ANALYSIS AND RESPONSES TO VERBAL COMMENT RECEIVED ON THE

PROPOSED *IMPROVEMENTS TO THE STANDARDS OF GRAP (2016)*

(ED 152)

RESPONSES TO THE VERBAL COMMENT RECEIVED ON THE PROPOSED *IMPROVEMENTS TO THE STANDARDS OF GRAP* (*2016)* (ED 152)

The Accounting Standards Board (Board) approved the Exposure Draft of the proposed *Improvements to the Standards of GRAP (2016) (ED 152)* in September 2016 for comment. A Notice was also published in the Government Gazette on the 14th of October 2016 (Notice 40346). The comment period closed on 30 December 2016.

The proposed *Improvements to the Standard of GRAP (2016)* were discussed with preparers, auditors and consultants by way of workshops, roundtable discussions or other meetings as listed in the table on the next page. In addition, a presentation on the proposed *Improvements to the Standards of GRAP (2016)* was also made during a SAICA webcast.

The comments received from stakeholders at these engagements are summarised in this document and include the Board's proposed responses to the comment received.

CLASSIFICATION OF VERBAL COMMENT RECEIVED ON THE PROPOSED IMPROVEMENTS TO THE STANDARDS OF GRAP (2016) (ED 152)

No.	Name/Organisation	Total	Preparers	Users	Auditors	Other interested parties
1.	Roundtable discussion		X			
2.	SAICA					X
3.	Western Cape Technical Forum		X			
4.	Public Entity CFO Forum		X			
5.	Non-delegated municipal CFO Forum		X			
	TOTAL	5	4	0	0	1

No.	Comment	Board's response
1.	**Roundtable discussion**	
1.1	**Clarifying the treatment of transaction costs**	
	Participants questioned why the transitional provisions refer to "prospective application" in accordance with GRAP 3 on *Accounting Policies Changes in Accounting Estimates and Errors.*	Noted. The transitional provisions refer to GRAP 3 as the Standard defines what prospective application of the Standards of GRAP means and the related accounting consequences.
1.2	**Deletion of appendices in GRAP 18 *Segment Reporting***	
	It was questioned whether the deletion of the illustrative examples in the appendix means that the example would no longer be available as it is currently not included in the GRAP Guide issued by the National Treasury.	Noted. Although the example is currently not included in the Accounting Guideline issued by the National Treasury, this is merely a timing issue. The Guideline will be updated once the amendment to remove the example is approved by the Board.
1.3	**Restating revalued amounts**	
	Participants in principle supported the amendments and the two methods described in paragraph .40 of GRAP 17. Participants debated the following: • which method is applied in practice, with a view to considering whether one method could eliminated; and • whether the "net method" would still allow for fully depreciated assets still in use to be adjusted as outlined in the ASB's FAQ, i.e. as a reversal of accumulated depreciation. It was questioned whether there would be any accumulated depreciation to reverse if, under this approach, the accumulated depreciation is eliminated against the carrying value of the asset on revaluation.	Noted. <u>Use of both methods</u> As both methods are used by preparers in practice, no amendments are proposed by the Board. <u>Use of the "net method" and the adjustment to fully depreciated assets still in use</u> To address the concern raised, the Board analysed the underlying methodologies applied or

	<u>Use of both methods</u> Participants noted that both methods are applied, and therefore both methods should be retained. <u>Adjusting for fully depreciated assets under the "net method"</u> Participants noted that under the "net method", the new carrying amount of the asset would be reflected correctly, so there would be no need to make any adjustments to accumulated depreciation. It was requested that the Board test this against a practical example to ensure that there would be no conflict with the guidance in the FAQ.	measure assets. The use of the "net method" will facilitate the adjustment of fully depreciated assets still in use, although it is unlikely that such an adjustment will be required under the revaluation model. As the revaluation model requires entities to remeasure assets using fair value (or in specific instances, replacement cost or depreciated replacement cost), the value of the asset will already consider the consumption of the asset to date. Adjustments to the useful lives of assets may only be necessary during periods where revaluations have not been performed and the effect of a change in the useful life of an individual asset is material. Where this is the case, accumulated depreciation is recognised and will be adjusted accordingly to reflect the change in useful life. Based on this analysis, the Board does not believe that there is any conflict with the FAQ.
1.4	**Acceptable methods of amortisation**	
1.4.1	Participants supported the principle, in general, for property, plant and equipment, and intangible assets.	Noted. No further action required.
1.4.2	A participant noted that the wording in GRAP 31 on *Intangible Assets* seemed overly complex. It was noted that if the overarching principle is that there must be a correlation between the recognition of amortisation and the earning of revenue, then this principle should be used to draft the paragraphs. It was argued that although this is a deviation from the international wording in IPSAS 31 and IAS 41, it may be appropriate to revise the wording as these transactions are uncommon in the South African public sector.	Noted. There is however no public sector specific reason to depart from the international text used in both the IPSASs and IFRSs. It is also unlikely that complex intangible assets such as those envisaged in the amendment will be encountered frequently. As a result, no amendment is proposed.

1.4.3	A participant questioned the transitional provisions and why, for both GRAP 17 and GRAP 31, the change is applied prospectively. Property, plant and equipment It was noted that the wording in paragraph in GRAP 17.73A indicates that revenue based depreciation methods are inappropriate. This makes it seem that, if entities historically applied these methods, it was in fact in error. The participant noted that this seemed to imply that any changes should be accounted for as an error, i.e. retrospectively. It was agreed that the Board should review the transitional provisions of the IPSASB and IASB and assess whether prospective application is correct where these methods were applied in the past. Intangible assets Participants noted that the same principle applies for intangible assets, i.e. retrospective application may be appropriate where amortisation was erroneously based on revenue based measures. However, where an entity does meet the requirements to now apply revenue based amortised then this should be applied prospectively.	Noted. While the Board acknowledges the arguments raised by the participant, both the IASB and IPSASB required prospective application of these amendments. In the Board's view, prospective application is considered most appropriate because (a) there may have been divergence in practice about appropriate methods of amortisation (particularly in relation to service concession arrangements), and (b) changes in depreciation methods are seen as changes in estimates rather than as changes in accounting policies. As a result, no amendment is proposed to the transitional provisions.
1.5	**Changes in accounting for bearer plants**	
	Participants supported the proposed change, but indicated that in the private sector, difficulties have been experienced in practice to develop appropriate models for deciding what costs should be capitalised as part of the initial cost of the asset, and which should be expensed.	Noted. As the issues experienced relate to the practical implementation of the Standard, this will be communicated to the Office of the Accountant-General for its consideration.
2.	**SAICA webcast**	
	No comments were raised by participants on the proposed amendments.	Noted. No further action required.
3.	**Western Cape Technical Committee**	
	No comments were raised by participants on the proposed amendments.	Noted. No further action required.

4.	**Public Entity CFO Forum**	
	No comments were raised by participants on the proposed amendments.	Noted. No further action required.
5.	**Non-delegated Municipal CFO Forum**	
	No comments were raised by participants on the proposed amendments.	Noted. No further action required.