

IFRS Accounting Standards discussion fora: IFRS Accounting Standards Pervasive issues

2023

Addis Ababa, Ethiopia



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Aims

- » Develop a more cohesive understanding of IFRS pervasive issues with reference to accounting and reporting in Ethiopia
- » Enhance capacity in Ethiopia to apply IFRS more consistently

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Applicable version of IFRS Accounting Standards

Unless specified otherwise, the accounting requirements that are the subject matter of this discussion forum are IFRS Accounting Standards as issued by the International Accounting Standards Board that are applicable for annual period beginning on or after 1 January 2023 without early applying new and amended IFRS Accounting Standards that have a later mandatory application date.

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Index of issues *IFRS pervasive topics*

- » Issue 1: Purpose of IFRS
- » Issue 2: Frequency of changes to IFRS
- » Issue 3: Awareness of changes in IFRS
- » Issue 4: Timeliness of audited IFRS information
- » Issue 5: Non-IFRS financial information
- » Issue 6: Relying on experts

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Issue 1: What is the purpose of IFRS

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Purpose of IFRS

What do you think?

IFRS Standards are adopted by countries around the world. Of 168 countries analyzed, 146 (including Ethiopia) have adopted IFRS for all or most publicly accountable entities in their jurisdiction.¹

**What purpose does IFRS serve?
What problems and issues
does IFRS address?**

¹ IFRS Foundation, <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#analysis-of-the-168-profiles>

Purpose of IFRS

Summary of discussion

What purpose does IFRS serve? What problems and issues does IFRS address?

Discussants' consensus view

- » **The IFRS Foundation is a not-for-profit, public interest organisation established to develop high-quality, understandable, enforceable and globally accepted accounting and sustainability disclosure standards.**
- » **Continued next slide**



Purpose of IFRS

Summary of discussion continued

What purpose does IFRS serve? What problems and issues does IFRS address?

Discussants' consensus view

- » Modern economies rely on global transactions and free flow of capital
- » Investors and other providers of capital invest globally
- » Cross-border activities are complicated by different reporting requirements
- » IFRS provides high-quality, internationally recognised accounting standards
 - » bring transparency by enhancing comparability and quality
 - » enables informed economic decision making

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Issue 2: Frequency of changes in IFRS

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Changes to IFRS

What do you think?

The IFRS Foundation undertakes to maintain and update its accounting standards as necessary. Less frequently, it also issues new standards. The consequence is that the body of standards changes regularly.

IFRS keeps changing. How do you feel about applying IFRS in addition to daily operational duties as it requires regular updates?

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Changes to IFRS

Summary of discussion

IFRS keeps changing. How do you feel about applying IFRS in addition to daily operational duties as it requires regular updates?

Discussants' consensus view:

- » **Changes to IFRS occur in response to demand or request from stakeholders and have the objective of improving the body of standards**
- » **A benefit of IFRS is they are responsive to marketplace changes**
- » **The IASB always:**
 - » **Exposes changes for stakeholder input before finalizing them**
 - » **Provides an appropriate time for new standards or amendments before they are mandatory (usually 18 months or more)**

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Changes to IFRS

Summary of discussion continued

IFRS keeps changing. How do you feel about applying IFRS in addition to daily operational duties as it requires regular updates?

Discussants' consensus view *continued*:

- » To fully benefit from IFRS, it is necessary to remain up to date with changes
- » This in turn requires:
 - » Participation in forums that track and (ideally) comment on the changes
 - » Dedicated resource(s) with accountability for changes
- » In our experience, few changes to IFRS require extensive implementation
- » However, some (like IFRS 16) do require significant change
- » Important to identify early those changes that will require your entity to make significant efforts to implement them

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Issue 3: Awareness of changes in IFRS

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Awareness of changes in IFRS

What do you think?

The IFRS Foundation maintains and updates its accounting standards as necessary. Less frequently, it also issues new standards. The consequence is that the body of standards changes regularly.

How can we assess when there is a change or update in IFRS?

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Awareness of changes in IFRS

Summary of discussion

How can we assess when there is a change or update in IFRS?

Discussants' consensus view

- » The IFRS Foundation (IFRSF) operates in a transparent manner
- » This includes the on-line publication of its workplan, which includes all projects on its agenda, and the progress/status of projects
- » You can freely subscribe to IFRSF for updates on all or selected projects¹
- » We would also recommend the formation of an in-country committee that:
 - » Has range of members (auditors, regulators, issuers educators etc)
 - » Meets on a regular basis (eg quarterly)
 - » Receives an update, and comments, on IFRSF workplans

¹ <https://www.ifrs.org/dashboard/>

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Issue 4: Timeliness of audited annual financial statements

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Timeliness *What do you think?*

Benefits of robust financial reports include information for making resource allocation decisions, and for holding management accountable.

Both historic (track-record) and current (up-to-date) information contribute to these benefits.

Most SOEs close their accounts late after year-end. External audit starts late, delays reports and is often of a poor quality. How do advice improving this process?

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Timeliness

Summary of discussion

Most SOEs close their accounts late after year-end. External audit starts late, delays reports and is often of a poor quality. How do you advise improving this process?

Discussants' consensus view:

- » Timely, audited accounts are important for resource allocation decisions
- » Value of work performed to produce an AFS is diminished if not timely
- » But producing timely information requires efficient processes, appropriate systems and proper planning (including with auditors)
- » These will likely not happen without regulatory encouragement

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Timeliness

Summary of discussion continued

Most SOEs close their accounts late after year-end. External audit starts late and delays report and audit is often of a poor quality. This process is impacting stakeholders as they don't receive financial information in time. What is your advice or experience to share in preparing IFRS base financial statement and how to improve the delays in external audit?

Discussants' consensus view *continued*:

- » Regulators should establish realistic deadlines for finalization of accounts
- » Those deadlines should be made incrementally shorter in accordance with a published roadmap
- » The deadlines should be enforced through monetary sanctions and sanctions against the SOE board and auditors

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Issue 5: Non-IFRS financial information

(for example: for tax or prudential purposes)

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Non-IFRS financial information

What do you think?

Many jurisdictions require the production of non-IFRS financial information in addition to IFRS financial statements. This additional information is used for statutory, taxation and prudential requirements.

We have implemented IFRS but we have a practical issue of preparing two sets of financial statement, one under IFRS and the other the previous GAAP (which is used for tax authority and others). Should we keep both reporting or only produce the IFRS reports?

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Non-IFRS financial information *Summary of discussion*

We have implemented IFRS but have a practical issue of preparing two sets of financial statement, one under IFRS and the other under previous GAAP (for tax authority and others). Should we keep both reporting or only produce the IFRS reports?

Discussants' consensus view: Yes

- » Preparation of financial information including a 2nd set of financial statements is a jurisdictional legal requirement
- » IFRS cannot and does not override that
- » However, it is an inefficient use of scarce resources and entities are within their rights to lobby government to streamline the process
- » Many jurisdictions require additional information, but it is typically limited

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Issue 6: Relying on experts

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Relying on experts

What do you think?

Applying IFRS necessitates making sometimes significant judgements. Occasionally these judgments will be outside the expert of the issuing entity and the entity will need to rely on experts.

We have valuers doing PPE revaluation where their work and profession is not regulated in Ethiopia. What do you think of relying on their work?

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Relying on experts

Summary of discussion

We have valuers doing PPE revaluation where their work and profession is not regulated in Ethiopia. What do you think of relying on their work?

Discussants' consensus view

- » **The issuer of financial statements has ultimate responsibility for the quality and correctness of information included in those financial statements**
- » **When employing experts, the issuer needs to assess:**
 - » **The ability of the expert to perform the judgements**
 - » **The inputs, processes and outcomes of the experts' work**
- » **Accreditation is a useful, but is not essential, element for that assessment**

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