginning and end
- changes to the provision during the period
- amounts charged against the provision during the period
- description of nature of obligation and expected timing of outflow
- indication of uncertainties

(AC 130 para. 85 & 86)

21.2 No provision made for additional purchase consideration payable which was linked to future profit levels and no disclosure of contingent liability in respect of additional purchase consideration payable. Contrary to the requirements of AC 130. This Statement at para. 26 recognises that the use of estimates does not undermine the reliability of financial statements - especially true in the case of provisions which are more uncertain than most other balance sheet items.

21.3 A liability as at the year-end was erroneously eliminated from the balance sheet on the basis of a transaction which only takes effect after the year-end and, in any event, had not been concluded by financial statement publication date. As at balance sheet date, the liability should still have been reflected as a liability of the entity meeting the definition of a liability in terms of AC 130 para. 11.

21.4 Omission of disclosure of contingent liability arising from a dispute regarding further amounts claimed by seller of shares in subsidiary, contrary to the requirements of IAS 37 para. 86.

21.5 No disclosure in respect of warranty provision as required by IAS 37 para. 85.

22. **IAS 38(AC 129) – Intangible Assets**

22.1 Accounting policy to capitalise costs incurred on internally created patents. Policy contrary to AC 129 para. 52 which provides that internally generated intangibles of this nature should not be recognised.

22.2 Failure to disclose the reconciliation in relation to intangible assets as required by AC 129 para. 108.

22.3 Intangible asset recognised even though costs of the asset could not be measured reliably, contrary to IAS 38 para 21(b).

22.4 Effect of accounting adopted for transaction in a common control scenario was to effectively recognise internally generated goodwill, contrary to IAS 38 para 48.

23. **IAS 39(AC 133) – Financial Instruments : Recognition and Measurement**

23.1 Proceeds from sale of business included without discounting amounts receivable in the future, contrary to AC 133 para. 70 and 74.

23.2 Liability de-recognised in the balance sheet despite the fact that as at balance sheet date, the obligation had not been discharged or otherwise eliminated and the entity was still responsible for the obligation.

23.3 Possible post year-end arrangements to remove the liability could only possibly take effect after the year-end (and indeed after date of publication of financial statements). De-recognition of the financial liability contrary to the provisions of AC 133 para. 58 and 59.

23.4 Accounting policy to state investments at cost except for permanent diminution in value, contrary to AC 133 para. 70.

23.5 Omission of the disclosure regarding significant concentrations of credit risk as required by AC 133 para. 68(b).

23.6 Accounting policy to capitalise cost of forward cover, contrary to AC 112 read with AC 133.

23.7 For the evaluation of whether substantially all the risks and rewards of ownership have been transferred, this must be considered based on substance and financial reality, and not a mechanistic application of IAS 39 para 20 and 21 or merely legal form.

24. **IAS 40(AC 135) – Investment Property**

24.1 Revaluations on investment properties taken directly to revaluation reserve, contrary to the requirements of AC 135 para. 29. This requires differences arising on a revaluation of investment property to be dealt with in the income statement.

24.2 Revaluation reserve arising from gains / losses on revaluation of investment property released into income statement in the year the property was sold and netted off against proceeds on sale - thus reflecting a gain or loss on

sale, being proceeds vs. original cost. Contrary to AC 135 para. 29 (and AC 101 para. 66).

25. **IFRS 2(AC 139) – Share-based Payment**

25.1 Intangible asset raised as a result of share issue but services receivable did not qualify for recognition as assets and should have been recognised as expenses (IFRS 2 para 8).

25.2 Failure to properly account for equity issued for assets acquired. In particular, failed to raise equity at the fair value of assets acquired at actual date of transaction (based on substance and financial reality, not legal form). IFRS 2, para 10.

25.3 Failure to account for the substance of an equity-settled share-based payment in a BEE transaction, which would have required the recognition of the best estimate of the cost to the entity at the date of issue of the instruments, and the final cash flows, with no intervening accounting for the specific instruments simply used to achieve the overall BEE objective.

25.4 In relation to share appreciation rights where the company has a choice to settle in cash or shares, failure to take into account the actual past practice compared to the stated policy. Failure to consider whether the company generally settles in cash as contemplated by IFRS 2 para 41.

26. **IFRS 3(AC 131/140) – Business Combinations**

26.1 Accounting policy for goodwill provided for it to be written off in the year it arose and any negative goodwill to be treated as a non-distributable reserve - both policies contrary to AC 131, paras. 42 - 45.

26.2 Accounting policy for goodwill was to capitalise and set off against share premium, contrary to the requirements of AC 131 para. 45.

26.3 No disclosure of negative goodwill released into income for the year, in contravention of AC 131 para. 92.

26.4 Inconsistent treatment of negative goodwill and no explanation provided.

26.5 Amount received in excess of net asset value in respect of subsidiary sold taken directly to reserves as "recovery of goodwill" previously written off, thus bypassing the income statement. This is contrary to the requirements of AC 131 and AC 103.

26.6 Purchase price (and consequent goodwill) in respect of acquisitions only raised when payments made in respect of purchase consideration dependant on future profit and no disclosure of additional purchase price arrangement.

26.7 In terms of AC 131 para. 66, provision for the entire purchase price should have been made at date of acquisition, or if impossible in the circumstances then, at the latest, in the same year in which the profits were reflected in the financial statements (which profits determine the additional purchase price payments).

26.8 AC 131, para. 88, also requires the disclosure of the cost of acquisition and the description of the purchase consideration paid or contingently payable. The Statement recognises that purchase consideration in certain circumstances can only be determined on a provisional basis.

26.9 In group financial statements, the results of a subsidiary were included in the group results from the effective date recorded in the acquisition agreement, which preceded the date of agreement between the seller and buyer and preceded the date upon which the buyer effectively obtained the power to govern the financial and operating policies of the subsidiary.

26.10 Accounting treatment contrary to the requirements of IFRS 3 para. 30 as income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date as defined in IFRS 3, viz. date upon which the power to govern financial and operating policies so as to obtain benefits is effectively obtained.

26.11 If information is to represent faithfully the transactions, these should be accounted for in accordance with their substance and economic reality and not the legal form.

26.12 The income and expenses of a subsidiary are to be included in the consolidated financial statements from the "acquisition date" as defined in IFRS 3. Income and expenses of a subsidiary are to be excluded from the consolidated financial statements from the date upon which the holding company ceases to control the subsidiary.

26.13 In terms of IFRS 3, the acquisition date is the date upon which the company "effectively obtains control of the acquiree" and control is the "power to govern the financial and operating policies …..".

26.14 The date upon which the company effectively obtains control must be considered, having regard to the financial substance and economic reality, not the legal form in the acquisition agreement.

26.15 The effective date set in an agreement does not determine the acquisition (or sale) date for accounting purposes.

26.16 Some acquisition agreements reflect effective dates which are many months before the agreement date and/or the date upon which the acquirer effectively obtained control of the acquiree.

26.17 In those circumstances, the financial substance and economic reality is that the profits earned up to the acquisition date are including within the purchase price (and represented by increased net asset value as at the acquisition date). Such a transaction should be accounted for based on the acquisition date as defined in IFRS 3 and not the contractual effective date. Appropriate accounting adjustments are required in order to eliminate from the group profits the profits of the acquiree between the contractual effective date and the acquisition date.

26.18 The acquirer must account for the results of an acquired business or subsidiary based on the date upon which the power to govern was obtained in substance and reality (and not legal form). This principle applies equally to the seller, which should account for the results up to the date that such control was

transferred to the buyer, in substance and reality, i.e. when the seller "ceases to control" as referred to in IAS 27.

26.19 The consideration as to whether, in substance and reality, the power to govern had been obtained (or given up) would include, *inter alia*, an assessment of the *de facto* ability to make policy decisions in relation to the acquiree.

26.20 A measure of this power is to consider the date from which the acquirer had actual management control of the acquiree.

26.21 It follows that the allocation of the purchase price to the identified assets of the acquiree should not be based on the fair values as at the legal effective date in the contract, but on the acquisition date, which must be determined in compliance with IFRS 3.

26.22 In circumstances where a take-over cannot legally be implemented until regulatory approvals have been obtained, it would be unlikely that control in substance and reality, could have been obtained by the acquirer prior to this approval.

26.23 Failure to account for a credit arising on the acquisition of a subsidiary (i.e. purchase price lower than fair net asset value) in accordance with IFRS 3 para. 56(b). Amount erroneously reflected as "revaluation reserve" in consolidated financial statements instead of being recognised immediately in the income statement as required.

26.24 Omission of information regarding the nature and financial effect of acquisitions effected during the period, including:

- the number of equity instruments issued or issuable in payment;
- fair value of those instruments and basis for determining the fair value;
- amounts recognised at acquisition date for the subsidiaries assets and liabilities;
- credit arising on the acquisition recognised in income statement;
- description of factors contributing to goodwill arising on acquisition;
- amount of acquired subsidiaries profit or loss since acquisition date included in group results;
- revenue and profit for the group on an annualised basis.

(IFRS 3 paras. 66, 67 and 70).

26.25 In a reverse takeover scenario, group financial statements erroneously raised goodwill on the acquisition of the legal subsidiary, based on the legal form of the transaction. In a reverse takeover, the legal subsidiary should have been accounted for as the accounting acquirer (i.e. based on the substance), and there should have been no change to its pre-combination carrying amounts of assets (Appendix B to IFRS 3 para B19 – B22).

26.26 Although common control combination outside the scope of IFRS 3 in terms of para 2(c), in the particular circumstances the substance of the transaction was the same as a reverse takeover. Applying IAS 8 para 48 requires reference to IFRS for similar issues, making IFRS 3 relevant.

26.27 In acquisition for shares issued by the acquirer, the consideration was measured erroneously. The fair value of the shares issued should have been determined at the “acquisition date”, being the date control (as defined) was obtained (in substance, not form). IFRS 3, para 8 and 37.

26.28 IFRS 3 only applies to acquisition of business as defined, not assets. IFRS 3 para 3 and B7 – 11.

26.29 Failure to disclose the qualitative factors making up goodwill and amounts recognised for each major class of assets – IFRS 3, para B64(e) and (i).

26.30 Incorrect accounting for investment becoming a subsidiary. In those circumstances, the initial investment requires the pre-existing holding to be fair valued prior to the at-acquisition consolidation entries (IFRS 2 para 32).

26.31 Subsidiary not consolidated from the effective date of the distribution of the shares in the subsidiary as a dividend in specie. The subsidiary should have been consolidated until actual control (in substance and financial reality) as contemplated by IFRS 3 was lost, not based on the legal effective date.

27. **IFRS 8 – Operating Segments**

27.1 Failure to identify operating segments based on results reviewed by chief operating decision maker, being at operational executive level, not non-executive board of directors – IFRS 8, para 5(b) and 7.

FRAMEWORK

Framework for the Preparation and Presentation of Financial Statements

1. Whilst the Framework is not a Financial Reporting Standard, it does assist in the assessment of the underlying fundamental reasoning as well as the principles established and dealt with within specific Standards.

2. In particular, the Framework provides, inter alia, that:

2.1 information must be reliable and represent faithfully that which it purports to represent or could reasonably be expected to represent;

2.2 information must be neutral. Financial statements are not neutral if, by selection or presentation of information, these influence decision-making in order to achieve a predetermined result;

2.3 the objective of financial statements is to provide information about the financial position, performance, and changes in financial position that is useful to a wide range of users;

2.4 information about performance is required in order to assess potential changes in the economic resources in the future. Information about variability of performance is important;

2.5 the financial statements also show the results of this stewardship of management, or the accountability of management for the resources;

2.6 the financial statements should reflect the substance and financial reality over the legal form of transactions; and

2.7 assets should only be recognised if, inter alia, the item has a cost or value that can be measured with reliability.

The Conceptual Framework for Financial Reporting (superseding the Framework above)

3. The Conceptual Framework includes the following:

3.1 for financial information to be useful, it must be relevant and faithfully represent; and

3.2 the fundamental qualitative characteristics are relevance and faithful representation. The long established accounting principle of accounting for substance and financial reality in preference to legal form is to be considered to be subsumed within the requirement for faithful representation – there cannot be faithful representation without reflecting substance.

4. The Framework underpins the application of IFRS and does not supersede it. It should assist in the application of IFRS.

OTHER ACCOUNTING PRONOUNCEMENTS

AC 306 – Headline Earnings (before the issue of Circular 7/2002)

1. Cost incurred in termination of directors' contracts excluded from headline earnings per share calculation on the basis that it was not in the "ordinary course of business" / "capital nature".

2. Termination of employment contract considered normal operating expenditure and not capital expenditure for purposes of AC 306.

   (Compliance with AC 306 required by JSE Listings Requirements para. 8.61(c)).

AC 503 – Accounting for Black Economic Empowerment Transactions

1. Difference between fair value of shares issued and fair value of BEE equity credentials represents an intangible asset that does not meet the definition of an intangible asset and thus does not qualify for recognition as an intangible asset, and should be expensed. (AC 503 para 13).

ACCOUNTING AND DISCLOSURE ANOMALIES

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1. Figures in income statements / balance sheet / statement of changes in equity / cash flow statement different from amounts reflected in notes.

2. Mis-description of *charge* against income as "reserve on subsidiary acquisitions".

3. Company cash flow statement reflecting *acquisition* of subsidiaries but group financial statements reflecting *disposal* of subsidiaries.

4. Working capital changes in cash flow statement failed to account for assets and liabilities in subsidiaries acquired / disposed of during the year.

5. Note to financial statements in respect of land and buildings reflected no disclosure of any revaluation, whereas the statement of changes in equity reflected a reserve "revaluation" of land and buildings, together with movement in the reserve for the year.

6. Non-cash flow items shown in cash flow statement, e.g. deferred tax movement, increase in foreign currency translation reserve and increase in outside shareholders' interest.

7. Erroneous classification of items in cash flow statement, e.g. increase in outside shareholders and amount paid "to reduce outside shareholders' interest" shown as cash flows from financing activities.

8. Inexplicable adjustments made in cash flow statement in determining "cash received from customers".

9. Failure to take into account provisions on inventories in the determination of "cash paid to suppliers and employees" in cash flow statement.

10. Contradictory disclosure regarding status of a subsidiary.

11. Accounting policy to revalue investments in subsidiary to underlying net asset value no basis in GAAP for such a revaluation.

12. Rate of amortisation of intangibles applied by company contrary to its own accounting policy.

13. Differing treatment for goodwill in prior year and no disclosure of any change in policy.

14. Earnings per share note refers to figure used in the computation but a different figure actually applied in determining earnings per share.

15. Share premium in company and group financial statements different without any explanation.

16. Reference to borrowings remaining at consistent level, contrary to indications per balance sheet.

17. Incomprehensible taxation reconciliation showing disallowable expenses as *decreasing* the standard tax charge.

18. Differences between amounts reflected in cash flow statement, notes and per headline earnings per share reconciliation in respect of the same item.

19. Audit reports not in conformity with SAAS 700 – The Auditor's Report on Financial Statements.

20. Error in prior year corrected without disclosure and with incorrect description.

21. No disclosure in cash flow of proceeds on sale of investments and cash outflow in respect of acquisition of investments.

22. Notes to financial statements indicating that ordinary shares repurchased by the company are held as treasury shares. Any purchase by a company of its own shares results in those shares reverting to authorised share capital in terms of the Companies Act.

23. Nonsensical deferred tax reconciliation.

24. Disclosed tax loss for set-off against future income reflected at an amount equal to the related deferred tax asset instead of at the actual amount of the tax losses.

25. Incorrect analysis and reconciliation of goodwill.

26. Accounting policy for investments different to actual treatment in financial statements.

27. Investments included a one-third holding in another company which was not equity accounted.

28. Same companies reflected in the investments and subsidiaries note.

29. Omitted disclosure for current year amounts paid to directors for services as directors.

30. Classified medium term debtors as current assets.

31. Reference in annual report to "linked units" but no indication of the existence of linked units in the financial statements.

32. Anomalous increase in minority interest despite no new acquisition of subsidiaries and only a minor minority share of profits of subsidiaries for the year.

33. Accounting policy regarding changes to comparatives but no disclosure of any such changes to comparatives.

34. Mis-description of companies controlled by director as "group companies".

35. Identical terms for two different loans in note but one classified as current and one as non-current on balance sheet.

36. Movements in value of assets classified as “at fair value through profit or loss”, dealt with directly through equity.

37. Cash flow statement reflected revaluation of investments in the in come statement but no disclosure in income statement of any revaluation differences.

38. Sundry creditors erroneously described as being stated “at fair value through profit or loss”.

COMPANIES ACT OF 1973

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1. Departure from an accounting concept stated in Statements of Generally Accepted Accounting Practice without the required disclosure of the:

    - particulars of the departure
    - effects
    - reasons

    (Schedule 4 para. 5).

2. No or incomplete disclosure in respect of each subsidiary, viz:

    - issued share capital and percentage held
    - amount of interest in subsidiary - shares and indebtedness

    (Schedule 4 para. 70).

3. No or incomplete disclosure relating to a valuation of land and buildings including date of valuation, details of valuer (in year revalued) and basis of valuation, or reference to register open for inspection.

    (Schedule 4 para. 22(4)).

4. No disclosure of the policy regarding the frequency of valuation of land and buildings.

    (Schedule 4 para. 22(4)).

5. No disclosure of the detail regarding share issues and share premium changes during the year.

    (Schedule 4 para. 8).

6. No or incomplete disclosure in respect of subsidiaries not dealt with in the group financial statements.

    (Schedule 4 para. 62 to 65).

7. No disclosure of the basis upon which certain subsidiaries were excluded from the group financial statements.

    (Companies Act section 291 & Schedule 4 para. 63).

8. No report by the auditor on the decision of the directors to exclude certain subsidiaries from the group financial statements.

    (Companies Act section 294).

9. No note to accounts receivable to indicate the existence of a cession of debtors securing a loan.
    (Schedule 4 para. 17).

10. No or incomplete disclosure of information regarding foreign subsidiaries.

    (Schedule 4 para. 69(a)).

11. No disclosure of the terms of conversion of convertible debentures.

    (Schedule 4 para. 14).

12. No disclosure of the nature, exchange rate and amount of uncovered foreign currency monetary items.

    (Schedule 4 para. 38).

13. No disclosure of material pending legal action against the company in the directors' report.

    (Schedule 4 para. 67).

14. No disclosure of the details required in respect of amounts owing by holding company and fellow subsidiaries, including:

    - date of loan
    - highest outstanding balance during the year
    - interest rate
    - details of security or disclosure that unsecured
    - terms

    (Schedule 4 para. 37).

15. No reference in the auditor's report to the group financial statements.
    (Companies Act section 301).

16. Non-consolidation of share trust controlled by the group.

    (Companies Act sections 1(3)(a) and (c) read with section 289).

17. No disclosure that entire reported profit attributable to a single transaction. Disclosure of all material facts or circumstances required.

    (Companies Act, Section 299 and Schedule 4 para. 66 and 67).

18. Failure to disclose the existence of contingently payable additional purchase consideration for businesses acquired. Disclosure of all material facts or circumstances required.

    (Companies Act, Section 299 and Schedule 4 para. 66 and 67).

19. No disclosure of material for additional purchase consideration dependant on future profits of acquired business. No disclosure of the fact that there was a mismatch between income statement and balance sheet as income statement included results of acquired businesses, but related purchase price for those businesses excluded from balance sheet. Disclosure of all material facts or circumstances required.

(Companies Act, Section 299 and Schedule 4 para. 66 and 67).

20. No disclosure of the policy regarding the frequency of the valuation of land and buildings.

    (Schedule 4 para. 22(4)(d)).

21. Non-disclosure of loans made to a director and entities under the control of directors, as required by section 295 of the Companies Act.

22. No disclosure of terms of loans payable.

    (Schedule 4 para. 15).

JSE LISTINGS REQUIREMENTS

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1. Breaches of Schedule 4 and Statements of Generally Accepted Accounting Practice.

   (JSE Listings Requirements para. 8.62 and 8.63).

2. No disclosure of borrowings in relation to borrowing powers.

   (JSE Listings Requirements para. 8.63(b)).

3. No disclosure of details of share incentive schemes.

   (JSE Listings Requirements para. 8.63(g)).

4. Computation of headline earnings per share contrary to AC306.

   (JSE Listings Requirements para. 8.63(c)).

5. No or incomplete disclosure of details of share issues during the year.

   (JSE Listings Requirements para. 8.63(k)).

6. No disclosure of the individual directors' shareholdings as required by paragraph 8.63(d)(i).

7. Failure to meet the required threshold of forecast profit from rental income – nature and quantum of rental income to be based on economic substance and financial reality, not legal form of agreements.

   (JSE Listings Requirements para 13.1(n)(i) read with 13.3(a) and 4.28)

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