



**ANALYSIS AND RESPONSES TO WRITTEN COMMENT  
RECEIVED ON THE**

**PROPOSED CONCEPTUAL FRAMEWORK FOR  
GENERAL PURPOSE FINANCIAL REPORTING**

**(ED 149)**



## **RESPONSES TO THE WRITTEN COMMENT RECEIVED ON THE PROPOSED CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING (ED 149)**

The Accounting Standards Board (Board) approved the Exposure Draft of the proposed *Conceptual Framework for General Purpose Financial Reporting* (ED 149) in June 2016 for comment. A Notice was also published in the Government Gazette on the 5<sup>th</sup> of August 2016 (Notice 40188). The comment period closed on 17 February 2017.

Five comment letters were received from the Eden District Municipality, Western Cape Department of Health, Department of Treasury of the Free State Province, SARS and Audit Research and Development unit of the Auditor-General South Africa. The comment letter from the Department of Treasury of the Free State Province included submissions from the departments and entities listed in the table on the next page. Any comments received from these entities are summarised in this document with the Board's response thereto.

ED 149 was also discussed with stakeholders at workshops, roundtable discussions or other meetings. Comments received during these sessions are summarised in a separate document.

**CLASSIFICATION OF WRITTEN COMMENT RECEIVED ON THE PROPOSED CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING (ED 149)**

No.	Name/Organisation	Total	Preparers	Users	Auditors	Other interested parties
1.	Eden District Municipality		√			
2.	Western Cape Department of Health		√			
3.	Submission by the Free State Department of Treasury, including inputs from the following departments and entities: <ul style="list-style-type: none"> <li>• Education</li> <li>• Provincial Treasury</li> <li>• Police, Roads and Transport</li> <li>• Public Works and Infrastructure</li> <li>• Agriculture and Rural Development</li> <li>• Free State Tourism Authority</li> <li>• Free State Development Corporation</li> </ul>		√			
4.	SARS		√			
5.	Audit Research and Development				√	
	<b>TOTAL</b>	5	4	0	1	0



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No.	Comment	Board's response
<b>A</b>	<b>SPECIFIC MATTERS FOR COMMENT</b>	
<b>SMC 1</b>	<p><b>Scope of the proposed Conceptual Framework</b></p> <p><i>One of the overarching differences identified between the existing Framework and the proposed Conceptual Framework lies in the scope of financial reporting. The proposed Conceptual Framework deals with a broader scope of financial reporting i.e. GPFRs while the existing Framework addresses matters reported in the general purpose financial statements (GPFSS). The Board considered if there is a need for this broader scope, and concluded that while entities have been reporting information outside the financial statements, there is no set of principles established to guide the preparation and presentation of this information in the annual reports. A broader scope will set a framework that guides the preparation and presentation of information to achieve the objectives of financial reporting.</i></p> <p><i>While this broader scope can be seen as a contribution by the Board to the “advancement of financial reporting” as indicated in the mandate of the ASB in the PFMA, it should be noted that this does not imply that the Board will be issuing guidance on the financial reports as the specific reporting requirements in these other areas are within the mandate of other institutions.</i></p> <p><i>Do you agree with the Board's proposal to broaden the scope of the proposed Conceptual Framework to include GPFRs instead of GPFSSs? If not, please explain your response.</i></p> <p><i>The diagram below illustrates the interaction between GPFRs and GPFSSs.</i></p>	
<b>1.1</b>	<b>Eden District Municipality</b>	
	No matters for comment.	Noted. No further action required.
<b>1.2</b>	<b>Western Cape Department of Health</b>	
	Yes, the proposed expansion of the conceptual framework from financial statements to financial reporting is welcomed. However, it should be supported by a guideline which clarifies	Noted. The Board agreed that communication material, by way of a Feedback Statement, will be issued to address the uncertainties on when and



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	definitions and provides illustrative examples on how to apply the proposed concepts.	how to apply the Conceptual Framework. The need for guidance that illustrates the effect of the new concepts has been raised throughout the consultation process; as such the material will also include guidance to assist in clarifying the meaning of the Conceptual Framework to preparers.
<b>1.3</b>	<b>Department of Treasury Free State Province</b>	
<b>1.3.1</b>	<b>Education</b>	
	Yes.	Noted. No further action required.
<b>1.3.2</b>	<b>Provincial Treasury</b>	
	Yes.	Noted. No further action required.
<b>1.3.3</b>	<b>Police, Roads and Transport</b>	
1.3.3.1	Yes.  It is a positive move to broaden the scope to GPFRs but what is the intention of the Board with regard to the auditing of the additional reports? Currently the Auditor-General of South Africa (AGSA) has a mandate to express an opinion on financial reporting in terms of GRAP. Should the scope of GRAP be broadened, would that mean the scope of audits, and more importantly, the opinion expressed by the AGSA also be broadened to include other reports?	Noted.  Historically, entities have been reporting information outside the financial statements, with no specific framework or principles governing the preparation and presentation of that information. The broader scope in the Conceptual Framework



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		<p>is intended to establish a set of principles to guide the preparation and presentation of information in the financial statements as well as outside the financial statements (i.e. GPFRs). The broader scope does not imply that the requirements of the Standards of GRAP themselves are broadened. Therefore, the Board will continue to set Standards of GRAP.</p> <p>The Public Audit Act, 2004 (Act No.25 of 2004) requires the Auditor-General of South Africa to express an opinion on the fair presentation of annual financial statements, or express a conclusion on compliance with applicable laws and regulations and reported information relating to performance against predetermined objectives.</p> <p>The broader scope envisaged by the Board in the Conceptual Framework already covers some areas that form the subject of audits in the public sector, and as such, it is expected that the scope of audits and the opinion or conclusions expressed in the auditors' reports will remain unchanged.</p>
1.3.3.2	Can the Board also release its research results with regard to the estimated increase in costs required to report and audit the broadened scope? In the current economic environment, this	Noted. When the Board undertook its research project to consider the impact of the International



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	needs to be considered as there is already extreme budgetary pressured that need to be taken into account. The intention is to improve reporting and there should not be any additional financial burden on any organisation to do so.	<p>Public Sector Accounting Standards Board's (IPSASB) Conceptual Framework against its existing Framework, the Board did not consider it necessary to research if there would be increased costs as the Conceptual Framework is not intended to set new reporting requirements. The specific reporting requirements in these areas are within the mandate of other institutions.</p> <p>The scope of GPFRs is limited to financial information that enhances, complements and supplements the financial statements. Entities have already been reporting this information outside the financial statements in their annual reports. Therefore, the intention of the broader scope is aimed at setting a framework that guides the preparation and presentation of information to achieve the objectives of financial reporting.</p>
<b>1.3.4</b>	<b>Public Works and Infrastructure</b>	
	Yes.	Noted. No further action required.
<b>1.3.5</b>	<b>Agriculture and Rural Development</b>	
	Yes.	Noted. No further action required.



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<b>1.3.6</b>	<b>Free State Tourism Authority</b>	
	Yes.	Noted. No further action required.
<b>1.3.7</b>	<b>Free State Development Corporation</b>	
	Yes.	Noted. No further action required.
<b>1.4</b>	<b>SARS</b>	
	We agree that there should be a common basis for all types of reports in the Public Sector. There should however be more specific discussions about how the principals in the Conceptual Framework should be applied in the context of GPFs.	Noted. The Board agreed to address this matter in the Feedback Statement mentioned in comment 1.2 above.
<b>1.5</b>	<b>Audit Research and Development</b>	
	No matters for comment.	Noted. No further action required.
<b>SMC 2</b>	<b>Materiality as a pervasive constraint</b>	
	<p><i>In the Board's existing Framework, materiality is classified as an aspect of relevance, while the IPSASB classifies it as a constraint on information included in GPFs. Prior to the development of its Conceptual Framework, the IPSASB described materiality with similar characteristics described in its Conceptual Framework but identified materiality as an aspect of relevance in Appendix A of IPSAS 1 on Preparation and Presentation of Financial Statements.</i></p> <p><u>Description of materiality in the IPSASB's Conceptual Framework</u></p>	



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	<p>Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. GPFs may encompass qualitative and quantitative information about service delivery achievements during the reporting period, and expectations about service delivery and financial outcomes in the future. Consequently, it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material.</p> <p><i>The Board considered whether it should adopt the same approach as the IPSASB, by looking into approaches followed by other standard-setters, as well as the impact on standard-setting if it were to adopt the IPSASB's approach. The Board noted that other standard-setting bodies classify materiality as an aspect of relevance, with the exception of those bodies that have adopted the IPSASB's Conceptual Framework in its entirety.</i></p> <p><i>The IPSASB holds the view that materiality relates to, and can impact, a number of the qualitative characteristics of information included in GPFs, and not only the relevance of financial and non-financial information presented in GPFs. The Board considered the description of materiality in the IPSASB's Conceptual Framework, and applied the IPSASB's thinking, practically, to establish if there is indeed a relationship between materiality and the other QCs. Information is considered material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of GPFs. As such, users need information that is relevant to holding entities accountable and making decisions.</i></p> <p><i>As a result, the Board is of the view that although materiality is pervasive, it is not an overall constraint on reporting of information. Based on an analysis of the description of materiality, the Board observed that it could relate materiality to relevance and faithful representation, but it was conceptually and practically impossible to indicate that materiality has a role in relation to the other QCs. The Board noted that preparers are not likely to be able to demonstrate how materiality is a constraint on the entity's ability to report information, and agreed that it would treat materiality as an aspect of relevance in the Conceptual Framework as it had done in its existing Framework.</i></p> <p><i>Do you agree with the Board's proposal not to classify materiality as a pervasive constraint? If not, please explain your response.</i></p>	
<b>2.1</b>	<b>Eden District Municipality</b>	
	No matters for comment.	Noted. No further action required.



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No.	Comment	Board's response
<b>2.2</b>	<b>Western Cape Department of Health</b>	
	No, we do not agree with the proposal to not classify materiality as a pervasive constraint. Materiality should be a pervasive constraint, because certain transactions are too immaterial to report on. This would avoid a situation where users of financial statements are bombarded with information that is not material. In certain circumstances the cost would outweigh the benefit of reporting on an amount and therefore the pervasive constraint aspect should be taken into account in order to determine a quantitative value for materiality.	Noted. The Board agrees that including items that are not material will lead to clutter in the financial statements. The Board considered that if materiality is an overall constraint on information then it means that materiality is only considered as the "last step" in the process when assessing the qualitative aspects of information. The Board concluded that such an approach is inappropriate and reconfirmed that materiality should be considered when assessing the relevance of information. [See paragraphs BC 17. To BC. 23 of the Conceptual Framework]
<b>2.3</b>	<b>Department of Treasury Free State Province</b>	
<b>2.3.1</b>	<b>Education</b>	
	Yes.	Noted. No further action required.
<b>2.3.2</b>	<b>Provincial Treasury</b>	
	Yes.	Noted. No further action required.



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<b>2.3.3</b>	<b>Police, Roads and Transport</b>	
	Yes.	Noted. No further action required.
<b>2.3.4</b>	<b>Public Works and Infrastructure</b>	
	Yes.	Noted. No further action required.
<b>2.3.5</b>	<b>Agriculture and Rural Development</b>	
	Yes.	Noted. No further action required.
<b>2.3.6</b>	<b>Free State Tourism Authority</b>	
	Yes.	Noted. No further action required.
<b>2.3.7</b>	<b>Free State Development Corporation</b>	
	Yes.	Noted. No further action required.
<b>2.4</b>	<b>SARS</b>	
	We agree that materiality should not be a pervasive constraint.	Noted. No further action required.



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No.	Comment	Board's response
2.5	<b>Audit Research and Development</b>	
	No matters for comment.	Noted. No further action required.
SMC 3	<p><b>Other resources and other obligations</b></p> <p><i>During the development of the Conceptual Framework the IPSASB considered how best to represent the financial performance of an entity in certain circumstances, in particular:</i></p> <ul style="list-style-type: none"> <li><i>(a) the receipt of grants at the end of a financial year which are to be used to finance the activities of the entity in the following year; and</i></li> <li><i>(b) the receipt or payment of multi-year unconditional grants (where the amounts received in advance or paid in advance do not meet the definitions of assets and liabilities).</i></li> </ul> <p><i>The IPSASB considered whether deferred inflows and deferred outflows should be recognised as separate elements in those circumstances. Based on the mixed views from respondents, the IPSASB concluded they should not be recognised. However, the IPSASB accepted the view that certain economic phenomena (i.e. "other resources" and "other obligations") which do not meet the definition of the six elements mentioned above may need to be recognised in the financial statements in order to meet the objectives of financial reporting. With this approach, the IPSASB acknowledges that there may be circumstances where the six defined elements do not provide all of the information in the financial statements to meet the needs of users. As such, the IPSASB agreed that circumstances under which other resources and other obligations may be recognised will be determined at a standards' level, and not in the Conceptual Framework.</i></p> <p><i>The Board considered if it should refer to the existence of other resources and other obligations when it adopts the IPSASB's Conceptual Framework. The Board is concerned, however, that if it does make an explicit statement in the Conceptual Framework acknowledging the existence of other resources and other obligations it runs the risk of users of the Conceptual Framework misapplying the concepts and recognising them in the absence of guidance from the IPSASB and/or Board. The Board agreed not to include this discussion on the basis that they will be addressed, indirectly, when the Board considers how the IPSASB uses them at a standards' level.</i></p> <p><i>Do you agree with the Board's proposal not to include the discussion on other resources and other obligations in the Conceptual Framework? If not, please explain your response.</i></p>	



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No.	Comment	Board's response
<b>3.1</b>	<b>Eden District Municipality</b>	
	No matters for comment.	Noted. No further action required.
<b>3.2</b>	<b>Western Cape Department of Health</b>	
	No, we do not agree with proposal to not include a discussion on other resources and other obligations as a discussion is needed and should be included for clarity.	Noted. The inclusion of a discussion on other resources and other obligations could result in misapplication by preparers as there is currently no guidance on the topic at a Standards' level. Paragraphs BC29. to BC30. of the Conceptual Framework explain the Board's deliberations in this regard.
<b>3.3</b>	<b>Department of Treasury Free State Province</b>	
<b>3.3.1</b>	<b>Education</b>	
	Yes.	Noted. No further action required.
<b>3.3.2</b>	<b>Provincial Treasury</b>	
	Yes.	Noted. No further action required.



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No.	Comment	Board's response
<b>3.3.3</b>	<b>Police, Roads and Transport</b>	
	Yes.	Noted. No further action required.
<b>3.3.4</b>	<b>Public Works and Infrastructure</b>	
	Yes.	Noted. No further action required.
<b>3.3.5</b>	<b>Agriculture and Rural Development</b>	
	Yes.	Noted. No further action required.
<b>3.3.6</b>	<b>Free State Tourism Authority</b>	
	Yes.	Noted. No further action required.
<b>3.3.7</b>	<b>Free State Development Corporation</b>	
	Yes.	Noted. No further action required.
<b>3.4</b>	<b>SARS</b>	
	We agree that this can be excluded for now and considered when the Board assesses how it is going to be addressed at a standards' level.	Noted. No further action required.



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No.	Comment	Board's response
<b>3.5</b>	<b>Audit Research and Development</b>	
	No matters for comment.	Noted. No further action required.
<b>SMC 4</b>	<p><b>Unit of account</b></p> <p><i>The Board also considered whether guidance on the unit of account should be added to the Conceptual Framework. The unit of account refers to the group of assets and/or liabilities to which the recognition and measurement requirements will be applied. The IPSASB's Conceptual Framework does not include such guidance, but the IASB does provide detailed guidance on the concept. The Board agreed to add this guidance to its Conceptual Framework.</i></p> <p><i>Do you agree with the Board's proposal to add guidance on the unit of account in the Conceptual Framework? If not, please explain your response.</i></p>	
<b>4.1</b>	<b>Eden District Municipality</b>	
	No matters for comment.	Noted. No further action required.
<b>4.2</b>	<b>Western Cape Department of Health</b>	
	Yes, we agree with the proposal to add guidance on the unit of account in the proposed CF as it is essential to ensure understanding of the implementation of the conceptual framework.	Noted. No further action required.
<b>4.3</b>	<b>Department of Treasury Free State Province</b>	
<b>4.3.1</b>	<b>Education</b>	



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No.	Comment	Board's response
	Yes.	Noted. No further action required.
<b>4.3.2</b>	<b>Provincial Treasury</b>	
	Yes.	Noted. No further action required.
<b>4.3.3</b>	<b>Police, Roads and Transport</b>	
	Yes.	Noted. No further action required.
<b>4.3.4</b>	<b>Public Works and Infrastructure</b>	
	Yes.	Noted. No further action required.
<b>4.3.5</b>	<b>Agriculture and Rural Development</b>	
	Yes.	Noted. No further action required.
<b>4.3.6</b>	<b>Free State Tourism Authority</b>	
	Yes.	Noted. No further action required.
<b>4.3.7</b>	<b>Free State Development Corporation</b>	



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No.	Comment	Board's response
	Yes.	Noted. No further action required.
<b>4.4</b>	<b>SARS</b>	
	The unit of account is not a widely known concept and it would be advisable to include guidance thereon in the Conceptual Framework.	Noted. No further action required.
<b>4.5</b>	<b>Audit Research and Development</b>	
	No matters for comment.	Noted. No further action required.



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No.	Comment	Board's response
<b>B</b>	<b>GENERAL COMMENTS</b>	
<b>5.1</b>	<b>Eden District Municipality</b>	
	<p>Definition of Assets is explained to include "resources". My comment: is this meant to include human resources? I.e. will we need to put the service potential of employees onto the balance sheet?</p> <p>If not, then maybe the wording needs to be looked at again.</p>	<p>Noted. A resource for purposes of the Conceptual Framework is defined as an item with service potential or the ability to generate economic benefits.</p> <p>Resources could include human resources. However, human resources do not otherwise meet the definition of an asset as entities cannot demonstrate control over its human resources. The Standard of GRAP on <i>Intangible Assets</i> (GRAP 31) explains that, even though an entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits or service potential from training, an entity usually has insufficient control over the expected future economic benefits or service potential arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. However, specific management or technical talent that is protected by legal rights to use it and to obtain the future</p>



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No.	Comment	Board's response
		economic benefits or service potential expected from it, could meet the definition of an intangible asset if it meets the other parts of the definition.
<b>5.2</b>	<b>Western Cape Department of Health</b>	
5.2.1.1	<p>We welcome the idea of updating the conceptual framework that shifts financial reporting focus from the private sector to the public sector. As there are vast differences between the objectives and goals of the public sector compared to that of the private sector, a conceptual framework that is suited for the public sector environment is very much needed. We also welcome the standardization of reporting in order to align to international reporting standards.</p> <p>However, making changes to the fundamentals of financial reporting needs to be done with caution and practical applications need to always be taken into account. Exposure draft 149 as proposed does not address what the practical implication of it will be and so we are left with speculation and questions regarding concepts in the proposed ED.</p> <p>Issues that are impacted by the changes in the ED but not discussed include the following (see 5.2.1.1 to 5.2.1.8 below):</p>	<p>Noted. In the Exposure Draft, the Board explained that the proposed changes to the Standards-level requirements of Standards of GRAP, as a consequence of the proposed Conceptual Framework, would still need to be identified. It was agreed that, over time, the Board would undertake significant reviews of the Standards for consistency with the proposed Conceptual Framework. The IPSASB has already considered consequential amendments resulting from Chapters 1 to 4 as part of its 2014 improvements project. The next step is the measurement project that will consider the recognition and measurement requirements. The Board agreed to follow the IPSASB's lead in this regard.</p> <p>The Conceptual Framework is used by the Board to set Standards. The Board will apply the new thinking when developing new Standards. Internationally, the IPSASB has already started</p>



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No.	Comment	Board's response
		<p>applying this new thinking to its current projects on social benefits and heritage. Preparers use the Conceptual Framework only in the absence of guidance dealing with specific transactions to formulate their accounting policies. The Conceptual Framework is not authoritative. The existing requirements in the Standards are authoritative and take precedence.</p> <p>Up and until the review of Standards has been undertaken and the Standards have been revised, the status quo remains and the only transitional provisions developed will be as a result of the update of Standards for consistency with the Conceptual Framework.</p> <p>The Board agreed to address this matter in the Feedback Statement mentioned in comment 1.2 above.</p>
5.2.1.1	<p><b>Chapter 5: Elements in financial statements</b></p> <ul style="list-style-type: none"> <li>• What are the effects of the changes in the element's definition and the recognition criteria to the subsequent measurement of those elements?</li> </ul>	<p>Noted. The definitions of elements have not changed significantly. However, the "probability of a flow of economic benefits or service potential" is not required for an item to be recognised. Chapter 6 explains that any uncertainty related to the amount of economic benefits or service potential to be received by the entity will be included in the measurement of the element (i.e. measurement uncertainty). The result is that there is likely to be</p>



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	<ul style="list-style-type: none"> <li data-bbox="365 730 1444 821">• What are the effects of the changes in the element's recognitions criteria to the classification of that element i.e. will contingent assets and liabilities fall away now as the probability criteria is taken away from the recognition criteria?</li>   <li data-bbox="365 1102 1444 1193">• What is meant by other resources and other obligations? Is this a catch all clause, were if something does not necessarily fit into an element's definition, they can be classified as other resources and reported on?</li> </ul>	<p data-bbox="1464 517 2067 635">more transactions and events being recognised in the financial statements because the probability of the flow in economic benefits or service potential is no longer a consideration for recognition.</p> <p data-bbox="1464 687 2067 1018">In determining whether an element should be recognised two types of uncertainty should be considered: a) uncertainty about the existence of the element and b) measurement uncertainty. Measurement uncertainty refers to whether the element can be measured in a manner that achieves the qualitative characteristics. Such an approach means that items that previously had a low probability of flow of service potential or economic benefits may be recognised as elements.</p> <p data-bbox="1464 1086 2067 1378">In developing its Conceptual Framework, the IPSASB accepted the view that certain economic phenomena which do not meet the definition of the elements may need to be recognised in the financial statements in order to meet the objectives of financial reporting. Such an approach acknowledged that there may be circumstances where the defined elements do not provide all of the information in the financial statements to meet the needs of users. The IPSASB agreed that</p>



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		<p>circumstances under which other resources and other obligations may be recognised will be determined at a Standards' level, and not in the Framework. The Board did not support this view.</p> <p>The Board agreed to address this matter in the Feedback Statement mentioned in comment 1.2 above.</p>
5.2.1.2	<p><b>With regards to the Asset definition –</b></p> <ul style="list-style-type: none"> <li>• The removal of flow of economic benefits and service potential from the elements definition needs more justification and clarity. Eg. Obsolete assets as the proposed ED stand will still be recognised as assets even though there is no further economic benefit or service potential that will flow.</li>   <li>• More clarity on "Control" needs to be provided. Perhaps a ranking system needs to be established on which indication of control outweighs the other.</li> </ul>	<p>Noted. The reference to "future economic benefits or service potential expected to flow to the entity" has been removed, as it was concluded that a resource exists because of the benefits embodied in it rather than the flow of those benefits to an entity. Once an element is recognised in the financial statements, an entity will continue assessing whether that element qualifies for recognition (as explained in Chapter 6).</p> <p>Noted. Assessing whether control exists requires judgement. The indicators of control are not conclusive and require an entity to exercise judgement in order to determine whether control exists.</p> <p>The Board agreed to address this matter in the Feedback Statement mentioned in comment 1.2</p>



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		above.
5.2.1.3	<p><b>With regards to the Revenue definition</b></p> <ul style="list-style-type: none"> <li>• What is meant by “ownership contributions” as this seems to be a term used in the private sector instead of private.</li> </ul>	<p>Noted.</p> <p>The IPSASB considered when developing its Conceptual Framework considered whether ownership interests exist in the public sector. It was accepted that term ownership interest is analogous to ownership interest in the private sector, and for some indicates that the citizens own the resources of the public sector entity and government is turn responsible to the citizens for the use of those resources. The IPSASB also acknowledged that part of an entity's net financial position could be an ownership interest. In such cases, it may be evidenced by a formal equity structure, however where there is no formal equity structure, such interests are identified by sub-classifying the net financial position of an entity.</p> <p>The Conceptual Framework does not define ownership interest as an element, but it notes the importance of distinguishing inflows of resources from owners and outflows to owners, in their capacity as owners, from revenue and expenses. The IPSASB agreed to develop detailed guidance to support such assessments at a Standards' level. The Board supported this view and decided to retain the concept in its Conceptual Framework,</p>



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	<ul style="list-style-type: none"> <li>Revenue definition makes no reference to whether the increase in net financial position is "gross" or "net". The framework should be supported by a guideline which clarifies definitions and provides illustrative examples on how to apply the proposed concept and in which circumstances the gross or net approach will be appropriate.</li> </ul>	<p>as the treatment of ownership contributions is no different in the local environment.</p> <p>The Board considered whether the definition of revenue should specify that the increase in net financial position is gross or net citing that the gross approach or net approach may be inappropriate in all instances. It was agreed that the presentation of revenue as either gross or net will be determined at a Standards' level.</p> <p>The Board agreed to address this matter in the Feedback Statement mentioned in comment 1.2 above.</p>
5.2.1.4	<p><b>Chapter 2 : Objectives and users of general purpose financial reporting</b></p> <p>The concept of stewardships should not be removed. This is because stewardship encompasses accountability, but accountability does not necessarily encompass stewardship.</p>	<p>Noted. The notion of accountability that is reflected in the Conceptual Framework is broad and encompasses stewardship. It encompasses the provision of information about the entity's management of the resources entrusted to it. The information is also useful to users in assessing the sustainability of the entity's activities and the continuity of the provision of services in the long term. This broad notion of accountability is appropriate because citizens and other constituents provide resources to governments</p>



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		and other public sector entities on an involuntary basis and, for the most part, depend on governments and other public sector entities to provide necessary services over the long term. Stewardship, on the other hand, can be seen as management's responsibility to safeguard resources it has been entrusted.
5.2.1.5	<p><b>Chapter 4: Reporting Entity</b></p> <p>Clarity needs to be provided on the terms "reporting entity", "group entity" and economic entity. Illustrative examples needs to be provided as to when an "entity" becomes a "reporting entity".</p>	<p>Noted. The Board agreed to amend Chapter 4 to clarify when and how these concepts are applied in the local environment.</p> <p>The Board agreed to address this matter in the Feedback Statement mentioned in comment 1.2 above.</p>
5.2.1.6	<p><b>Chapter 6: Recognition in financial statements</b></p> <p>Guidance on units of accounts is essential to ensure understanding of the implementation of the conceptual framework.</p>	Noted. No further action required.
5.2.1.7	<p><b>Chapter 7: Measurement in financial statements</b></p> <p>These concepts such as "entry or Exit", "entity and non-specific entity" should be supported by a guideline which clarifies definitions and provides illustrative examples on when and how to apply the proposed concept.</p>	Noted. The Board agreed to address this matter in the Feedback Statement mentioned in comment 1.2 above.



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5.2.1.8	As there exist uncertainty on the practical implication of the ED, it becomes difficult make a conclusive statement on whether we agree with the ED or not.	<p>Noted. The role of the Conceptual Framework is to establish concepts to be used by the Board when developing Standards, and to formulate accounting policies in the absence of Standard-level guidance for preparers. As such, the application of the Conceptual Framework by preparers will be limited. Chapter 2 explains that the Conceptual Framework is not authoritative, and does not override the requirements in the Standards of GRAP. Therefore, the existing requirements in the Standards of GRAP are authoritative and take precedence. [See paragraphs 1.7 to 1.9 of the Conceptual Framework].</p> <p>The full impact of the Conceptual Framework will be felt by preparers when the existing Standards of GRAP are revised to reflect the new principles and concepts. The Board is taking the IPSASB's lead with respect to revisions to Standards however the timing of the revisions will be influenced by the timing of the IPSASB's projects.</p> <p>The Board agreed to address this matter in the Feedback Statement mentioned in comment 1.2</p>



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		above.
<b>5.3</b>	<b>Department of Treasury Free State Province</b>	
	<p>The request for comment as well as the relevant documentation was sent to all provincial departments, public entities as well as municipalities.</p> <p>Responses were received from the following departments and entities:</p> <p><b>Departments and Entities</b></p> <ul style="list-style-type: none"> <li>-Education</li> <li>-Provincial Treasury</li> <li>-Police, Roads and Transport</li> <li>-Public Works and Infrastructure</li> <li>-Agriculture and Rural Development</li> <li>-Free State Tourism Authority</li> <li>-Free State Development Corporation</li> </ul> <p>Attached please find the comments received based on your invitation as completed by the above-mentioned departments and entities for your consideration. The department of Public Works and Infrastructure raised a concern with the financial implication that the proposed changes might entail as it was not specifically indicated what the cost implication of the changes will be both once-off and annually.</p>	Noted. No further action required.



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<b>5.3.1</b>	<b>Education</b>	
	No matters for comment.	Noted. No further action required.
<b>5.3.2</b>	<b>Provincial Treasury</b>	
	No matters for comment.	Noted. No further action required.
<b>5.3.3</b>	<b>Police, Roads and Transport</b>	
	No matters for comment.	Noted. No further action required.
<b>5.3.4</b>	<b>Public Works and Infrastructure</b>	
	No matters for comment.	Noted. No further action required.
<b>5.3.5</b>	<b>Agriculture and Rural Development</b>	
	No matters for comment.	Noted. No further action required.
<b>5.3.6</b>	<b>Free State Tourism Authority</b>	
	No matters for comment.	Noted. No further action required.



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<b>5.3.7</b>	<b>Free State Development Corporation</b>	
	No matters for comment.	Noted. No further action required.
<b>5.4</b>	<b>SARS</b>	
5.4.1	<p><i>Training impact:</i></p> <p>The proposed conceptual framework is completely different from the GRAP conceptual framework and the IFRS conceptual framework. In-house GRAP Training material will have to be redrafted and staff will have to be retrained. External trainers might have to be procured to retrain staff. This could be a costly exercise.</p>	Noted. The Board agreed to address this matter in the Feedback Statement mentioned in comment 1.2 above.
5.4.2	<p><i>Impact on recruitment and personnel cost:</i></p> <p>Tertiary education is based on IFRS. This used to be no problem as GRAP was closely aligned to IFRS. When adopting the IPSASB reporting framework, the gap between GRAP and IFRS becomes so wide that GRAP specialists will have to be sourced. This will have an adverse effect on payroll costs.</p>	<p>Noted. Standards of GRAP are primarily drawn from IPSASs, which are in turn based on IFRSs. The changes to the Conceptual Framework do not mean that convergence with IFRSs will not be maintained, where it is appropriate to do so. Therefore, the gaps between IPSASs and IFRSs are relatively similar to those between Standards of GRAP and IFRSs.</p> <p>The Board agreed to address this matter in the Feedback Statement mentioned in comment 1.2 above.</p>



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5.4.3	<p><i>Impact on and Authority of Standards:</i></p> <p>The impact the adoption of a new conceptual framework will have on the existing Standards of GRAP is not articulated. It is our opinion that all existing GRAP Standards will have to be revised to apply the concepts of the conceptual framework. The ASB should consider its capacity to do this.</p> <p>The ASB will in addition have to issue explicit guidance on the following matters:</p> <ul style="list-style-type: none"> <li>- How will discrepancies be dealt with between Standards and the Conceptual Framework before Standards are amended?</li>   <li>- The authority of the Conceptual Framework vs the authority of the Standards.</li>   <li>- Where in the absence of GRAP standard on a specific matter an entity is applying an IFRS statement how will the discrepancies between IFRS and the conceptual framework be dealt with?</li> </ul>	<p>Noted and agreed. The Board is aware that some changes will be required to Standards of GRAP to ensure consistency between the Standards and the new Conceptual Framework. However, since preparers will only apply the new Conceptual Framework when there is no guidance on a particular transaction at a Standards' level, it is envisaged that the full impact of the Conceptual Framework will be felt when the existing Standards of GRAP are revised to reflect the new principles and concepts.</p> <p>Refer to response provided in 5.2.1.8 above.</p> <p>The Board's existing Framework was based on the International Accounting Standards Board's framework from 1989, which also is currently being revised with new principles and concepts. In terms of the GRAP hierarchy in GRAP 3, accounting policies may be formulated based on the most recent pronouncements of other standard-setting bodies and accepted public or private sector practices, but only to the extent that these do not</p>



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		<p>conflict with the Standards of GRAP or the Conceptual Framework. The Board will consider how best to address such discrepancies on a case by case basis.</p> <p>The Board agreed to address this matter in the Feedback Statement mentioned in comment 1.2 above.</p>
5.4.4	<p><i>Accounting policies:</i></p> <p>All entities applying GRAP will have to redraft their accounting policies.</p> <p>SARS Revenue Accounts is currently in the process of migrating to GRAP. SARS has already incurred costs to gain specialist insight into its proposed GRAP aligned accounting policies. Once the proposed Conceptual Framework is adopted, this will have to be applied in the accounting policies and a re-review will have to be done. Retrospective application might prove to be difficult in certain instances – transitional provisions should be included and should consider prospective application.</p> <p>We are specifically concerned on the effect the proposed conceptual framework will have on the following GRAP standards:</p> <p>GRAP 23: Revenue from non-exchange transactions - A critical principle in the SARS' accounting policies relates to 'Reliable measurement' as part of non-exchange transactions' recognition criteria. It is uncertain if the new framework directly supports this critical principle currently used in our drafted accrual accounting policies. This criteria allows SARS to only record taxpayer returns/assessments within the powers of the Tax Acts which are reliably measured and need not estimate where no information/accounting estimation models exist. Furthermore, if 'Reliable measurement' is reviewed in light of the new qualitative characteristics and a different interpretation regarding both the meanings of 'reliable and measurement' is</p>	<p>Noted. Preparers will only apply the new Conceptual Framework when there is no guidance on a particular transaction at a Standards' level.</p> <p>At this point in time, entities will continue applying their existing accounting policies which are consistent with requirements included in existing Standards of GRAP. Changes in accounting policies and transitional provisions amongst other things will be relevant to preparers once the Board has completed the review of the Standards of GRAP for consistency with the Conceptual Framework. The Board agreed to take the IPSASB's lead in this regard.</p>



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	<p>made or different opinions exist, we may be at risk and may impact and create possible issues with our current drafted accrual accounting policies for taxes and principles used in designing our systems. We therefore need to confirm that the principle 'Reliable measurement' is still the same under the new framework and no amendments to GRAP23 will be made. Please apply the proposed conceptual framework to GRAP 23 revenue recognition criteria and provide us with a draft to enable a better understanding of the impact thereof.</p> <p>GRAP 19: Provisions, Contingent Liabilities and Contingent assets</p> <p>GRAP 13: Leases - The assumption price valuation can have an impact on Leases, i.e. Straight-lining of leases. We need to understand this impact better.</p> <p>The terms used in Chapter 7 – Measurement of assets and liabilities, are not familiar accounting terms and will have to be better explained e.g. cost of services, operational capacity, financial capacity for us to be able to assess the impact thereof on measurement.</p>	<p>The Board agreed to address this matter in the Feedback Statement mentioned in comment 1.2 above.</p>
5.4.5	<p><i>Audit risk</i></p> <p>The definitions in the proposed conceptual framework are much wider and leave room for interpretation. There is an audit risk for all entities applying GRAP that the auditors might not agree with the entities' interpretation and application of the proposed Conceptual Framework. The ASB and the National Treasury will have to prepare comprehensive guidelines to mitigate this risk.</p>	<p>Noted. The role of the Conceptual Framework is to establish concepts to be used by the Board when developing Standards, and to formulate accounting policies in the absence of Standard-level guidance for preparers. As such, the application of the Conceptual Framework by preparers will be limited. Chapter 2 explains that the Conceptual Framework is not authoritative, and does not override the requirements in the Standards of GRAP. Therefore, the existing requirements in the Standards of GRAP are authoritative and take precedence.</p> <p>The Board agreed to address this matter in the</p>



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		Feedback Statement mentioned in comment 1.2 above.
5.4.6	<p><i>Cost vs Benefit</i></p> <p>All of the above unintended cost should be considered in light of the current economic restraints on South Africa and it should be contemplated whether there is not a way in which a similar outcome can be achieved in a more cost-effective manner.</p>	<p>Noted. The Board agreed to adopt the IPSASB's Conceptual Framework as these changes will enhance financial reporting in the public sector by providing a more comprehensive, complete, clear and updated set of principles underpinning the Standards of GRAP. This means that the Board's new Conceptual Framework will be aligned to global principles and concepts, and will be reflective of the developments that have taken place in theory and practice over the years. This should be viewed as a contribution by the Board to the "advancement of financial reporting" as indicated in the mandate of the ASB in the PFMA.</p> <p>Refer to response provided in 5.4.5 above.</p>
5.4.7	<p><i>Effective date</i></p> <p>The proposed effective date should be reconsidered and specific guidance should be provided around the conflicts between existing GRAP standards and the proposed conceptual framework. The GRAP standards should ideally first be amended to be aligned to the proposed conceptual framework. Entities will then be able to understand the full impact thereof and provide appropriate comment.</p>	<p>Noted. The Conceptual Framework will not have an effective date as it is not authoritative. It will primarily be used by the Board in setting new Standards of GRAP, and for entities to apply where there is no existing guidance on an issue.</p> <p>Refer to response provided in 5.2.1.1 above.</p>
5.4.8	<p>It is our preliminary assessment that the application of the proposed conceptual framework will not greatly enhance the quality of reporting in the public sector. However, there will be major</p>	<p>Refer to response provided in 5.4.6 above.</p> <p>The Board agreed to address this matter in the</p>



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	<p>cost implications which might not have been intended. It is therefore our recommendation that the ASB rather consider improving the current conceptual framework/ current standards than to completely replace it with the proposed conceptual framework. The implementation process/ effective date and the alignment of standards with the proposed conceptual framework should be considered.</p> <p>We feel that the ASB should have more detailed discussions with all stakeholders before further considering the adoption of the proposed framework.</p>	<p>Feedback Statement mentioned in comment 1.2 above.</p>
<b>5.5</b>	<b>Audit Research and Development</b>	
5.5.1	<p>ARD was recently required to consider the application of the <i>reporting entity</i> principles and guidance contained in the IPSAS conceptual framework to determine whether the Special Defence Account (SDA) constitutes a reporting entity that should prepare separate financial statements. You will recall that we also discussed the matter at the ITT meeting held on 8 March 2017.</p> <p>In applying the <i>reporting entity</i> principles to the SDA, a number of matters were high-lighted to us regarding the practical application of the <i>reporting entity</i> concept. Similar <i>reporting entity</i> principles and guidance are also contained in ED 149 on the proposed GRAP conceptual framework.</p> <p>The comments raised below all relate to the discussion in chapter 4 of the proposed GRAP conceptual framework that a reporting entity may be a portion of an entity without a separate legal identity such as an activity, administrative arrangement or program (see for example paragraphs. 4.2, 4.3, 4.13 and 4.14).</p>	<p>Noted. The Board considered this Chapter to be useful as the characteristics would assist the Board in providing guidance to those entities where legislation does not guide the preparation of their financial statements. The Chapter is also intended to provide guidance for the preparation of GPFRs where there is no control relationship between entities, programmes and activities etc. for example whole of government financial statements and sectoral reports.</p>



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5.5.2	<p>The IPSAS framework is drafted to apply across a wide range of jurisdictions. In some of these jurisdictions the legislative environment may not be sufficiently robust to define which entities are required to prepare separate financial statements / information, and in terms of which reporting framework such financial statements / information should be prepared. This is not the case in the South African context where legislation is clear and specific about how entities are defined, the requirement for such entities to prepare financial statements / information, as well as the reporting framework to be applied.</p> <p>Our view is therefore that the <i>reporting entity</i> concept in the GRAP conceptual framework should be limited to only include entities that have a separate legal identity or that are required in terms of legislation to prepare separate financial statements / information. The <i>reporting entity</i> concept should exclude an entity without a separate legal identity such as an activity, administrative arrangement or program.</p>	<p>Noted.</p> <p>The Conceptual Framework does not identify which public sector entities, programmes or activities should be identified as reporting entities as these will be specified in legislation, supporting regulations or similar means. The Conceptual Framework explains in paragraph 4.14 that a public sector reporting entity need not have a separate legal identity as there may be organisations, administrative arrangements or programmes that do not have a separate legal identity but which have the responsibility of raising and using public monies as well as users that may be dependent on the GPFs of these organisations, administrative arrangements or programmes for accountability and decision-making purposes.</p>



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		Refer to response provided in 5.5.2 above.
5.5.3	<p>Linked to the preceding point, our interpretation is that the determination to prepare separate financial statements / information should be based on how entities are defined in legislation, together with the legislative requirements around the preparation of financial statements/ information. This legislative determination should thereafter inform the applicable reporting framework. It should not be the other way round; a reporting framework should not determine how entities are defined for reporting purposes. (If the reporting entity is to be determined by the reporting framework instead of by the legislation, it is unclear on what basis an entity would decide which reporting framework to refer to.)</p>	<p>Noted. The Board agreed that to address this interpretation issue, commentary should be added to clarify in paragraphs 4.15 to 4.16 of the Conceptual Framework that an entity prepares GPFRs based on existing legislative requirements. However, entities that are required to prepare GPFRs may also elect to prepare GPFRs for a portion, programme or activity within that entity. In addition, the reporting entity concept may be applied where legislation that does not identify reporting entities. The paragraph further clarifies that where reporting entities have elected to prepare GPFRs they must ensure that the information provided in the GPFRs will meet the objectives of financial reporting.</p> <p>.</p>
5.5.4	<p>Paragraph 4.6 of the proposed GRAP conceptual framework explains that a reporting entity has the following key characteristics:</p> <ul style="list-style-type: none"> <li>• it is an entity that raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and</li> <li>• there are service recipients or resource providers dependent on GPFRs of the entity for information for accountability or decision-making purposes</li> </ul>	<p>Noted. Refer to response provided in 5.5.3 above.</p> <p>As noted in 5.5.1, the characteristics will assist the Board in providing guidance to those entities where legislation does not guide the preparation of their financial statements. The Chapter is also intended to provide guidance for the preparation of GPFRs where there is no control relationship between entities, programmes and activities etc.</p>



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	<p>We are concerned that these characteristics may be interpreted to identify particular activities and programs within an entity as separate reporting entities, which will then require such activities and programs to prepare separate financial statements / information. The risk is that the key characteristics in paragraph 4.6 may be applied in the widest possible sense to mean that all entities, activities, administrative arrangements and programs in the public sector ultimately use resources obtained from taxpayers, that they use those resources for the benefit of taxpayers and that they should provide information to taxpayers for accountability purposes.</p> <p>The unintended consequence may be that:</p> <ul style="list-style-type: none"> <li>• numerous activities, administrative arrangements or programs start to or are required by the auditors to prepare separate financial statements / information (e.g. “ring-fenced” bank accounts, monies held in trust, etc.)</li> <li>• entities misuse the guidance in chapter 4 to exclude from their own financial statements certain activities, administrative arrangements or programs that they do not want to reflect in their own financial statements (e.g. qualified activities, secret activities, etc.) This concern is increased by the reference in paragraph 4.2 that allows an activity, administrative arrangement or program to “choose” to be a reporting entity.</li> </ul> <p>We are therefore of the view that the key characteristics and the accompanying guidance in chapter 4 are not restrictive and specific enough to result in the intended application.</p>	<p>for example whole of government financial statements and sectoral reports.</p> <p>Noted. Refer to response provided in 5.5.3 above.</p> <p>Noted. However, the Standards of GRAP will prescribe on what basis the revenue, expense, assets and liabilities of the entity, programme or activity are included in financial statements. If entities exclude entities, programmes or activities which they control, this will be regarded as non-compliance with the requirements in the Standards of GRAP. To address this interpretation issue, commentary has been added to paragraphs 4.5 and BC27. of the Conceptual Framework to clarify that in applying the reporting entity concept, a distinction should be made between the preparation of GPFRs by a reporting entity and the preparation of GPFSs by entities in order to meet</p>



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		the requirements of specific Standards of GRAP.
5.5.5	<p>The guidance in chapter 4 is not clear on the impact that the preparation of separate financial statements / information by an activity, administrative arrangement or program that forms part another entity will have on the separate financial statements of that other entity. Will the separate financial statements of the other entity exclude the financial information of the activity, administrative arrangement or program, or will the separate financial statements of the other entity include the financial information of the activity, administrative arrangement or program; with the activity's, administrative arrangement's or program's separate financial statements / information being seen as an element of or extract from the other entity's financial statements.</p> <p>From an audit point of view, International Standard on Auditing (ISA) 805 <i>Special considerations - Audits of single financial statements and specific elements, accounts or items of a financial statement</i> discusses the concept of an element of or extract from financial statements, together with the auditor's responsibility in this regard. Our perspective is that the GRAP conceptual framework should follow a similar approach in that the entity's separate financial statements should include the financial information of the activity, administrative arrangement or program and that the activity's, administrative arrangement's or program's separate financial statements / information should be seen as an element of or extract from the entity's financial statements. A copy of ISA 805 is attached, as it may provide useful guidance and further context.</p>	Noted. Refer to response provided in 5.5.4 above.



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