

SMEs reporting revival and Covid-19's influence

By [Milton Segal](#), issued by [SAICA](#)

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In 2019, the International Accounting Standards Board (IASB) sent out a Request for Information (RFI) to assess the market's appetite for the potential comprehensive review and overhaul of financial reporting for Small Medium Enterprises (IFRS for SMEs), writes Milton Segal, SAICA Senior Executive: Corporate Reporting.



Milton Segal

The move by the IASB was widely encouraged. In the market, there is a large and dominant focus on financial reporting for larger and listed entities that prepare their financial statements on full IFRS, often at a great cost. Full IFRS is the benchmark, the international standard and the darling of financial accountants, regulators and perhaps even auditors. At times, IFRS for SMEs, and the significance thereof is overlooked.

This RFI is wide ranging, prompting questions around the need for subtle revisions to the current SME standards, to the potentially dramatic alignment of the current SME standards to that of the current set of full of IFRS standards. This is indeed welcome as IFRS for SME has remained similar to its original format despite being in existence for over 10 years. The trouble is, as the full suite of IFRS has continued to evolve, expand and be refined, it has left IFRS for SMEs behind. This, however, has been of little concern to the majority of IFRS for SME users, who are well served by its simpler and cheaper approach.

The timing would have been perfect for the IASB to embark on their program on examining the SME standards, except for one significant obstacle that was not on the radar when the work plan was thought out and enabled - Covid-19. With the commercial world thrown into disarray due to worldwide lockdowns, businesses, most especially the SMEs, have gone into survival mode, trying as best as they can to navigate this storm with the aid of government interventions around the world. One can assume then, that the quality of their financial reporting in this SME market is perhaps not a significant concern, certainly as compared to trying generate enough cash flow to pay rent, wages and the necessary taxes.

It should also be noted, that one of the main reasons for implementing IFRS for SMEs is because of the different user requirements of the financial statements. The SME user is generally an owner/manager with limited external stakeholders, and therefore their needs for information are simpler and well matched by SME reporting. It is this exact user that is busy trying to rebuild and sustain their entities as lockdown starts to ease down and industry tries to reopen.

From a reporting perspective, this is a great pity. At a time where SMEs could, and should be having robust engagements around evolving their SME reporting to a more modern, more reflective form of reporting, and the possibility of aligning their reporting closer to that of full IFRS (without the disclosure complexities), Covid-19 is not allowing this. The more technical accountants are still advocating for changes to modernise IFRS reporting, but time will tell whether the SMEs themselves have any appetite for this now. Initial findings suggest not.

Perhaps this is yet another tragedy that Covid-19 has caused. While one will always acknowledge the loss of lives as the biggest tragedy, the almost irreparable damage that it has and is causing to economies is devastating too. So much so, that even IFRS and the world class work done by the IASB cannot escape the clutches of Covid-19. IFRS for SMEs and its evolution may too be a victim of this global pandemic.

ABOUT THE AUTHOR

Milton Segal is the Senior Executive: Corporate Reporting at SAICA.

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