STATE OF IFRS IN NAMIBIA

Introduction

Generally Accepted Accounting Practice (GAAP) is a document published by each nation's accounting body. GAAP standards are also internationally published by the International Accounting Standards Board (IASB). Before the establishment of IASB, its predecessor, the International Accounting Standards Committee (IASC), was the one that published International Accounting Standards (IAS), which also form part of GAAP. IASB is the one that currently issues International Financial Reporting Standards (IFRS). Namibian standards, or GAAP, as issued by The Institute of Chartered Accountants – Namibia (ICAN), conform to relevant IAS and IFRS.

IASB is a body which is committed to developing, in the public interest, a single set of high quality, global accounting standards whose purpose includes transparency and comparability of information in general purpose financial statements. In pursuit of this objective the IASB cooperates with national accounting bodies in order to achieve convergence in accounting standards around the world.

GAAP is not a standard but is made up of all the rules that govern the accounting practice in individual countries. These rules arise from a combination of the following **mandatory sources**:

1. National laws (Companies Act, Close Corporation Act, Credit Agreements Act)
2. National accounting standards
3. Local stock exchange requirements

The following are **non-mandatory sources**:

1. International accounting standards
2. Statutory requirements of other countries (mainly applicable to international companies)

"Generally accepted" does not mean "generally adopted or used"; it means permissible or legitimate under the circumstances. The decision as to whether and this depends on the answers one gives to one or more of the following questions (adopted from UK GAAP. Davies, Paterson & Wilson. Enerst & Young, 5th edition):

- Is the practice addressed either in the accounting standards, statue or other official pronouncements?
- If the practice is not addressed in the (*Namibian*) accounting standards, is it dealt with in IAS or the standards of other countries (*e.g. RSA*)?
- Is the practice consistent with the needs of the users and the objectives of financial reporting?
- Does the practice have authoritative support in the accounting literature?
- Is the practice applied by other companies in similar situations?
- Is the practice consistent with the fundamental concept of “true and fair”?

The Accounting Framework

Every profession works within a recognised framework. This facilitates understanding of key issues and terminology. It is important that accountants understand each other by giving same meaning to similar transactions. A simple term, unless defined, can give conflicting meanings:

- A metre can refer to length or distance (kilometre) or volume (cubic metre)
- A kilo can mean weight (kilogram) or distance (kilometre)

In accounting terms, a financial transaction can be **measured** in many ways because there are several methods of doing so. The following are some of the examples:

1. Depreciation can be measured (calculated) by means of straight-line method or several other methods
2. Inventory can be measured (valued) on the basis of first-in, first-out (FIFO), etc; historic cost, replacement cost, etc
3. Investment in associate can be measured either at cost or equity basis
4. Financial statements can be prepared on the basis of the following models:
    - historic cost, fair value, etc
    - accruals or cash basis, etc
    - going concern, liquidation, etc

To reduce areas of conflict, the Framework discusses various topics, including:

- The **underlying assumptions** when preparing the financial statements: going concern, accruals, prudence, consistency
- The **qualitative characteristics** that make the financial statements useful to the users: understandability, relevance, materiality, reliability, accuracy, neutrality, timeliness

These qualities are necessary in order to ensure a **faithful representation** of transactions in the financial statements (true and fair view). In addition, the following information must be prominently disclosed in respect of each financial statement:

- The name of the reporting entity or group
- Title of the financial statement and whether the statement is for individual or a group of entities
- The financial year-end date or financial period covered by the financial statement
- The reporting currency
- The level of precision, or rounding off, used (e.g. N$000)

IFRS and IAS are based on an accounting framework (the Framework). This Framework addresses the following issues:

1. **Measurement** of transactions: accounting deals only with financial transactions that have monetary value;
2. **Recognition**: only such financial transactions can be recorded in the books of account (journals and ledgers)
3. **Disclosure**: the recognised transactions are summarised in financial statements and other reports for use by various stakeholders

Furthermore, the Framework serves the following purposes:

1. Assist in the development of future IFRS
2. Promote the harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements by providing a means of reducing the numerous alternative accounting treatments
3. Assist national standard-setting bodies in developing their own national standards
4. Help preparers of financial statements in the application of IASs (now IFRSs) and in dealing with outstanding topics
5. Help auditors in forming an opinion as to whether financial statements conform with IAS (IFRS)
6. Help users of financial statements in the interpretation of information contained in the financial statements

The Framework thus deals with **general-purpose** financial statements (i.e. a normal set of annual financial statements) which include:

1. Statement of financial position (commonly known as balance sheet)
2. Performance statement (commonly known as income statement)
3. Statement of changes in financial position (commonly known as cash flow statement)
4. Statement of changes in equity
5. Notes on adopted accounting policies and other relevant information

Compliance with IFRS

It is important to comply with IFRS so that the financial statements achieve **fair presentation**. The critical points are discussed in IAS 1:

a) Compliance with IFRS should be disclosed

b) All relevant IFRS must be followed before making that claim of compliance with IFRS

c) Use of inappropriate accounting treatment cannot be rectified either by disclosure of such accounting policies

Departure from IFRS is allowed only where such departure is meant to achieve fair presentation, provided

a) Management confirms that the financial statements have consequently fairly presented the entity's financial position, performance and cash flows

b) A statement that all IFRS have been complied with except for the stated departure from an IFRS necessary to achieve fair presentation

c) Details of such departure, including why the particular IFRS treatment would be misleading, and the adopted treatment

d) Financial effect of such departure

Such departures are commonly referred to as "true and fair override"

Current international standards

These are given in the annexure.

Latest development in Namibia

This paper is based on the findings of undergraduate research carried out by students as part of the requirement for graduation. Four research papers were picked because of their relevance to the issue under discussion:

1. Chaun, Nikita T. *An investigation on financial reporting and adoption of IAS/IFRS in Namibia*

2. Iyambo, Fillemon H. *The application of IAS/IFRS by private companies in Namibia*

3. Kamutufe, Lavinia T. *An investigation into the adoption of international accounting standards by commercial banks in Namibia (Case study: FNB)*

4. Simunja, Mola E. *Investigative study on the degree to which FNB applies IAS/IFRS with regard to group financial statements*

Although the students' various studies were restricted to Windhoek because they were constrained by time and funding, this did not significantly affect the validity of the study because most, if not all, commercial organisations have their headquarters in Windhoek where major accounting decisions are made.

Messrs Kamutufe and Simunja carried out a case study of FNB. The following were their findings:

1. FNB financial statements are prepared in accordance with IAS/IFRS;
2. It was acknowledged that IAS/IFRS add value to financial statements;
3. Auditors give opinion as to whether IAS/IFRS have been complied with;
4. Any departure from IAS/IFRS is disclosed otherwise the financial statements are qualified by the auditors;
5. The main motivation for adoption of IAS/IFRS is that it can help to generate comparable and reliable accounting information that will help users in making economic decisions;
6. The main difficult encountered in complying with IAS/IFRS is lack of qualified staff ;
7. All standards have been adopted except for those which are not relevant to either Namibia (e.g. IAS 29: Hyperinflationary economies) or financial institutions (e.g. IAS 41: Agriculture; IFRS 6: Explorations).

Miss Chaun studied the extent of adoption of IAS/IFRS in general (see annexure). She covered companies listed on the Namibian Stock Exchange which comprised those in mining, banking, insurance and building society. It was noted that these companies adopted the standards in order to meet stock exchange requirements. The main difficulties companies encountered in complying with the IAS/IFRS were limitations within the industry followed by the size of the company in the sense that small companies did not have the capacity and the capability (expertise). This can be further explained by the fact that all companies revealed that accounting and auditing fees were major cost. However one of the basic problems faced by all companies, especially small companies, is that of measurement now that all IAS/IFRS insist on fair valuation of assets and liabilities. It was agreed that the role of the auditors should continue to be that of ensuring compliance with applicable standards.

Despite the problems of complying with the fair value (measurement) and recognition (disclosure) requirements, none of the respondents' financial statements received a qualified audit opinion because these issues of non-compliance with IAS/IFRS were addressed in the audit management letters.

Mr Iyambo studied the application of IAS/IFRS by private companies. The population was made up of six companies consisting of three audit firms, a retail chain, and two parastatals: a power utility and a transport company. The six respondents agreed that it was best accounting practice to comply with IAS/IFRS so that the financial statements are understable and meaningful to the various users. This is because companies are now aware that most stakeholders trust financial statements prepared in accordance with international standards. In the study all respondents believed that failure to comply with IAS/IFRS may lead to unfair presentation of financial statements. The burning issue was whether some companies should be exempted from compliance with international standards. The response was that there should be no exemptions because IAS/IFRS enhances the qualitative characteristics of good financial statements.

Conclusion

It is very pleasing to note that Namibia is up-to-date with developments in international standards. There are many benefits to be derived from compliance with standards, by all the users of financial information. Any non-compliance with the standards not only reduces the financial statements' usefulness but also leads to qualification of the audited financial reports, in addition to being included in the auditor's management letter. However the cost of implementing international standards is quite significant since it requires qualified accountants.

ANNEXURE

ANNEXURE 1: Current accounting standards - 2008

Standard	Title	Date of issue
IAS 1 (revised)	Presentation of financial statements	Sep 2007
IAS 2	Inventories	Dec 2003
IAS 7	Statements of cash flows	Dec 1992
IAS 8	Accounting policies, changes in accounting estimates and errors	Dec 2003
IAS 10	Events after the reporting period	Dec 2003
IAS 11	Construction contracts	Dec 1993
IAS 12	Income taxes	Nov 2000
IAS 16	Property, plant and equipment	Dec 2003
IAS 17	Leases	Dec 2003
IAS 18	Revenue	Dec 1993
IAS 19	Employee benefits	Dec 2004
IAS 20	Accounting for government grants and disclosure of government assistance	Jan 1995
IAS 21	The effects of changes in the foreign exchange rates	Dec 2003
IAS 23 (revised)	Borrowing costs	Jan 2008
IAS 24	Related party disclosures	Dec 2003
IAS 26	Accounting and reporting by retirement benefit plans	Jan 1995
IAS 27 (revised)	Consolidated and separate financial statements	Jan 2008
IAS 28	Investments in associates	Dec 2003
IAS 29	Financial reporting in hyperinflationary economies	Jan 1995
IAS 30	Disclosure in financial statements of banks and similar financial institutions	Jan 1995
IAS 31	Interests in joint ventures	Dec 2003
IAS 32	Financial instruments: presentation	Dec 2003
IAS 33	Earnings per share	Dec 2003

Standard	Title	Date of issue
IAS 34	Interim financial reporting	Feb 1998
IAS 36	Impairment of assets	Mar 2004
IAS 37	Provision, contingent liabilities and contingent assets	Sept 1998
IAS 38	Intangible assets	Mar 2004
IAS 39	Financial instruments: recognition and measurement	Dec 2004
IAS 40	Investment property	Dec 2003
IAS 41	Agriculture	Feb 2001
IFRS 1	First time adoption of International Financial Reporting Standards	June 2003
IFRS 2	Share-based payment	Feb 2004
IFRS 3 (revised)	Business combinations	Jan 2008
IFRS 4	Insurance contracts	Mar 2004
IFRS 5	Non-current assets held for sale and discontinued operations	Mar 2004
IFRS 6	Exploration for and evaluation of mineral resources	Dec 2004
IFRS 7	Financial instruments: disclosures	Aug 2005
IFRS 8	Operating segments	Nov 2006

Annexure 2: Extent of adoption of IAS/IFRS in Namibia

	YES	%	NO	%	N/A	%	TOTAL	%
IFRS 1 First- time Adoption of International Financial Reporting Standards	7	47	1	6	7	47	15	100
IFRS 2 Share-based Payments	8	53	-	-	7	47	15	100
IFRS 3 Business Combinations	9	60	-	-	6	40	15	100
IFRS 4 Insurance Contracts	10	67	-	-	5	33	15	100
IFRS 5 Non-current Assets Held For Sale and Discontinued Operations	5	33	-	-	10	67	15	100
IFRS 6 Exploration for an Evaluation of Mineral Resources	2	13	-	-	13	87	15	100
IFRS 7 Financial Instruments	15	100	-	-	-	-	15	100
IFRS 8 Operating Segments	2	13	-	-	13	87	15	100
IAS 1 Presentation of Financial Statements	15	100	-	-	-	-	15	100
IAS 2 Inventories	4	27	1	8	8	61	15	100
IAS 7 Cash Flow Statements	15	100	-	-	-	-	15	100
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	14	93	-	-	1	7	15	100
IAS 10 Events After the Balance Sheet Date	14	93	-	-	1	7	15	100
IAS 11 Construction Contracts	-	-	-	-	15	100	15	100
IAS 12 Income Taxes	15	100	-	-	-	-	15	100
IAS 16 Property, Plant and Equipment	15	100					15	100
IAS 17 Leases	15	100					15	100
IAS 18 Revenue	14	93			1	7	15	100
IAS 19 Employee Benefits	14	93			1	7	15	100
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance					15	100	15	100
IAS 21 The Effects of Changes in Foreign Exchange Rates	13	87			2	13	15	100
IAS 23 Borrowing Costs	2	13			13	87	15	100
IAS 24 Related Party Disclosures	15	100					15	100
IAS 26 Accounting and Reporting by Retirement Benefit Plans	10	71			5	29	15	100
IAS 27 Consolidated and Separate Financial Statements	15	100					15	100

	YES	%	NO	%	N/A	%	TOTAL	%
IAS 28 Investment in Associates	14	93			1	7	15	100
IAS 29 Financial Reporting in Hyperinflationary Economies			1	7	14	93	15	100
IAS 31 Interests in Joint Ventures	7	47			8	53	15	100
IAS 32 Financial Instruments: Presentation	12	92			3	8	15	100
IAS 33 Earnings per Share	11	73			4	27	15	100
IAS 34 Interim Financial Reporting	8	57			6	36	15	100
IAS 36 Impairment of Assets	12	80	1	7	2	14	15	100
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	15	100					15	100
IAS 38 Intangible Assets	15	100					15	100
IAS 39 Financial Instruments: Recognition and Measurement	15	100					15	100
IAS 40 Investment Property	15	100					15	100
IAS 41 Agriculture					15	100	15	100

Adopted from Chaun's research project (2009)