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IFRS News

January 2022 SPECIAL EDITION

This special edition covers, at a high-level, areas that regulators will focus on in reviewing the financial statements for 31 December 2021 year-ends and subsequent year ends.

December 2021 year-end financial statements (and subsequent) – Financial statement reminders

Regulators continue to place an increased focus on financial statement presentation, disclosures, recognition, and measurement. We have attached a summary of the **high-level focus areas** that financial statement preparers and auditors should consider in preparing and auditing financial statements (specifically for listed companies) for the upcoming December 2021 year-end (and subsequently).

The **High-level focus areas document** (refer to Appendix attached) is a summary of the findings reported by regulators, and should be read in conjunction with the following reports (refer to links below):

- JSE - Reporting back on proactive monitoring of financial statements in 2021 issued 9 November 2021
- JSE Proactive Monitoring Combined Findings Report (2011-2020) issued October 2021
- JSE Proactive Monitoring IFRS 15 and IFRS 9 Thematic review (Nov 2019) (Sections B and Section C)
- UK Financial Reporting Council (FRC) Annual Corporate Reporting Review 2020/21 (Section 3)
- ESMA European common enforcement priorities for 2021 annual financial reports (Section 1)

At a high-level, the themes that the above regulators (JSE, FRC, ESMA) have identified relate primarily to:

Focus areas identified in 2021 and prior years:

- Revenue
- Cash flow statements

- Goodwill and impairment of assets
- Estimates, judgements, and sources of estimation uncertainty
- IFRS 7 financial instrument disclosures
- Income taxes
- Fair value measurement (IFRS 13)
- Presentation of financial statements
- Other common disclosure issues

Emerging areas (2022 and beyond):

- Covid-19
- Recent civil unrest in South Africa
- Climate-related matters

Climate-related matters and its impact on the financial statements is a key focus area. Refer to the Climate change | Financial Reporting webpage. The European Securities and Markets Authority (ESMA), released a Public Statement identifying climate-related matters as a key focus (Section 1.2).

The directors are responsible for the preparation and fair presentation of financial statements and we recommend that preparers and auditors discuss the findings early in the preparation and audit process to ensure that the reported findings are addressed in the financial statements.

KPMG's 2021 guides to annual financial statements - Illustrative disclosures, Disclosure checklist and supplements, are guides that preparers and audit teams should use to ensure compliance with IFRS. Find out more in our web article.

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High-level Focus Areas

Appendix

Focus Areas	The following areas were highlighted by various regulatory bodies and should be a key focus in preparing and auditing the 31 December 2021 year-end financial statements (and beyond).	Sources of Guidance
	Focus areas identified in 2021 and prior years	
Revenue	***Accounting policies*** — Should be entity specific and cover all significant revenue streams and performance obligations. ***Disaggregation*** — The disaggregation disclosures should discuss the various categories of revenue that cover how the nature, amount, timing, and uncertainties are affected by economic factors in each category. — The disaggregation should be more detailed than the operating segment disclosure. ***Disclosures on revenue recognition and measurement*** — *Performance obligations:* Adequately address timing (over-time vs point-in-time), payment terms, obligations for returns and details of warranties and related obligations. — *Methods used to measure revenue recognised from performance obligations satisfied over time:* Description of method, how it is applied in practice and why this method is appropriate. — *Description of variable consideration earned during the financial reporting period:* The types of variable consideration, constraints and methods used to estimate the amounts of variable consideration. — *Contract balances:* Accounting policies and disclosures need to include the nature of these balances, significant changes, timing of satisfaction of performance obligations. — Ensure consistency of revenue streams disclosed throughout the financial statements and other information disclosed in the annual report. ***Disclosures of judgements*** — Judgements and changes in judgements that significantly affect the determination of the amount and timing of revenue recognition. — Judgements about agent vs. principal considerations to be covered in sufficient detail.	*JSE PM Report 2019 Thematic review final findings (Pg.23 - 28)* *FRC – Annual Review of Corporate Reporting 2020/21 (Pg.9;10)*
Cash flow statement	***Operating, investing, and financing activities***	*JSE combined PM report (Pg.23, 24, 70, 71)*

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	— The application of the definitions of operating, investing, and financing activities (per IAS 7) is important in the classification of cash flows. — Cash flows should be presented on a gross basis (a net basis is not always in compliance with IAS 7). ***Cash/cash equivalents*** — Ensure that the classification of cash/cash equivalents and restricted cash is appropriately based on the circumstances of the entity. ***Specific cash flows*** — Classification of cash flows related to share-based payment arrangements is complex and should be carefully considered. — Disclosure of specific material cash flows should be made, such as the nature of the cash payments to non-controlling interests.	*FRC – Annual Review of Corporate Reporting 2020/21 (Pg.11;12)*
Goodwill and impairment of assets	***Assumptions and sensitivities*** — Qualitative information/disclosure of each key assumption to which the recoverable amount is most sensitive and a description of how the value assigned to each key assumption was determined. — Disclose sensitivity disclosures, including an explanation of the impact of changing key assumptions. — Disclosure should be made of possible impairments of the cost of investment in the parent company accounts, in the case where the related subsidiary's assets (goodwill or other) have been impaired. — Included details of entity specific unobservable inputs used in valuation models. ***Recognition of impairment and reversals*** — The recovery of the economy following the initial impact of Covid-19 would require disclosure, including judgements in respect of impairment reversal or non-reversal. — Disclosure should be clear to indicate that the impairment or reversal of impairment is due to changes in assumptions in the current year (and per implication not a prior year error).	*JSE combined PM report (Pg.44, 45, 59)* *FRC – Annual Review of Corporate Reporting 2020/21(Pg.13, 14)* *ESMA Public Statement - European common enforcement priorities for 2021 annual financial reports (Pg.3, 4)*
Estimates, judgements, and sources of estimation uncertainty	***Covid-19 disclosure*** — Covid-19 increased the extent of uncertainty and therefore the need for more comprehensive disclosure of judgements, assumptions, and estimates.	*JSE combined PM report (Pg. 14 - 16)*

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	— Should be specific to the entity and should provide detail about the nature of the assumptions made about the future. Disclosure should help users understand the sources of estimation uncertainty. ***Consistency of disclosures*** — Ensure disclosures are consistent between the financial statements and the rest of annual report.	*FRC – Annual Review of Corporate Reporting 2020/21 (Pg.8)*
IFRS 7 financial statement disclosures	***Expected credit loss and write offs*** — Disclosure should include the inputs, assumptions and estimation techniques used to calculate the ECL allowance, as well as entity-specific information (non-generic) about how forward-looking information has been incorporated into the calculation. — Disclose the gross carrying amounts of financial assets by credit risk rating grades. — Disclose information about the credit risk management practices, including the definitions of default and the reasons for selecting specific definitions to be disclosed. — Disclose information about the concentration of credit risk. ***Reconciliations*** — IFRS 7 disclosures should include a reconciliation from the opening balance to the closing balance of the ECL allowance. Changes relating to 12-month expected credit losses and lifetime expected credit losses should be shown separately. — In cases where other disclosures in the financial statements indicate write-offs, an accounting policy for these write-offs should be disclosed. — Quantitative and qualitative information should be disclosed to explain how significant changes in the gross carrying amount contributed to changes in the ECL allowance. ***Financial risk management*** — Where an entity has entered into a supplier financing arrangement, disclosure needs to include the extent to which such arrangements were utilised. — Disclosure of loan covenants and/or the entity's performance against them, where this information appeared to be significant for the understanding of solvency and liquidity assessments. ***Liquidity risk***	*IFRS 7.35F(e) - JSE PM Report 2019 Thematic review prelim findings (Pg.15)* *JSE PM Report 2019 Thematic review prelim findings (Pg.15, 17, 19)* *(IFRS7.39(c) - JSE combined PM report (Pg. 43,54)* *(IFRS7.40 - JSE combined PM report (Pg. 54, 56)* *(IFRS 7.39 and IFRS 7:B11D - JSE combined PM report (Pg.54)* *FRC – Annual Review of Corporate Reporting 2020/21 (Pg.17;18)*

Focus Areas	The following areas were highlighted by various regulatory bodies and should be a key focus in preparing and auditing the 31 December 2021 year-end financial statements (and beyond).	Sources of Guidance
	— Liquidity risk disclosures should be included on an undiscounted basis. — Disclosure should include how an entity manages its liquidity risk exposure. ***Market risk*** — The interest rate risk disclosure should include a corresponding sensitivity analysis. — Market risk disclosures should cover all financial instruments if the impact of these are material to the financial statements. ***Offsetting*** — In the case where bank overdrafts or similar liabilities are offset against cash and cash equivalents in the statement of financial position, disclosure needs to include how the IAS 32 criteria for offsetting, are being met.	
Income taxes	***Deferred tax assets disclosures*** — Disclosures should include the factors supporting the recognition of the deferred tax asset (IAS 12.82). — Amounts of deductible temporary differences, unused tax losses or unused tax credits for which no deferred tax asset is recognised should be disclosed. — Disclosure should include any critical judgements used in the recognition of the deferred tax asset (how the probability of recoverability of deferred tax assets was determined). — Disclose the key sources of estimation uncertainty (including the carrying amounts affected and an explanation of the effect of any significant changes in key assumptions on the recovery of the deferred tax asset). ***Tax rate reconciliation*** — Tax rate reconciliations should be sufficiently detailed. The use generic descriptors for reconciling items such as “non tax-effective income/loss”, “different rates of tax”, “disallowable charges/expenditure”, ”non-tax deductible items”, “non-allowable expenditure “ do not provide sufficient information with respect to the nature of the item/s. ***Offsetting***	*(IAS 12.81(c); IAS 12.84) - JSE combined PM report (Pg.32, 33)* *FRC – Annual Review of Corporate Reporting 2020/21 (Pg.24)*

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	— Disclosure needs to include the basis for offsetting deferred tax assets and liabilities relating to different classes of temporary differences. ***Uncertain tax positions*** — Disclosure of significant judgements or key sources of estimation uncertainty regarding uncertain tax positions.	
Fair value measurement (IFRS 13)	***Unobservable inputs*** — Disclose specific details regarding unobservable inputs used in valuation models (per IFRS 13.93). ***Fair value hierarchy*** — Disclose the appropriate classifications within the fair value hierarchy. — For level 3 classifications, entities should disclose the inputs used in their valuation, together with a narrative description of the sensitivities (IFRS 13.93(d-h)) for each significant unobservable input used in the valuation technique (IAS 1.125 and IAS 1.129). ***Investment property*** — For the purposes of investment property, in addition to the key assumptions, a sensitivity analysis will need to be disclosed as required by IFRS 13.93(h). — Where investment property is measured at fair value in line with the entity's accounting policy, fair value measurement must be applied at the interim reporting date.	*JSE combined PM report (Pg.66)* *JSE combined PM report (Pg.66) (IFRS 13.93(h)(ii)) - JSE combined PM report (Pg.59)* *(IFRS3.B64(e) - JSE combined PM report (Pg.57)* *ESMA Public Statement - European common enforcement priorities for 2021 annual financial reports (Pg.3, 4)*
Presentation of financial statements (aggregation, reclassification, current/non-current, finance costs, OCI)	***Separate presentation*** — Items in the statement of financial position should be presented separately if the nature or the function of the asset differ (unless they are immaterial). ***Reclassifications*** — In the case of a change in classification - the nature, amount and reason for this change should be disclosed, in order to	*JSE combined PM report (Pg.12)* *IRBA Public Inspections Report (Pg.18)*

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	maintain inter-period comparability to assist users in their decision-making. ***Current vs. non-current*** — Trade receivables may only be classified as current where that asset is expected to be realised within the normal operating cycle or within twelve months after the reporting date, in line with IAS 1.61. — If there is no unconditional right to defer the settlement of a liability for at least 12 months, the liability needs to be classified as current. ***Finance costs*** — Finance costs must be disclosed separately and should not be aggregated with other line items (IAS 1.82(b).	
Other common disclosure issues		
Going concern	***Disclosure of triggers and uncertainties*** — Going concern disclosure should be consistent with other disclosure in rest of annual report and should be sufficient to support the going concern conclusion. The disclosure should enable users to understand: ➢ what going concern triggers exist. ➢ any uncertainties and ➢ management's plans to address the triggers/uncertainties identified. — The going concern disclosure should identify the uncertainties that may cast doubt upon the entity's ability to continue as a going concern.	*JSE combined PM report (Pg.13)*
Materiality	***Materiality framework*** — Preparers must develop a robust materiality framework (covering both quantitative and qualitative factors). — Materiality must be considered holistically and not looking at the impact on the bottom-line in isolation particularly when deciding to correct an error.	*JSE combined PM report (Pg. 20;21)*

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Focus Areas	The following areas were highlighted by various regulatory bodies and should be a key focus in preparing and auditing the 31 December 2021 year-end financial statements (and beyond).	Sources of Guidance
Related-party disclosures	— Provide full disclosure for all related party transactions and balances (IAS 24.18).	*JSE combined PM report (Pg.39)*
Availability of information	***Reference to other publicly available information*** — Financial statements are required to be comprehensive documents which disclose material information regardless of whether such information is available in other sources (paragraph 25, Materiality practice statement).	*JSE combined PM report (Pg.20)*
Transparency when reporting errors	— Disclosures around the correction of prior period errors need to be clear and transparent. — Correction of material errors should be clearly referred to as errors, and not as changes in an accounting policy, restatements, or re-presentations.	*JSE combined PM report (Pg.19)*
Provisions, contingent liabilities, and contingent assets	***Information disclosed*** — The disclosure should include key, concise information to facilitate understanding of the nature of the provision or contingent liability and its potential financial effects and uncertainties. — The disclosure should include a clear description of the underlying obligating event, specifically for restructuring, property-related and self-insurance provisions. — For longer-term provisions, disclosure should include more information about the anticipated timing of future cash outflows. — Information about significant changes in provisions or contingent liability balances should be disclosed where this is integral to understanding the financial performance and position of the business. ***Measurement*** — Disclosure should include the method used to determine the best estimate. — Where the effect of discounting is material to the provision, disclosure should include how the discount rate was determined, as well the material sensitivity to the cash flows.	*FRC – Annual Review of Corporate Reporting 2020/21(Pg.34)*

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Focus Areas	The following areas were highlighted by various regulatory bodies and should be a key focus in preparing and auditing the 31 December 2021 year-end financial statements (and beyond).	Sources of Guidance
Leases	***Accounting policies*** — Material accounting policies relating to significant items (e.g. sale-and-leaseback transactions, lease incentives and non-lease components) should be disclosed. ***Lessors*** — Disclosure should include the basis for the classification of leases as operating or financing. ***Variable payments*** — Where leases have significant variable payment features, disclosures should explain their nature and how these features are being accounted for. — The maturity analysis of lease liabilities disclosed should be sufficiently disaggregated — Disclosures of total annual cash flows relating to leases and any material commitments should be included.	*FRC – Annual Review of Corporate Reporting 2020/21(Pg.23)*
Emerging areas (2022 and beyond)		
Covid-19	***Impact of Covid-19*** — An explanation of events and transactions that are significant to understanding the changes in financial position and performance of the entity since the end of the last annual reporting period are required to be disclosed in the interim financial statements. — Disclosures around the impact of Covid-19 should: • Explain significant judgements and estimates made. • Provide a sensitivity analysis of a range of possible outcomes. • Describe significant judgements made regarding material uncertainties around going concern. • Ensure that assumptions used in the going concern assessment are consistent with other assumptions. ***Longer-term impact of Covid-19*** — Disclosure should include any material uncertainties that exist as a result of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. — Transparent information about the entity's liquidity risk should be disclosed (qualitative and quantitative information).	*JSE - Reporting back on proactive monitoring of financial statements in 2021 (Pg.4)* *FRC Corporate Reporting Review cases (UK-October 2021) (Pg.4)* *ESMA Public Statement - European common enforcement priorities for 2021 annual financial reports (Pg.3, 4)*

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Focus Areas	The following areas were highlighted by various regulatory bodies and should be a key focus in preparing and auditing the 31 December 2021 year-end financial statements (and beyond).	Sources of Guidance
	Recovery from Covid-19 — For entities operating in a sector impacted severely by Covid-19, disclosure should include the judgements and assumptions that were updated as a result of any recent changes in their economic and financial situation along with the basis for those changes, where this is necessary for an understanding of the financial statements. — Disclosure of reasons underlying any reversals of impairment losses recognised in prior periods. — Transparent disclosure is required for the criteria and assumptions used in the recognition of deferred tax assets. ***Government Support measures*** — The following disclosure is required in relation to government grants: • Disclosure of information related to government assistance. • The accounting policy adopted for government grants. • The methods of presentation adopted in the financial statements. ***Debt covenant disclosures*** — The following should be disclosed in relation to debt covenants: • Debt covenant triggers. • Proximity to breaches. • How potential triggers can be addressed. • Going concern. • the management of capital. • nature and extent of risks exposure.	
Climate-related matters	***Climate change*** — Disclosure should include (recommendations): • Reports that's describe environmental policies. • Information about how climate policies and targets have been incorporated into business plans. • Describe the impact of the entity on the environment. • Explain the effects of climate-related risks. ***Consistency between IFRS and Non-financial information***	*FRC Corporate Reporting Review cases (UK-October 2021) (Pg.28)*

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Focus Areas	The following areas were highlighted by various regulatory bodies and should be a key focus in preparing and auditing the 31 December 2021 year-end financial statements (and beyond).	Sources of Guidance
	— Climate-related disclosures in the financial statements should be consistent across the management report, non-financial statements, and the prospectus. ***Climate risks in IFRS Standards*** — Information on climate-related matters need to be disclosed in the notes, if not presented elsewhere in the financial statements, where such information is relevant to the understanding of these notes. ***Significant judgements and estimation uncertainty*** — Entities operating in affected sectors need to disclose management's assumptions related to climate risk (IAS 1.122-124). — Disclosure in the financial statements needs to include how forward-looking information, estimates and judgements applied in preparing the financial statements, are consistent with the non-financial information related to climate risks. — Climate change needs to be considered when disclosing the expected useful lives of non-current assets and estimated residual values under IAS 16 Property, plant and equipment and IAS 38 Intangible Assets.	*ESMA Public Statement - ESMA European common enforcement priorities for 2021 annual financial reports (Pg.4, 5)*
Civil unrest	***Quantifying the impact of the July 2021 civil unrest*** Entities that have been affected by the civil unrest will need to have specific disclosure of the impact on these events on estimates, judgements, and uncertainties. — Avoid the presentation of items as "extraordinary" as this is prohibited by IAS 1.87. — When disclosing the impact of civil unrest on financial results, such disclosure should be reliable and ensure faithful representation.	*JSE - Reporting back on proactive monitoring of financial statements in 2021 (Pg.18;19)*

The above analysis highlights only the high-level focus areas that have been identified and should not be relied on as a complete list. Preparers are still required to perform the necessary procedures to ensure compliance with all of the disclosure requirements of all the IFRS standards (presentation, disclosures, recognition, and measurement).

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Note that the regulatory reports also deal with other areas that may be relevant for your entity and the recommendation is that the reports be considered in totality.

Sources: (linked to relevant websites where it can be accessed)

- JSE Proactive Monitoring combined Findings report (2011-2021) Issued 31 October 2021
- JSE Thematic Review for compliance with IFRS 9 and IFRS 16
- JSE Investment Property Common Findings Report (2020)
- Corporate Reporting Review cases (UK- October 2021)
- ESMA Public Statement - European common enforcement priorities for 2021 annual financial reports