

Newsletter 65 – June 2017

ASB issues Conceptual Framework for General Purpose Financial Reporting

The Board approved the *Conceptual Framework for General Purpose Financial Reporting*. The Conceptual Framework outlines the foundational principles used when preparing general purpose financial reports (GPFRs), including general purpose financial statements (GPFSS). The principles in the Conceptual Framework guide the Board when it develops Standards of GRAP. It also guides the accounting and reporting by preparers in the absence of a Standard of GRAP. The Conceptual Framework aims to enhance the way in which the financial statements and other information, which complements and supplements the financial statements, are reported to create a more holistic understanding of an entity's finances and performance.

The Conceptual Framework is critical to enhancing the relevance and credibility of the Board's work as it outlines for whom GPFRs are prepared, what information those users need to make decisions and hold entities accountable, outlines the attributes of the information reported, and provides definitions for assets, liabilities, revenue and expenses (amongst others) in the public sector.

The principles in the Conceptual Framework are used by the Board to develop the specific accounting and reporting requirements in the Standards of GRAP. As such, the Conceptual Framework it is not authoritative and does not include any specific transitional arrangements. Once issued, the Conceptual Framework will replace the existing *Framework for the Preparation and Presentation of Financial Statements*.

The Conceptual Framework is based on the equivalent framework issued by the IPSASB. When developing the Conceptual Framework, the IPSASB acknowledged that there are areas where the principles in the existing Standards and those in the Conceptual Framework are not aligned. The IPSASB will review its existing Standards and where relevant, propose amendments. The ASB will monitor the IPSASB's work in this area and consider the impact on Standards of GRAP.

Highlights from the June 2017 Board meeting

The Board approved:

- Two final pronouncements, the *Conceptual Framework for General Purpose Financial Reporting* and IGRAP 19 on *Liabilities to Pay Levies*.
- One Exposure Draft on the proposed transitional provisions for GRAP 34 to 38 on *Interests in Other Entities* for comment.

The Board also considered research undertaken by the Secretariat on the need for guidance on the preparation of Interim Financial Statements.

Conceptual Framework issued

Following the public consultation process, the final *Conceptual Framework for General Purpose Financial Reporting* (Conceptual Framework) was approved for issue as a final pronouncement. There was broad support expressed for the Conceptual Framework. A number of practical and other issues were however raised about its application, in particular its role and authority, transitional provisions and effective date. Respondents were also

concerned about how differences between the Conceptual Framework and existing Standards of GRAP, such as the different recognition criteria and measurement bases, would be dealt with.

The Conceptual Framework is primarily a tool for the Board to use when it sets its Standards, and as a result, it is not authoritative. Preparers apply the Conceptual Framework when there is no existing Standard on a particular topic. As the Conceptual Framework is not authoritative, it does not override the existing Standards and pronouncements. The existing Standards will continue to be applied by entities. Given its status, there is also no effective date and no transitional provisions for the Conceptual Framework.

The IPSASB has indicated that it will review existing IPSASs to ensure alignment with its Conceptual Framework. If amendments are made to IPSASs for which there is an equivalent Standard of GRAP, the Board will consider the applicability of these amendments locally.

While the concerns noted above were relevant in the Board's final decision to issue the Conceptual Framework, they outline the need for better explanatory material on the role of the Conceptual Framework.

The Board considered the following technical issues raised by respondents:

Qualitative characteristics: Materiality as an aspect of relevance or an overall constraint on information

The qualitative characteristics are the attributes that information reported in GPFRs and GPFs embody. They are: relevance (which includes materiality), faithful representation, timeliness, understandability, and verifiability. The overall constraints on information are that the cost of producing information should not outweigh the benefits to users, and that the application of the qualitative characteristics may need to be balanced to ensure appropriate information is provided.

A respondent was of the view that materiality should be an overall constraint on information. The Board agreed that materiality should be applied when considering whether information is relevant to users. If materiality is applied as an overall constraint, it will only be applied after all the other aspects are considered and the Board did not believe this is appropriate.

Identifying reporting entities in the South African public sector

The Conceptual Framework indicates the principles that should be used to identify a "reporting entity", i.e. whether an entity, a programme or identifiable area of activity, should prepare GPFRs, including GPFs.

Respondents observed that legislation usually identifies which entities should prepare GPFRs and were concerned that the Conceptual Framework may conflict with existing legislation in the public sector.

As the Conceptual Framework is not authoritative, legislative requirements will always take precedence. However, to ensure that the Conceptual Framework is applied correctly, the Board added a discussion explaining how reporting entities should be identified in the South African context. Where legislation requires entities to prepare GPFs, then they are reporting entities in terms of the Conceptual Framework. Where legislation is not specific or unclear, the principles in the Conceptual Framework are used to identify if an entity should prepare GPFRs, including GPFs. The Conceptual Framework can also be used to identify

whether particular programmes or identifiable areas of activity are reporting entities, which may be over and above the reporting by particular entities in terms of legislation.

Respondents were also concerned that the references to programmes or identifiable areas of activity being reporting entities may lead entities to exclude certain assets, liabilities, revenue and expenses from their GPFs prepared in terms of legislation. This concern is best addressed by the existing Standards of GRAP which indicate what activities, assets, liabilities, revenues and expenses should be included in a specific set of financial statements.

Defining contributions by owners

“Contributions by owners” is the term for capital contributed to public sector entities by their owners, and “distributions to owners” is the capital repaid or dividends or similar distributions paid by the entity.

The Board proposed defining contributions by owners as those amounts that establish or increase an entity’s interest in another. Respondents questioned how contributions should be treated when the entity is already wholly owned. Such contributions are often made to re-capitalise an entity or to provide funding for specific capital programmes. The Board agreed that reference should also be made to “maintaining” an entity’s interest in another.

Interpretation issued

The Board approved a final Interpretation of the Standards of GRAP on *Liabilities to Pay Levies* (IGRAP 19). IGRAP 19 is effective for financial years commencing on or after 1 April 2019, with retrospective application.

IGRAP 19 is an Interpretation of GRAP 19 *Provisions, Contingent Liabilities and Contingent Assets* and provides guidance on when to recognise a liability to pay a levy. A levy is a non-exchange transaction resulting in an outflow of resources embodying economic benefits or service potential that is imposed by government on entities in accordance with legislation or similar means.

Respondents generally supported the proposed IGRAP, but raised questions about whether certain transactions are considered levies. In particular, questions were raised about appropriations and similar intergovernmental transfers, and VAT paid by non-registered vendors.

The Board concluded that, while appropriations and intergovernmental transfers could meet the definition of a levy as described, such payments are in fact social benefits. Social benefits are not within the scope of GRAP 19, and as a result are excluded from IGRAP 19.

VAT paid by non-registered vendors could also meet the definition of a levy. However, as VAT paid by non-registered vendors is included in the cost of the good or service acquired, the Board did not believe accounting for the VAT using IGRAP 19 and using the other Standards of GRAP to account for the good or service, was appropriate. As a result, VAT paid by non-registered vendors is not subject to the principles of IGRAP 19.

Issued for Comment

The Exposure Draft of the proposed transitional provisions for GRAP 34 to 38 on *Interests in Other Entities* (ED 157) was approved for comment. GRAP 34 to 38, once effective, replaces GRAP 6 *Consolidated Financial Statements*, GRAP 7 *Investments in Associates*, and GRAP 8 *Interests in Joint Ventures*.

The proposed transitional provisions are based on those in the IPSASs and IFRSs. As no application issues were raised during the public consultation on GRAP 34 to 38, no South African specific transitional provisions were identified.

ED 157 also outlines the proposed effective date for GRAP 34 to 38. Depending on the outcome of the public consultation on ED 157, this is the date that will be recommended to the Minister of Finance for the implementation of GRAP 34 to 38.

Comments on the proposed effective date and transitional provisions are welcomed.

Research and other topics

The Board agreed to undertake research into whether there is a need to develop guidance on the preparation of Interim Financial Statements. Interim Financial Statements are a set of financial statements prepared using the relevant Standards, and are published for use by a wide range of users.

The research aimed to identify if any legislative or other requirements exist to prepare Interim Financial Statements. At present, there is no legal or similar requirement to prepare Interim Financial Statements. Entities are however required to prepare In-year Reports, which is quarterly financial and other information provided to specific parties. The required information is submitted directly to a specific party, e.g. the National Treasury or relevant Provincial Treasury rather than being published for use by a wide range of users.

A selected group of users and other interested parties were also asked whether there is a need to prepare Interim Financial Statements. Generally users did not believe that Interim Financial Statements were necessary at this point in time.

Based on the feedback received, the Board agreed that no further work is required in this area at present.

Coming up in the next quarter

The Board has initiated five new projects in the 2nd quarter of the year, which will guide its work for most of 2017/18. These projects are as follows:

- Guidance on Accounting for Adjustments to Revenue.
- Guidance on Accounting for Landfill Sites.
- Revision of GRAP 104 on *Financial Instruments*.
- Research into the way in which the Statement of Financial Performance is presented in practice.
- Guidance on the Application of Materiality.

A comment letter will also be drafted for submission to the IPSASB on its Consultation Paper on *Reporting for Heritage in the Public Sector*. Interested parties should submit comments by 15 September 2017.

General

Next ASB meeting

The next Technical Committee meeting is the 7th of September 2017 and the Board's next meeting is scheduled for 28th of September 2017. As always, observers are welcome to attend these meetings, but it should be noted that space is limited. In order to accommodate

observers at meetings, interested parties are asked to complete the registration form available on the website.

Accessing documents issued by the ASB

Persons and organisations interested in the activities of the ASB should monitor the website, www.asb.co.za, or contact info@asb.co.za, for the release of the latest Exposure Drafts for public comment.

A GRAP Handbook containing the latest amendments to the Standards of GRAP as well as other pronouncements issued by the Board has been published and is available to stakeholders. A copy of the order form can be accessed on the ASB's website.

Translations of the Standards of GRAP (isiZulu, Sesotho and Afrikaans) are available on the ASB's website.