

SAAPS 2 (Revised November 2013)



South African Auditing Practice Statement

**Financial Reporting Frameworks
and the Auditor's Report**

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This South African Auditing Practice Statement (SAAPS) 2 (Revised November 2013), *Financial Reporting Frameworks and the Auditor's Report* was prepared by the Committee for Auditing Standards (CFAS) of the Independent Regulatory Board for Auditors (IRBA) and was approved for issue in November 2013.

SAAPS 2 (Revised November 2013) contains conforming amendments arising from the withdrawal of the *South African Statements of Generally Accepted Accounting Practice* SA GAAP from 1 December 2012 and the issue of the Accounting Standards Board (ASB) Directive 5 Appendix I. SAAPS 2 (Revised November 2013) provides guidance to registered auditors on the application of International Standards on Auditing (ISAs) in determining the acceptability of the financial reporting framework applied in the preparation of a set of financial statements.

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SOUTH AFRICAN AUDITING PRACTICE STATEMENT 2
(REVISED NOVEMBER 2013)
FINANCIAL REPORTING FRAMEWORKS AND THE AUDITOR'S REPORT

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This South African Auditing Practice Statement (SAAPS) 2 (Revised November 2013) *Financial Reporting Frameworks and the Auditor's Report*, provides guidance to registered auditors on the application of International Standards on Auditing (ISA) in determining the acceptability of the financial reporting framework applied in the preparation of a set of financial statements.

South African Practice Statements are developed and issued by the IRBA to provide practical assistance to auditors in the implementation of relevant International or South African *Standards on Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements*. South African Practice Statements do not impose requirements on auditors beyond those included in the International or South African Standards or South African regulatory requirements and do not change the auditor's responsibility to comply, in all material respects, with the requirements of the International or South African Standards or with South African regulatory requirements relevant to the audit, review, other assurance or related services engagement.

An auditor is required to have an understanding of the entire text of every South African Practice Statement to enable the auditor to assess whether or not any particular South African Practice Statement is relevant to an engagement, and if so, to enable the auditor to apply the requirements of the particular International or South African Standard/s to which the South African Practice Statement relates, properly.

In terms of section 1 of the Auditing Profession Act, No 26 of 2005 (the Act), a South African Practice Statement is included in the definition of “auditing pronouncements” and in terms of the Act, the auditor must, in the performance of an audit, comply with those standards, practice statements, guidelines and circulars developed, adopted, issued or prescribed by the Regulatory Board.

Introduction

Scope

1. This SAAPS provides guidance to registered auditors (auditor/s) on the application of International Standards on Auditing (ISAs) in determining the acceptability of the financial reporting framework applied in the preparation of a set of financial statements, thereby establishing:
 - Whether the precondition for an audit¹ is present; and
 - The effect of the financial reporting framework applied by management on the auditor's report in South Africa.²
2. The guidance contained in this SAAPS does not establish new requirements or contain exemptions from the requirements of the ISAs and should be read with the ISAs, as applicable. The auditor exercises professional judgement to determine the extent to which any of the guidance provided in this SAAPS may be appropriate in the light of the requirements of the ISAs and the auditor's particular circumstances.
3. The ISAs that have particular reference to financial reporting frameworks and the auditor's report dealt with in this SAAPS are:
 - *ISA 200 Overall Objective of the Independent Auditor and the Conduct of an Audit in accordance with International Standards on Auditing*
 - *ISA 210 Agreeing the Terms of Audit Engagements*
 - *ISA 700 Forming an Opinion and Reporting on Financial Statements*
 - *ISA 705 Modifications to the Opinion in the Independent Auditor's Report*
 - *ISA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
 - *ISA 800 Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*
4. This SAAPS does not incorporate the requirements of:
 - *ISA 805, Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement (ISA 805)*. The principles dealt with in this SAAPS may, however, be applied to ISA 805 in determining the acceptability of the financial reporting

¹ ISA 210, paragraph 6(a)

² ISAs 700, 705, 706 and 800

framework and the effect that the financial reporting framework has on the auditor's report.

- ISA 810, *Engagements to Report on Summary Financial Statements* (ISA 810), as the 'applied criteria' referred to in ISA 810 is not the 'applicable financial reporting framework' as contemplated in the preparation of financial statements.

5. This SAAPS does not extend to:

- An engagement to review financial statements in accordance with *International Standards on Review Engagements* (ISREs). It is nevertheless considered by a reviewer in determining the acceptability of the financial reporting framework applicable to a review engagement; and
- An assurance engagement in accordance with *International Standards on Assurance Engagements other than Audits or Reviews of Historical Financial Information* (ISAEs). It is nevertheless considered by the assurance provider in determining the suitability of the criteria applicable to the provision of assurance in an engagement of this nature.

Terms used in this SAAPS

6. For purposes of this SAAPS the following terms defined in the ISAs and reflected in the *Glossary of Terms* (February 2009) have the same meanings attributed to them:³

- 'applicable financial reporting framework';
- 'general purpose financial statements' and 'special purpose financial statements';
- 'general purpose framework' and 'special purpose framework';
- 'fair presentation framework' and 'compliance framework';
- 'criteria' and 'applied criteria'.

7. The 'applicable financial reporting framework' referred to in the ISAs, for all practicable purposes, is the same as the 'identified financial reporting framework' referred to in the definition of 'audit' in the Auditing Profession Act, No. 26 of 2005.⁴

8. The term 'basis of accounting' used in this SAAPS is used in the context of certain special purpose frameworks.

³ These definitions are provided in Appendix 1 of this SAAPS

⁴ The Auditing Profession Act (2005) section 1

9. The term 'management' used in this SAAPS refers to the person(s) or body with executive responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework or basis of accounting, for example the directors of a company, the trustees of a trust, an accounting officer or accounting authority in the public sector.

Purpose of an audit of financial statements

10. The purpose of an audit is to enhance the degree of confidence of the intended users in the financial statements and this is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.⁵ Accordingly an audit meets the definition of an assurance engagement as contained in the *International Framework for Assurance Engagements (the Framework)*⁶.

Determining the acceptability of the financial reporting framework

11. The *Framework* defines and describes the elements of an assurance engagement and, in particular, provides guidance in determining the intended users of an assurance report and the characteristics of suitable criteria against which the financial reporting framework should be assessed.

Intended users

12. The intended users⁷ of the auditor's report on the financial statements are the person, persons or class of persons for whom the auditor prepares the auditor's report. Examples of intended users are the following:
- A wide range of users for which general purpose financial statements are prepared. These include:
 - Those identified by statute, such as:
 - the shareholders or members in the case of the Companies Act, 2008 to whom the auditor's report is addressed;
 - regulatory authorities and the South African Revenue Service (SARS);

⁵ ISA 200, paragraph 3

⁶ The *Framework*, paragraph 7

⁷ ISA 210, paragraphs A2 – A10 provide further guidance, ISA 800, paragraphs 8(b) and A5

- those in the public sector, such as Parliament, Provincial Legislatures, elected officials, National / Provincial Treasuries;
- Those who might find the financial statements useful such as existing or potential investors, institutional and individual lenders, financial institutions, creditors and the general public.
- Specific users for which special purpose financial statements are prepared. These include:
 - Those identified by agreement between the auditor, the responsible party (usually, but not necessarily, the client) and those engaging the auditor (the client), such as donors;
 - Those identified by a founding document, such as the trustees of a trust; and
 - Those specific to the circumstances of the entity, such as the members of a club or religious institution, the parents of learners in a school and special interest groups.

Characteristics of suitable criteria

13. The auditor considers whether, in the context of the engagement circumstances, a financial reporting framework exhibits the following characteristics of suitable criteria:⁸

- **Relevance:** relevant criteria contribute to conclusions that assist decision-making by the intended users.
- **Completeness:** criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the engagement circumstances are not omitted. Complete criteria include, where relevant, benchmarks for presentation and disclosure.
- **Reliability:** reliable criteria allow reasonably consistent evaluation or measurement of the subject matter (other historical financial information) including, where relevant, presentation and disclosure, when used in similar circumstances by similarly qualified practitioners.
- **Neutrality:** neutral criteria contribute to conclusions that are free from bias.
- **Understandability:** understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.

⁸ The *Framework*, paragraph 36, ISA 210, Appendix 2 and ISA 800, paragraph A8

14. The evaluation or measurement of a subject matter on the basis of the auditor's own expectations, judgments and individual experience would not constitute suitable criteria.
15. The relative importance of each of these characteristics to a particular engagement is a matter of judgment, and depends on the engagement circumstances. For example, even though a financial reporting framework designed for a special purpose may not result in the preparation of historical financial information that is neutral, that framework may still be acceptable in the engagement circumstances.

Preconditions for an audit

16. In order to establish whether in the context of engagement acceptance the preconditions for an audit are present, the auditor inter alia determines the acceptability of the financial reporting framework⁹ to be applied by management in the preparation of financial statements. The auditor further obtains an understanding of the entity's selection and application of accounting policies as part of obtaining an understanding of the entity and its environment.¹⁰
17. Factors that are relevant to the auditor's determination of the acceptability of the financial reporting framework to be applied in the preparation of financial statements include:¹¹
 - The nature of the entity;
 - The purpose of the financial statements;
 - The nature of the financial statements; and
 - Whether law or regulation prescribes the applicable financial reporting framework.

Key factors to be considered for special purpose financial statements include:¹²

- The purpose of the financial statements;
- The intended users; and
- The steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances.

General purpose and special purpose frameworks

18. In order to determine the acceptability of the financial reporting framework, the auditor determines whether the financial statements are prepared to meet the

⁹ ISA 210, paragraph 6(a), A2 – A10 and Appendix 2

¹⁰ ISA 800, paragraph 10

¹¹ ISA 210, paragraph A4

¹² ISA 800, paragraph 8 and paragraph A5

common financial information needs of a wide range of users (general purpose financial statements) or the financial information needs of specific users (special purpose financial statements).

General purpose financial statements are prepared in accordance with a general purpose framework and special purpose financial statements are prepared in accordance with a special purpose framework.

19. At present there is no objective and authoritative basis that has been generally recognised globally for determining the acceptability of general purpose financial reporting frameworks and in the absence of such a basis, financial reporting standards established by organisations that are authorised or recognised to promulgate such standards to be used by certain types of entities are presumed to be acceptable for general purpose financial statements prepared by such entities, provided the organisations follow an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders.¹³ The auditor relies on the processes followed by these organisations to develop general purpose financial reporting frameworks which are acceptable for general purpose financial statements.
20. Prior to the establishment of the Financial Reporting Standards Council (FRSC), the Accounting Practices Board (APB) previously developed general purpose frameworks that could be applied by all entities, including companies, other than those in the public sector. The APB's standard setting functions in South Africa no longer apply and the APB is in the process of winding up. In the absence of a recognised accounting standard setter in South Africa, the standards issued by the International Accounting Standards Board (IASB) apply. In the case of entities in the public sector, the recognised accounting standard setter is the Accounting Standards Board (ASB).
21. Law and regulation may prescribe the financial reporting framework to be used in the preparation of general purpose financial statements for certain types of entities. In the absence of indications to the contrary, such a financial reporting framework is presumed acceptable for general purpose financial statements prepared by such entities.¹⁴
22. The following laws and regulations, for example, contain prescribed applicable financial reporting frameworks:
 - The Companies Act and Regulations;¹⁵
 - The JSE Listings Requirements;

¹³ ISA 210, paragraph A8 and ISA, 200 paragraph A7

¹⁴ ISA 210, paragraph A9 and ISA 800, paragraph A6

¹⁵ Refer to Appendix 3 in this SAAPS for further guidance

- The Public Finance Management Act, No. 1 of 1999 (PFMA) and Regulations;
- Directive 5 *Determining the GRAP Reporting Framework* issued by the ASB in 2009, as amended¹⁶.

The Companies Act empowers the Minister responsible for companies, the Minister of Trade and Industry, after consulting with the FRSC to make regulations establishing financial reporting standards for companies and close corporations subject to requirements¹⁷.

The PFMA empowers the ASB to set standards of generally recognised accounting practice (GRAP)¹⁸ and the Minister of Finance, after consulting the Auditor-General, to prescribe the implementation of these standards. The PFMA also empowers the National Treasury to prescribe the accounting standards for public sector entities in the absence of implementation dates for the standards of generally recognised accounting practice. The Public Audit Act, No. 25 of 2004 (PAA) empowers the Auditor-General to prescribe the format and content of the financial statements of a public sector entity in the absence of any requirement regarding the financial reporting framework in the legislation applicable to that entity.

A body authorised by statute to prescribe financial reporting frameworks to be applied in the preparation of financial statements by certain entities does not constitute a recognised accounting standard setter.

23. The following are examples of general purpose frameworks:

- Standards approved by the APB and / or the FRSC and / or the IASB
 - International Financial Reporting Standards (IFRS)
 - International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs)¹⁹
 - South African Statements of Generally Accepted Accounting

¹⁶ Section 89(1)(b) of the PFMA requires the ASB to prepare and publish directives and guidelines concerning standards of GRAP as set out in paragraph 89(1)(a) of the PFMA

¹⁷ Companies Act, 2008, sections 204(c) and 29(5)

¹⁸ PFMA, Section 89(1)(a)

¹⁹ The South African Statement of GAAP for SMEs may still be used for year-ends ending up to and including one year after the effective date of the Companies Act, 2008; which is 1 May 2011. However, companies and close corporations must be mindful of regulation 27 of the Companies Regulations, 2011, that prescribes financial reporting standards for certain categories of companies. The Financial Reporting Standards so prescribed must be applied by every company with a financial year end starting on or after the effective date of the Companies Act, 2008

Practice (SA GAAP / GAAP)²⁰

- Standards approved by the ASB
 - Standards of Generally Recognised Accounting Practice (GRAP)
 - Statements of GAAP called the “GAAP Reporting Framework”²¹
- The Departmental Financial Reporting Framework prescribed by the National Treasury

24. The following are examples of special purpose frameworks:

- Where management does not have a choice in the application of the framework:
 - The Regulatory Reporting Requirements for Retirement Funds in South Africa approved by the Financial Services Board is an example of a special purpose framework established by a regulator to meet the requirements of that regulator.
- Where management has a choice in the application of the framework:
 - A basis of accounting applied by an entity that comprises a set of criteria used in preparing financial statements which applies to all material items and which has been designed specifically for the intended users of the financial statements of the entity.

Fair presentation and compliance frameworks

25. A financial reporting framework, whether a general purpose framework or a special purpose framework, may be classified as either a fair presentation framework or a compliance framework.
26. In considering whether a framework may be classified as a fair presentation framework, the auditor considers whether it contains the acknowledgements in the definition of a fair presentation framework. It should be noted that the

²⁰ SA GAAP may still be used for financial reporting periods ending on or before 1 December 2012 (i.e. SA GAAP is withdrawn for financial years commencing on or after 1 December 2012). The AC 500 Standards formally formed part of SA GAAP and have been replaced by the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee

²¹ The ASB's, Appendix I (1 April 2012) to Directive 5, dealing with Statements of Generally Accepted Accounting Practice (GAAP) as at 1 April 2012 recognises the withdrawal of Statements of GAAP from 1 December 2012. For those Government Business Enterprises (GBE's) that apply Statements of GAAP, the ASB has agreed that, as an interim measure, these entities should continue to apply Statements of GAAP (as issued at 1 April 2012) – called “GAAP Reporting Framework” – until the ASB has undertaken more extensive research to identify the most appropriate framework. Appendix I (1 April 2012) to Directive 5 also provides the basis for determining Statements of GAAP.

departures referred to in the acknowledgements, are only to achieve fair presentation, and for no other reason.

27. The following financial reporting frameworks approved and issued by standard setters in South Africa are recognised as fair presentation frameworks:
- International Financial Reporting Standards (IFRS);
 - South African Statements of Generally Accepted Accounting Practice (SA GAAP)²²;
 - International Financial Reporting Standards for Small and Medium Sized Entities (IFRS for SMEs);²³
 - Standards of Generally Recognised Accounting Practice (GRAP);
 - Statements of GAAP called the “GAAP Reporting Framework”²⁴.
28. A financial reporting framework, whether prescribed by law or regulation or management, which is not a recognised financial reporting framework established by a standard setter and where the entity may not deviate from its prescribed form and content, is a compliance framework. When the financial statements are prepared in accordance with a compliance framework the auditor is not required to evaluate whether the financial statements achieve fair presentation.
29. When a departure from the prescribed financial reporting framework is granted by the body or entity who prescribed the framework, the auditor determines whether that framework is still a fair presentation framework and whether the framework is still acceptable.²⁵
30. Where management has selected a compliance framework or basis of accounting where it has a choice, the auditor determines the acceptability of the basis of accounting²⁶ given the factors referred to in paragraph 17 above.
31. In determining the acceptability of a compliance framework for general purpose financial statements the auditor should especially consider whether such financial statements may be suitable for general purposes, as the users may not understand the basis of accounting.
32. The financial reporting framework applied by an entity such as a school, club, religious institution, farming operation, trust, partnership and body corporate in the preparation of its financial statements may be a requirement of law or regulation, an agreement or stipulation in that entity's founding document, for

²² See footnotes 19 to 21 and paragraphs 19 to 23

²³ See footnotes 19 to 21 and paragraphs 19 to 23

²⁴ See footnote 21

²⁵ ISA 800, paragraph A3

²⁶ ISA 800, paragraph 8

example, a trust deed. The specified basis of accounting may be a fair presentation framework or a compliance framework.

The effect of the financial reporting framework, or basis of accounting, on the auditor's report

33. The auditor's report on general purpose financial statements, whether prepared in accordance with a fair presentation framework or a compliance framework, follows the guidance in ISA 700. When the financial statements are special purpose financial statements, whether prepared in accordance with a fair presentation framework or a compliance framework, the auditor's report additionally follows the guidance in ISA 800.
34. The requirements of the applicable financial reporting framework and any legislative requirements determine the form and content of a set of financial statements and affects the wording in the auditor's *Report on the Financial Statements*. Law or regulation may impose additional reporting responsibilities on the auditor which have no effect on the financial reporting framework applied in the preparation of the financial statements. These are dealt with in the auditor's *Report on Other Legal and Regulatory Requirements*.
35. The auditor's report on a company's financial statements refers to the applicable fair presentation financial reporting framework followed by '... and the requirements of the Companies Act of South Africa'. The latter refers to the financial reporting requirements additional to those contained in the identified financial reporting framework, which include the requirements of the Companies Act, such as those contained in Section 30 Annual Financial Statements. The reference to the Companies Act also indicates that the financial statements are that company's statutory financial statements and is omitted when the financial statements are not a company's statutory financial statements.
36. In the case of a public sector entity, which may also be a company, the auditor's report also refers to the PFMA, Local Government: Municipal Finance Management Act, No. 56 of 2003 (MFMA), the Division of Revenue Act (DORA) or any specific enabling legislation which prescribes the financial reporting framework and any additional financial reporting requirements, additional to those contained in the applicable financial reporting framework.

For example, in the case of a company which is a public entity as defined in the PFMA, the auditor's report refers to the applicable fair presentation financial reporting framework followed by '... the requirements of the Public Finance Management Act of South Africa, and the requirements of the Companies Act of South Africa'. Reference is made to the PFMA because the entity has financial reporting requirements additional to the identified financial reporting framework and those in the Companies Act.

37. The financial reporting framework referred to in the financial statements and auditor's report must be available to the intended users to allow them to understand how the financial position, financial performance and cash flows have been evaluated or measured in the case of a fair presentation framework, or whether the financial statements have been prepared in accordance with the applicable basis of accounting in the case of a compliance framework.
38. Legislation, regulatory requirements and legal agreements often refer to 'generally accepted accounting practice (gaap)', 'generally recognised accounting practice (grap)' and 'financial reporting standards', which are not an identified general purpose financial reporting framework in accordance with the ISAs.
39. Special purpose financial statements prepared in accordance with a compliance framework should indicate their purpose and, if necessary, identify the intended users; consequently:
- The basis of preparation paragraph should adequately describe the basis of accounting.
 - Where the basis of accounting is based on a fair presentation framework with certain departures (where the aim is not to achieve fair presentation), it is preferable to describe the basis of accounting, for example, 'IFRS except for those identified standards (or components of identified standards) that have not been complied with', as the user is better able to understand the described basis of accounting than when the description simply refers to the accounting policies set out in the financial statements.
 - Where management has a choice in the basis of accounting, it is recommended that the financial statements include a statement that management considers the basis of accounting applied to be suitable for the intended users.
 - The auditor's report refers to the purpose of the financial statements and contains an 'emphasis of matter' paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose.²⁷
40. When the auditor expresses an unmodified opinion in accordance with a fair presentation framework, the auditor's opinion, unless otherwise required by law or regulation, includes the phrase 'the financial statements present fairly, in all material respects, the financial position, financial performance and cash flows,

²⁷ ISA 800, paragraphs 14, A14 and A15

in accordance with' and refers to one of the financial reporting frameworks identified in paragraph 27 above.

41. When the auditor expresses an unmodified opinion in accordance with a compliance framework, the opinion states that 'the financial statements are prepared, in all material respects, in accordance with the [*describe applicable financial reporting framework*]'.
42. The auditor issues an appropriately modified auditor's opinion in accordance with ISA 705:
 - When the auditor concludes that the financial statements do not adequately describe or refer to the applicable financial reporting framework or basis of accounting.
 - When an entity departs materially from the applicable or prescribed financial reporting framework and the aim of the departure is not to achieve fair presentation.
43. Where the auditor is obliged by law or regulation to use the phrase 'present fairly' in the auditor's opinion and the financial reporting framework is not a fair presentation framework, the auditor's report contains an '*Other matters*' paragraph when the auditor concludes that an explanation is required to mitigate any possible misunderstanding of the phrase 'present fairly'.
44. When the auditor concludes that an explanation in the '*Other matters*' paragraph cannot mitigate any possible misunderstanding, the auditor evaluates the effect of the misleading nature of the financial statements and modifies the auditor's opinion accordingly.

When a financial reporting framework is not acceptable

45. If it is determined that the financial reporting framework is not acceptable, and the preconditions for an audit have not been met, the auditor refers to ISA 210, paragraph 8, for guidance.
46. If it is determined that the financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation, the auditor refers to ISA 210, paragraphs 19 and 20, for guidance.
47. If the auditor has determined that the financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation, the auditor evaluates the effect of the misleading nature of the financial statements on the auditor's report and modifies the auditor's opinion accordingly.²⁸

²⁸ ISA 210, paragraph 20

48. It is unlikely that a fair presentation framework, approved and issued by a standard setter in South Africa (see paragraph 23 above), may be unacceptable in the circumstances of the engagement. It is also unlikely that, where management does not have a choice in the application of a 'compliance framework', such as that required by a regulator, such framework may be unacceptable. It is more likely that where management has a choice in the application of the framework, such framework may be unacceptable.

Other matters

49. The application of the financial reporting frameworks dealt with in this SAAPS is presented by way of a diagram in Appendix 2.
50. Illustrative auditor's reports on financial statements are contained in SAAPS 3 (Revised 2013)

Appendix 1

Definitions²⁹

- a) *Applicable financial reporting framework* is the financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of financial statements that is *acceptable* in view of the nature of the entity and the objective of financial statements or that is required by law or regulation.
- b) *Applied criteria* (in the context of ISA 810) are the criteria applied by management in the preparation of summary financial statements.
- c) *Compliance framework* refers to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements included in the definition of a fair presentation framework.
- d) *Criteria* are the benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. There can be different criteria for the same subject matter. Suitable criteria are required for reasonably consistent evaluation or measurement of a subject matter within the context of professional judgement.
- e) *Fair presentation framework* refers to a financial reporting framework that requires compliance with the requirements of the framework and:
- Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
 - Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.
- f) *General purpose financial statements* are financial statements prepared in accordance with a general purpose framework
- g) *General purpose framework* is a financial reporting framework designed to meet the common information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework
- h) *Special purpose financial statements* are financial statements prepared in

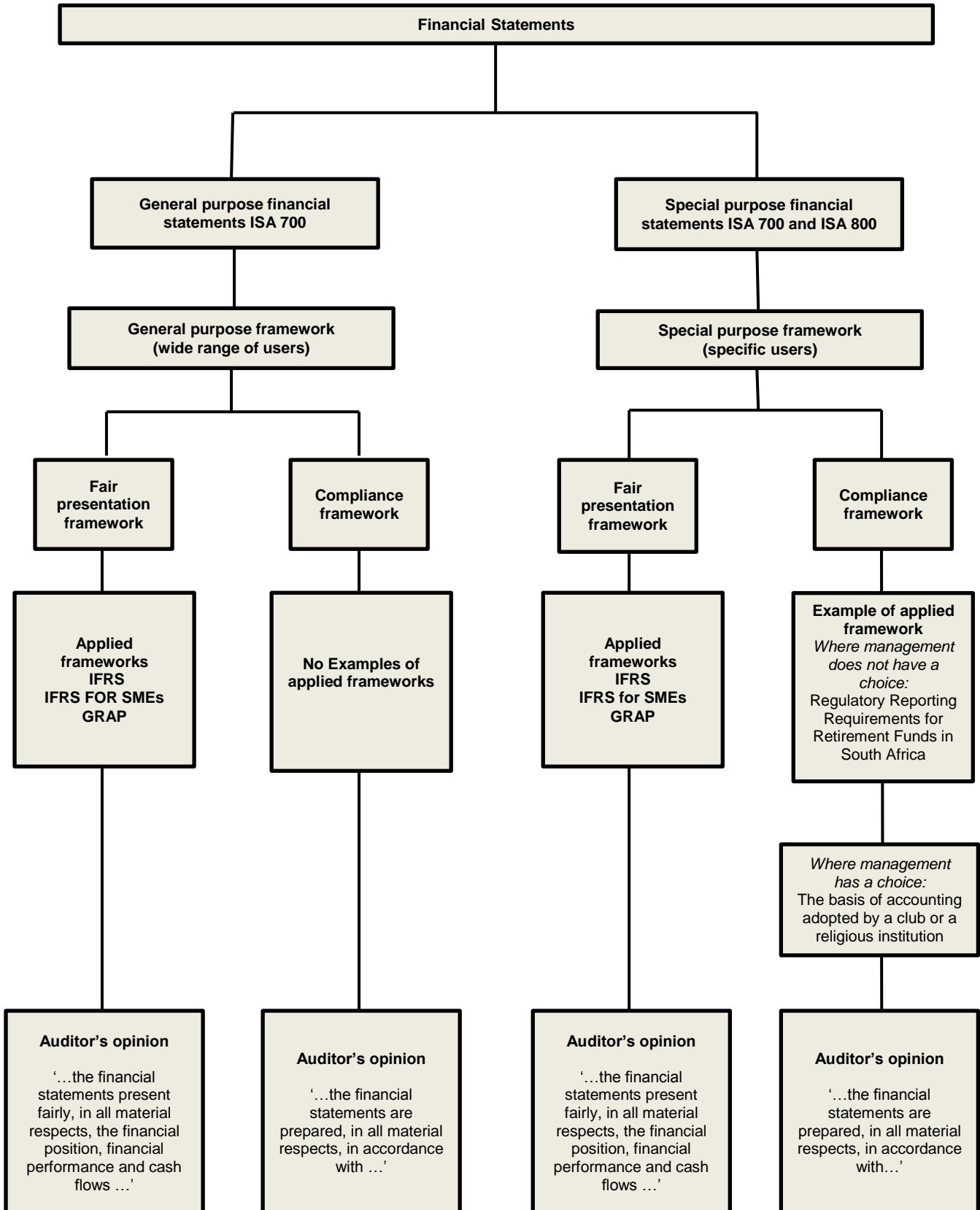
²⁹ Refer to paragraph 6 – These definitions referred to in SAAPS 2 are terms defined in the ISAs and reflected in the *Glossary of Terms* (February 2009) and have the same meanings attributed to them

accordance with a special purpose framework

- i) *Special purpose framework* is a financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.

Appendix 2

Diagram of the financial reporting frameworks



Appendix 3

Financial reporting frameworks in accordance with Regulation 27 of the Companies Act³⁰

Type of Company	Sub-categories (Note 1)	Financial Statements	Financial Reporting Framework
State Owned Company			IFRS, but in the case of any conflict with any requirements in terms of the Public Finance Management Act, the latter prevails
Public Company	Listed		IFRS
Public Company	Unlisted		IFRS and IFRS for SME's
Private Company – including Close Corporations	Fiduciary Assets >R5m		IFRS and IFRS for SME's
Private Company – including Close Corporations	Public Interest Score >350		IFRS and IFRS for SME's
Private Company – including Close Corporations	Public Interest Score >=100<350	Independently Compiled	IFRS, IFRS for SME's and SA GAAP ³¹
Private Company – including Close Corporations	Public Interest Score >=100<350	Internally Compiled	IFRS, IFRS for SME's and SA GAAP
Private Company – including Close Corporations	Public Interest Score <100	Independently Compiled	IFRS, IFRS for SME's and SA GAAP
Private Company – including Close Corporations	Public Interest Score <100	Internally Compiled	The Financial Reporting Standard as determined by the company for as long as no Financial Reporting Standard is prescribed
Personal Liability Company	Fiduciary Assets >R5m		IFRS and IFRS for SME's

³⁰ Companies Act, Regulation 27

³¹ The South African Statement of GAAP for SMEs may still be used for year-ends ending up to and including one year after the effective date of the Companies Act, 2008; which is 1 May 2011. However, companies and close corporations must be mindful of regulation 27 of the Companies Regulations, 2011, that prescribes financial reporting standards for certain categories of companies. The Financial Reporting Standards so prescribed must be applied by every company with a financial year end starting on or after the effective date of the Companies Act, 2008. SA GAAP may still be used for financial reporting periods ending on or before 31 October 2013 (i.e. SA GAAP is withdrawn for financial years commencing on or after 1 December 2012).

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FINANCIAL REPORTING FRAMEWORKS AND THE AUDITOR'S REPORT

Type of Company	Sub-categories (Note 1)	Financial Statements	Financial Reporting Framework
Personal Liability Company	Public Interest Score >350		IFRS and IFRS for SME's
Personal Liability Company	Public Interest Score >=100<350	Independently Compiled	IFRS, IFRS for SME's and SA GAAP
Personal Liability Company	Public Interest Score >=100<350	Internally Compiled	IFRS, IFRS for SME's and SA GAAP
Personal Liability Company	Public Interest Score <100	Independently Compiled	IFRS, IFRS for SME's and SA GAAP
Personal Liability Company	Public Interest Score <100	Internally Compiled	The Financial Reporting Standard as determined by the company for as long as no Financial Reporting Standard is prescribed
Non-profit Company	Linked to state or foreign company or statutory/regulatory function		IFRS, but in the case of any conflict with any requirements in terms of the Public Finance Management Act, the latter prevails
Non-profit Company	Fiduciary Assets >R5m		IFRS and IFRS for SME's
Non-profit Company	Public Interest Score >350		IFRS and IFRS for SME's
Non-profit Company	Public Interest Score >=100<350	Independently Compiled	IFRS, IFRS for SME's and SA GAAP
Non-profit Company	Public Interest Score >=100<350	Internally Compiled	IFRS, IFRS for SME's and SA GAAP
Non-profit Company	Public Interest Score <100	Independently Compiled	IFRS, IFRS for SME's and SA GAAP
Non-profit Company	Public Interest Score <100	Internally Compiled	The Financial Reporting Standard as determined by the company for as long as no Financial Reporting Standard is prescribed

Note 1: Fiduciary Assets - Regulation 28 – assets held at any time during the year in the ordinary course of primary activities in a fiduciary capacity for persons not related to the company

Public interest score – Regulation 26 – calculated at financial year end