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Zambia's financial reporting framework

Breakfast briefing

2011

Agenda

- Welcome and introductions
- A brief background on the objectives and goals of having a tiered reporting framework
- Discussion around the the framework with a focus on:
  - Accounting and reporting implications; and
  - Financial effectiveness and processes required to implement and sustain the revised framework
- Closing

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Objectives of the framework

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Overview

- ZICA Adopted full International Financial Reporting Standards for all entities in 2005
- Zambian Accounting Standards in operation previously

Capacity constraints within SMEs to ensure compliance

Complexity of issues covered in IFRS

Amount of implementation guidance

Volume of disclosures and relevance to the users

Generally low level of compliance

Overview

Three Tier Financial Reporting framework and Audit for Zambia

Type of entity	Financial Reporting Framework	Audit Assurance Requirement*
Listed Companies, Public Interest entities and Government Owned Enterprises	Full IFRS	Full Audit Assurance Engagement
Economically Significant Companies –not PIE with turnover of K20 billion and above	IFRS for SMEs or Full IFRS if the Company opts to use it	Full Audit Assurance Engagement
Micro and Small Entities – With Turnover of less than K20 billion	Zambian Financial Reporting Standard for Micro and Small Entities	No Full Audit required. If needed full Audit can be done otherwise, Accountant's Report will suffice <u>subject to Companies Act amendment</u>

* - recommended subject to amendment of the Zambia Companies Act

Overview

IFRS and IFRS for SMEs

- Standards adopted without modification as issued by IASB

Zambian Financial Reporting Standards for Micro and Small Entities

- Simplified version of the IFRS for SMEs
  - Fewer disclosures
  - Some topics deleted

Overview

Effective date

- The three tier financial reporting framework is effective for annual periods beginning on or after 1st January 2011.

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Accounting and reporting implications

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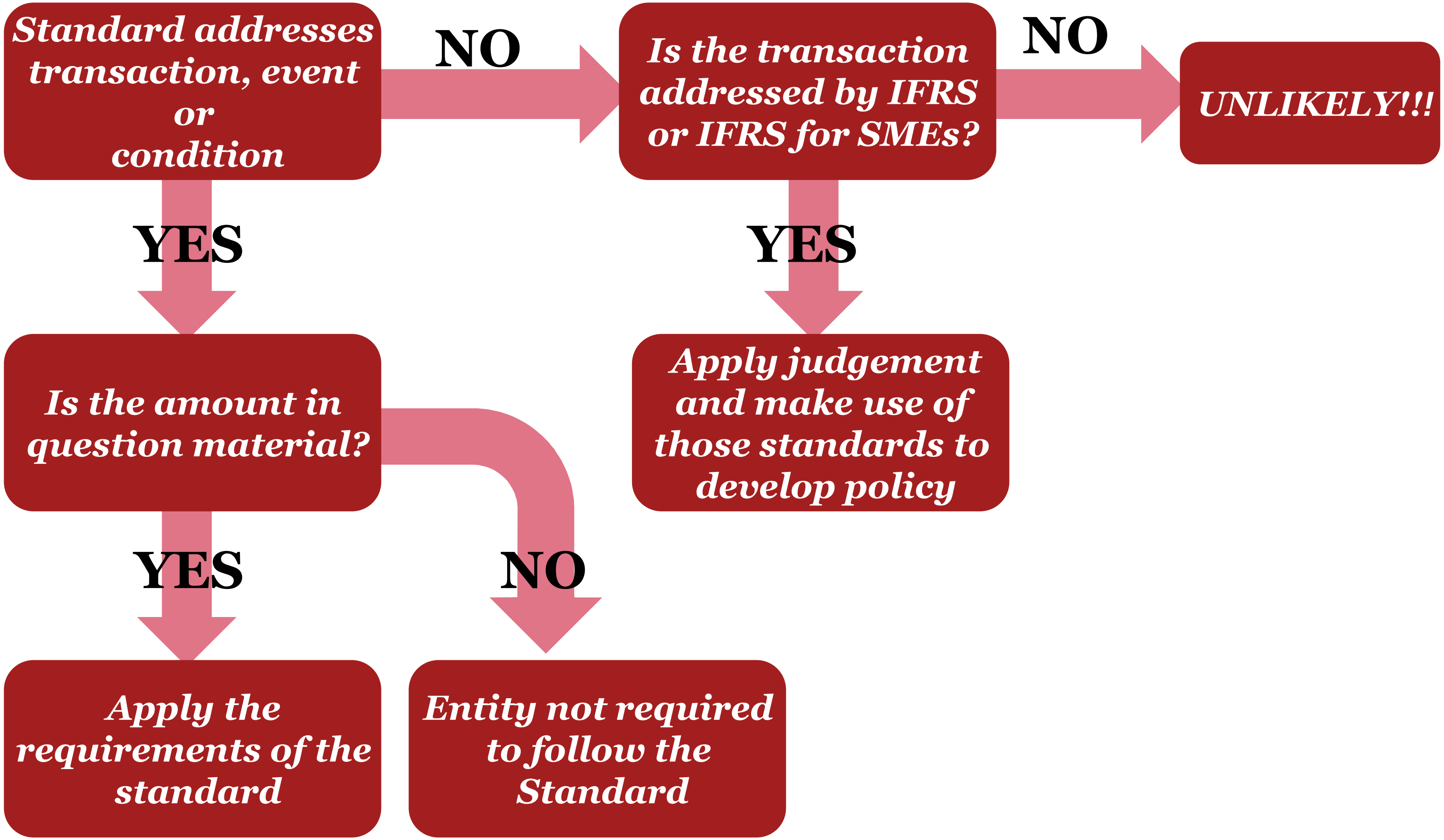
Applying the standard



Implications

Presentation of financial statements

Benefits	*Challenges*
Reduced to three primary statements, plus accounting policies and explanatory notes	Whilst no requirement to present a Statement of changes in equity: • Dividends and other movements in retained earning will be on the P&L; • Any other changes in equity, will be in the notes
No restatement of comparatives is required on first time adoption of ZFRS for MSEs	First time adoption balances may not be comparable with prior year financial statements
Changes in accounting policy and correction of misstatements done prospectively	Current and prior year amounts many not be comparable

Implications
Presentation of financial statements

Benefits	*Challenges*
Fewer disclosures will simplify financial statements; 1. Comparatives for fixed assets 2. Comparatives for intangible assets 3. Statement of changes in equity 4. Effective tax reconciliation	Elimination of disclosures may affect usefulness of financial statements for stakeholders

Implications

Statement of financial position - Assets

Benefits	***Challenges***
Principle of the lower of Cost or NRV applied to determining the carrying value of assets; • Assets are not fair valued • Property, plant and Equipment are not revalued	Cost does not always reflect the value of the assets held
Only straight line depreciation basis is allowable	Other bases such as Units of Production may be more appropriate in certain instances
Accounting for biological assets simplified, by narrowing it to the use of cost rather than fair value, less cost to complete	Gaps in required treatment for areas such as 'offspring' or 'secondary crop' may result in need to adopt full IFRS or IFRS for SME requirements

Implications

Statement of financial position – Liabilities and equity

Benefits	***Challenges***
No requirement to fair value financial instruments such as accounts payable and loans/ borrowings	• Intrinsic value of liabilities may not be captured • Standard defines loans payable as amounts due after 12 months and excludes current liabilities • Requirement to disclose accounts payable outside agreed credit terms as at the Balance Sheet date

Implications

Statement of financial position - Profit

Benefits	*Challenges*
Under the new standards, there is no requirement to recognise deferred tax on temporary timing differences	Deferred tax meets the definition of a liability and so there is a challenge on completeness of liabilities The effective tax rate for entities will be volatile
Standard allows for exceptional items	Exceptional items allow for distortion of presentation of items

Implications

Statement of financial position – Cash flows

Benefits	***Challenges***
Use of direct method for computing cash flows from operations provides more meaningful information	The direct method is tedious and usually complicated

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Financial effectiveness and processes

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Finance & Accounting – a consulting mindset or business reality?

To support CEO's, CFO's controllers and treasurers to:

- optimise the structure of their finance functions and improve their contribution to the business;
- to support the C-Suite in decision-making
- provide solutions around compliance & control and efficiency and flexibility, such as:

  - strategic planning

  - finance process improvement (gap analysis)

  - finance organisation reviews and process improvements

Finance & Accounting – a consulting mindset or business reality?

In simple terms a finance & accounting process review will ensure:

- accounting records are complete and accurate;
- transactions are valid;
- complies with legal requirements; and
- minimise the risk of fraud.

"Consequently the above results in accurate information which allows for timely and effective value adding and strategic decision making in the most cost efficient manner"

Management accounts versus external financial reporting

Management Accounts

- Compiled regularly: quarterly / monthly / weekly / daily
- More detailed: users (usually management and banks) need to know what action to take
- More prompt to enable timely action by recipients
- Could be less precise because of the speed of compilation
- No legal obligation to produce management accounts

Financial Reporting

Compiled less frequently – usually annually

Only overview of organisation as a whole is required

May only be finalised months after the period end

Time lag between period end and compilation of external reports allows detailed checking to eliminate errors

Required by law

Finance & Accounting – SME's in the economic limelight

- Today's SME's are the engine of growth and ultimately tomorrows multinationals
- The entrepreneurial flair together with sound financials and systems in place allows for easy access to capital through the preparation of robust and bankable business plans.
- However with external financial support comes the need for accountability and governance – the creation of trust and openness.
- The need for SME's to engage professionals and consultants at the various stages of the business life cycle become more pertinent in dealing with changing macro economic conditions.

Thank you