ACCOUNTING STANDARDS BOARD

RESEARCH PAPER

PRESENTATION OF INFORMATION IN THE STATEMENT OF FINANCIAL PERFORMANCE

Issued by the
Accounting Standards Board
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Executive summary

In consulting on its work programme for 2017 – 2020, the Board asked respondents to identify topics that it should consider including in its work programme. Respondents indicated there may be a need to consider the presentation of information in the statement of financial performance, in the light of, for example, the use of “other comprehensive income” in the private sector.

In reviewing a number of statements of financial performance, the Board identified inconsistencies in the way in which entities present information, which detracts from a user’s ability to understand and compare information reported among different entities in their financial statements. The Board agreed that research could be conducted to identify issues with the way in which entities present information in the statement of financial performance. Refer to section 1 for background to the research.

The Board noted that it would assist preparers to comply with the requirements of the Standards of GRAP and achieve consistency if the Board publishes the results of the research.

The research identified the following, which is included in section 2 of this Research Paper:

(a) Issues related to the way in which entities present information in the statement of financial performance.

- Financial statements do not always comply with the requirements of the Standards of GRAP when presenting information. For example, the research found financial statements do not clearly present expenses by nature or function, as entities are unsure of how to apply the requirements of the Standards and existing guidance was unclear.
- The way in which certain information is structured in the financial statements impairs users’ ability to understand the information. For example, information on a comparison of budget and actual information is often repeated in the financial statements because entities are unsure how to reconcile reporting requirements of the Standards of GRAP and the National Treasury.
- The relevance of information in financial statements needs improvement, as entities are unsure how to apply materiality when preparing financial statements and include immaterial information.
- Financial statements do not comply with the requirements of the Standards when accounting for certain types of transactions, such as the recognition of revenue for the recovery of certain types of unauthorised, irregular, and fruitless and wasteful expenditure, as entities referred to guidance that was unclear.

(b) Areas where existing guidance or other types of reporting may not have been applied or their application may have resulted in incorrect presentation of information in the financial statements.

The research identified that guidance existed for a number of the issues, for example, the Secretariat has published Frequently Asked Questions (FAQs) that address some of the issues identified. Entities did, however, not consider the guidance when preparing their financial statements.

Entities may rely on guidance that has become out-dated, for example, the research found guidance on requirements to recognise services received in-kind was out-dated. Entities are also unsure how to apply specific reporting requirements of the National Treasury with the requirements of the Standards of GRAP on, e.g. the presentation of budget compared to actual information.

Section 2 of this Research Paper also includes the steps taken by the Board to address the issues identified and to (a) assist preparers with presenting information in a way that complies with the requirements of the Standards of GRAP and (b) ensure financial statements provide more meaningful information to users. For example, the research identified areas where the Secretariat could revise FAQs; and this Research Paper outlines the requirements of the Standards to address the issues identified. The Secretariat also engaged with the National Treasury to discuss the use of the GRAP guidelines, and clarify their specific reporting requirements.

The Board also considered whether amendments are necessary to the existing requirements of the Standards of GRAP, for example the use of “other comprehensive income”. This is addressed in section 3 of this Research Paper.

The Board wishes to thank members of forums, reference groups, and the Technical Committee that assisted the Board in identifying, deliberating and finding resolutions to the issues.

Introduction

Respondents to the ASB's work programme consultation for 2017 to 2020 noted that the current presentation required by the Standard of GRAP on *Presentation in the Financial Statements* (GRAP 1) does not separate "recurring" revenues and expenses from "non-recurring" profits, gains and losses. Respondents also noted that the Board should consider whether an equivalent of "other comprehensive income" is appropriate for the public sector.

In reviewing entities' financial statements for other areas of work, the Board observed that there is divergence in the way in which entities present information on financial performance in practice. For example, some entities make a distinction between "recurring" and other "non-recurring" transactions, even though this is not currently required by GRAP 1.

The Board agreed that, before undertaking any work on the presentation of information in the statement of financial performance, it should research the way in which entities currently present financial performance, based on the requirements of GRAP 1 and any other Standards of GRAP that require the presentation of information in the statement of financial performance. The purpose of the research was to:

- identify practice issues related to the way in which information is presented;
- understand the reasons why entities present information in a specific way; and
- determine if any actions are needed to ensure that relevant information is provided to users of financial statements.

This Research Paper outlines:

- Practice issues related to the way in which entities present information in the statement of financial performance.
- The nature and reasons for the practices identified.
- Existing guidance available to preparers to address the identified issues.
- Areas where existing guidance or other types of reporting may have resulted in incorrect presentation of information in the financial statements.
- Communication of guidance developed as an outcome of the research to assist preparers with the way in which entities should present information to comply with the requirements of the Standards of GRAP.
- The Board's consideration of the existing requirements of the Standards of GRAP.

This Research Paper outlines the aforementioned considerations in three sections:

Section 1 - Background to the research.

Section 2 - Results of the research, root causes and actions.

Section 3 - Specific actions identified by the Board, including consideration of whether any amendments are necessary to existing requirements of the Standards of GRAP.

Authority of this Research Paper

The Board publishes Research Papers to outline its research into issues such as the results of any reviews undertaken on the application of Standards of GRAP and/or current practice in applying the Standards. This Research Paper is not authoritative.

Section 1 – Background to research

The approach to the research was to select a representative sample of entities' financial statements for review as a first step to the project. The latest publicly available financial statements of entities that apply Standards of GRAP were mostly the 2016 financial statements, which were considered. Table 1 outlines the number of entities' financial statements reviewed.

Table 1: number of entities reviewed

Entity type	Total number of entities that apply Standards of GRAP	Number of entities reviewed
National government	226	30
Provincial government	10	2
Local government	257	27
TVET college	50	8
Total		**67**

To ensure that the research identified all issues related to the presentation of financial performance, the following areas of financial statements were reviewed, hereafter referred to as "financial statements":

- the statement of financial performance;
- related notes, including accounting policies;
- the statement of changes in net assets; and
- the comparison of budget and actual information, as required by the Standard of GRAP on *Presentation of Budget Information in Financial Statements* (GRAP 24).

As a second step, the Secretariat discussed the results of the research and practical issues identified with various stakeholders, including preparers from various types of entities, audit firms, the National Treasury, and other interested parties. The purpose of the discussions was to understand the reasons why preparers present information in a specific way, and to understand the impact on the usefulness of information for users of financial statements.

As the final step, the Board analysed the results of the review and discussions. The results of the Board's research and its further actions taken are included in sections 2 and 3 of this Research Paper.

Section 2 – Results of research and guidance

The research identified practice issues and, in some instances, non-compliance with the Standards of GRAP.

This Research Paper focuses on issues identified at more than one entity as the purpose was to identify transversal issues in practice regarding the way in which information is presented (presentation and disclosure). Accounting issues (recognition and measurement) identified in the course of the review are included in this Research Paper only when they are transversal and indirectly affect presentation.

This Research Paper addresses the issues identified in four categories based on their nature:

- Non-compliance with the Standards of GRAP (presentation and disclosure of information)
- Layout and structure of information across the financial statements
- Relevance of information presented in the financial statements
- Accounting issues (recognition and measurement in the financial statements)

Table 2 outlines the number of entities and type of issues identified.

Table 2: number of entities and type of issues identified

Entity type	No. of entities reviewed	Non-compliance	Layout and structure	Relevance of information	Accounting issues
National government	30	23	25	28	16
Provincial government	10	2	2	2	1
Local government	27	26	20	27	24
TVET college	8	8	6	7	2
Total	**67**	**59**	**53**	**64**	**43**

The Research Paper discusses the issues below.

Non-compliance with Standards of GRAP

Nature versus function

Consideration of issue

Description of issue	Existing guidance	Root causes
Entities do not clearly present expenditure by nature or function, and presentation often appears to be a combination of the two methods, e.g. items such as "repairs and maintenance", "grant expenditure", "contracted services" and "project expenditure" are included in a statement of financial performance predominantly presented by nature.	Secretariat FAQ National Treasury guideline on GRAP 1 (January 2014)	A misconception exists about the meaning of classifying expenditure by nature or function. Existing guidance and financial reforms contributed to incorrect presentation. Entities budget by nature for some items and by function for other items. The trial balance is set in a similar manner and financial reporting often follows this structure.

GRAP 1.104 requires entities to present an analysis of expenses by nature or function. Analysing expenses by nature identifies expenses in terms of their character and groups expenses according to the kinds of economic benefits or service potential received in incurring those expenses, irrespective of their use in the entity's operations or where the expenses are incurred. The function of expense method analyses expenses according to the programme, activity from which the item arises, or purpose for which they were incurred.

The Secretariat of the ASB has issued an FAQ on this issue. The research found that the guidance is unhelpful because the Secretariat's FAQ was new and entities had not yet considered it.

Other existing guidance and financial reforms that may have contributed to the incorrect presentation include:

- The National Treasury guideline on GRAP 1 includes "repairs and maintenance" as an item of expenditure presented by nature.
- The municipal standard chart of accounts (mSCOA) has an item for "contracted services". Although mSCOA does not prescribe reporting in the financial statements, it led preparers to assume they should present "contracted services" as a line item.
- The Government Finance Statistics classification is not clearly by nature or function.
- Reporting requirements to, for example, the National Treasury include items such as "repairs and maintenance" and related ratios. Although this reporting is for specific purposes and a specific user, it led to preparers reporting similar information in general purpose financial statements.

Actions taken

The International Accounting Standards Board (IASB®) has also identified a misconception about the classification of expenses by nature or function. The Board will consider the IASB's actions on the matter in future. To date, the Secretariat has made reference to the IASB's September 2017 meeting paper on "*Analysis of expenses by function and by nature"* in developing guidance on the issue.

The Secretariat amended its existing FAQ on *"What does it mean to analyse expenditure by either nature or function?"* by:

- Expanding the scope to address the classification of expenditure by nature or function broadly.
- Explaining what each classification means with related examples.

Refer to Section 3 for engagement with the National Treasury on their GRAP guidelines.

Exchange and non-exchange classification

Consideration of issue

Description of issue	Existing guidance	Root causes
A number of public entities did not classify all revenue items as either exchange or non-exchange, or no classification was made. There were also instances where no accounting policy was included for significant items of revenue.	National Treasury guideline on GRAP 1	The National Treasury guideline refers only to the requirements of GRAP 1, and not GRAP 9 and GRAP 23. The classification is difficult where a revenue line-item has exchange and non-exchange elements. Information is unnecessarily disaggregated in financial statements.

Classifying revenue from exchange transactions separately from revenue from non-exchange transactions is required by GRAP 1, read together with the Standard of GRAP on *Revenue from Exchange Transactions* (GRAP 9) and the Standard of GRAP on *Revenue from Non-exchange Transactions (Taxes and Transfers)* (GRAP 23). The National Treasury guideline on GRAP 1 illustrates the requirements of GRAP 1 and should be read together with the requirements of GRAP 9 and GRAP 23.

Another reason identified for the issue is that entities unnecessarily disaggregate information, which leads to similar and immaterial line items being presented separately. This creates uncertainty with entities about which accounting policies to present, as entities find it difficult to determine from disaggregated information which accounting policies are material. As a result, entities present accounting policies that are not relevant and not applicable to the entity.

Actions taken

The Secretariat developed an FAQ on *"What are the requirements for entities to classify revenue as exchange or non-exchange?"*. Refer to section 3 of this Research Paper for guidance explaining the application of the Standards of GRAP.

Stakeholders noted that the mSCOA requires the classification of revenue as either exchange or non-exchange and will assist municipalities to apply the requirements of the Standards in future.

Goods and services received in-kind

Consideration of issue

Description of issue	Existing guidance	Root causes
The accounting policies of many entities include a statement that in-kind benefits are not recognised without any further context provided.	Secretariat FAQ National Treasury guideline on GRAP 23 (January 2014)	Existing guidance is unclear regarding the current requirements of the Standards. Entities do not fully understand what in-kind benefits are and when they should be recognised.

Entities have largely not aligned accounting policies to the latest requirements of the Standards. As a result, entities have not recognised services received in-kind that meet the definition and recognition requirements of GRAP 23.

Entities also confuse the requirement for services in-kind to be "significant to an entity's operations and / or service delivery objectives" in GRAP 23 with whether the services are material in amount.

Actions taken

Existing guidance was based on the principles that applied at the time of issue. The Secretariat amended its existing FAQ on *"Do in-kind benefits only involve goods and services provided by individuals and how should in-kind benefits be accounted for?"* by:

- Aligning the recognition requirements to the requirements of GRAP 23.
- Including examples of in-kind benefits that may be significant to an entity.
- Including the disclosure requirements of services received in-kind.

Refer to Section 3 for engagement with the National Treasury on their GRAP guidelines.

Layout and structure of information

Reserves in the statement of changes in net assets

Consideration of issue

Description of issue	Existing guidance	Root causes
There is a practice of presenting certain reserves not required by the Standards of GRAP separately from accumulated surplus/deficit in the statement of changes in net assets.	National Treasury guideline on GRAP 1	Preparers deem the information necessary to: - provide meaningful information to users, and/or - comply with specific legislative requirements.

The previous *Framework for the Preparation and Presentation of Financial Statements* discussed separately presenting reserves not required by the Standards of GRAP in instances where statute or other laws require specific reserves to give the entity and its creditors an added measure of protection from the effects of future losses. The National Treasury has provided entity-specific guidance to municipalities, which states that municipalities should not present internal funds separately in the statement of changes in net assets, but instead disclose them in a note.

To comply with the Standards, all items of revenue and expenditure are first recognised in the statement of financial performance and any reserve is created, increased, or decreased from accumulated surplus or deficit.

Preparers indicated that presenting reserves not required by the Standards of GRAP, and which are accounted for correctly, is useful to users to make decisions and hold entities accountable. For example, where entities receive capital grants in advance of a project commencing or where funds are ring-fenced for specific purposes, a reserve separate from accumulated surplus or deficit in the statement of changes in net assets assists users to understand the purpose of the funds and to confirm that they are only used for the purposes intended.

Actions taken

Entities can continue to separately present certain reserves not required by the Standards of GRAP in the statement of changes in net assets when they provide relevant information to users, or are required by legislation. Care should, however, be taken that only those reserves relevant to external users' understanding of the financial statements, or when required by legislation, are presented.

Engagements were held with the National Treasury regarding the entity-specific guidance provided. Refer to Section 3 of this Research Paper.

Surplus to be surrendered to the National Treasury

Consideration of issue

Description of issue	Existing guidance	Root causes
A few public entities included a line item in the statement of changes in net assets for surplus funds surrendered, or to be surrendered, to the National Treasury, in terms of National Treasury Instruction 6 of 2017/2018.	National Treasury guideline on the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (January 2014)	The National Treasury guideline only includes a scenario where an entity has a contingent liability and no guidance exists for the accounting of the debit entry. Preparers noted difficulties with implementing Instruction 6.

As the guideline issued by the National Treasury only deals with one specific scenario, it is unclear whether the surrender meets the definition of a "distribution to owners". Preparers therefore questioned if recognising a surplus surrendered to the National Treasury directly in the statement of changes in net assets is appropriate.

Divergence in practice remains an issue due to different interpretations of the requirements of the Instruction and the absence of accounting guidance.

As a result of national fiscal constraints, the surrender of surplus funds to the National Treasury is likely to become more frequent than in the past and as a result, clear guidance is needed on a range of scenarios.

Actions taken

Difficulties experienced in practice, as raised by stakeholders, were communicated to the National Treasury so that appropriate accounting guidance can be developed. This included matters such as the calculation of a surplus and the accounting entry when entities surrender funds.

Presentation of an appropriation statement

Consideration of issue

Description of issue	Existing guidance	Root causes
Some entities present an "appropriation statement", often in addition to a "statement of comparison of budget and actual information". Entities largely repeat information in the appropriation statement and a statement of comparison of budget and actual information, and the appropriation statement often includes information not required by GRAP 24.	National Treasury MFMA Budget Circular No. 67 National Treasury guideline on GRAP 24 (January 2014)	An inconsistency between the Budget Circular and the National Treasury guideline on GRAP 24 results in entities presenting both sets of information.

The research identified a perception among preparers and auditors that the National Treasury requires the information in the MFMA Budget Circular in addition to what is required by GRAP 24, and that the information should be presented twice.

Preparers should consider the usefulness of information that is repeated in the financial statements and information presented in the financial statements in addition to what the Standards of GRAP require.

Actions taken

The Secretariat engaged with the National Treasury to understand the reporting requirements in the MFMA Budget Circular.

The Secretariat developed an FAQ on *"What should be considered when presenting information in addition to what is required by GRAP 24 on a comparison of actual and budget information"*. Refer to section 3 of this Research Paper for guidance explaining the application of the Standards of GRAP.

Relevance of information

Consideration of issue

Description of issue	Existing guidance	Root causes
A number of transversal issues related to the relevance of information presented in the financial statements were identified.	No specific guidance exists.	Entities do not appropriately consider materiality when preparing financial statements, and do not have processes in place to prepare and review financial statements.

Transversal issues identified include, for example:

- Immaterial items are presented separately in the financial statements. This clutters financial statements so that users are unable to determine information that is important.
- Separate line items are included for items that are not applicable to the entity's operations. For example, "taxation" where entities are exempt from income tax.
- Insufficient disclosure is made of management's significant judgements and key sources of estimation uncertainty.
- Identical items are presented separately.
- Template accounting policies and accounting policies that are not applicable to an entity are included in the financial statements. As a result, users are unable to understand the nature of the transactions an entity enters into and how they are recognised and measured in the financial statements.

Actions taken

The ASB has a project to develop guidance on *The Application of Materiality in the Financial Statements.* This guidance would address most of the issues identified.

Accounting issues

Costs to provide free basic services

Consideration of issue

Description of issue	Existing guidance	Root causes
Entities presented items such as "free basic services", "income foregone" and "discount allowed" as expense line items. Such items are not presented in accordance with the requirements of the Standards.	Secretariat FAQ	Entities are unfamiliar with the guidance that exists.

The expense items presented appear to be the expenses related to providing free basic services, or a write-off of the revenue recognised in respect of providing the services. Both are incorrect, for the following reasons:

- The provision of free basic services represents revenue foregone. Revenue foregone should not be recognised as revenue in the financial statements.
- Expenses should be classified by their nature or function. The expenses relating to providing free basic services should not be reclassified from their nature or function and presented separately.

Actions taken

The Secretariat amended its existing FAQ on *"How should a municipality account for free or subsidised goods and services, as well as rebates provided to its consumers and other foregone revenue?"* by clarifying that the expenses related to providing free basic services should not be described as "free basic services" in the statement of financial performance, etc., and should not be reclassified from other line items.

Recovery of unauthorised, irregular and fruitless and wasteful expenditure

Consideration of issue

Description of issue	Existing guidance	Root causes
The accounting policies of many entities state that the recovery of unauthorised, irregular, and fruitless and wasteful expenditure is treated as revenue; mostly non-exchange revenue. Such policies are questionable because expenditure recovered from a third party implies that it was not the expenditure of the entity.	The National Treasury MFMA Circular 68 Specimen financial statements developed by the National Treasury	The National Treasury MFMA Circular 68 and specimen financial statements outline this accounting treatment.

Legislation requires entities to investigate instances of unauthorised, irregular, and fruitless and wasteful expenditure, and to determine if the expenditure should be recovered from another party. Where an entity recovers unauthorised, irregular, and fruitless and wasteful expenditure upon finalisation of an investigation, it means it was not the expenditure of the entity.

Although the research noted the matter from entities' accounting policies, and not the actual recovery of the expenditure, recent public attention to the resolution of unauthorised, irregular, and fruitless and wasteful expenditure may lead to the recovery thereof becoming more prevalent in financial statements in future.

Actions taken

The Secretariat discussed the accounting treatment with the National Treasury. The reason for recovering unauthorised, irregular, and fruitless and wasteful expenditure will determine the correct accounting treatment. Recovery likely reflects that the entity should not have entered into the transaction. For this reason, recovery is not revenue, but rather a reversal of the original transaction, e.g. expenses or assets.

Accounting for traffic fines

Consideration of issue

Description of issue	Existing guidance	Root causes
The accounting policies for traffic fines of many entities are not in accordance with the Interpretation of the Standards of GRAP on *Applying the Probability Test on Initial Recognition of Revenue* (IGRAP 1). Instead of being considered a subsequent measurement event, uncollectability is considered at initial recognition.	IGRAP 1 Secretariat FAQ National Treasury guideline on *Traffic fine practical guidance* (July 2015)	Entities are unaware of the guidance, or are unsure how to apply it.

Guidance exists on accounting for revenue from traffic fines, but entities are not applying it, or are applying it incorrectly.

Actions taken

Awareness of the guidance that is available is raised through this Research Paper. The Board will consider the issue further in its project on *Accounting for Adjustments to Revenue*.

Other matters

Generic root causes

In addition to the specific root causes outlined for each of the issues identified above, discussions with stakeholders identified a number of generic root causes for difficulties entities experience in deciding on the manner in which to present information in the statement of financial performance. The Board addressed the generic root causes that were within the ASB's mandate, as follows:

<table>
<tr><th>General root cause</th><th>Further actions</th></tr>
<tr><td>There is an overreliance on templates and other financial reforms. Entities do not tailor templates to their own circumstances, or use them for purposes other than intended.</td><td>The Secretariat will use opportunities provided by template owners to engage on the content of templates.
The Board will continue to advocate that preparers present information based on materiality. The Board will do this through its project on The Application of Materiality in the Financial Statements.</td></tr>
<tr><td>Entities assume that the way in which information was presented in the past remains correct and need not be changed from one year to the next.</td><td rowspan="3">The Secretariat has prepared a summary of changes effective for 2018/2019 that is placed on the ASB website. The summary will be updated on an annual basis.</td></tr>
<tr><td>Entities are not knowledgeable on the latest requirements of the Standards of GRAP and are unaware of changes to the requirements.</td></tr>
<tr><td>Entities do not refer to the Standards of GRAP to confirm the requirements when they prepare financial statements.</td></tr>
<tr><td>Many entities are not part of the communication channels in place through the National Treasury and provincial governments and contact details are often out dated.</td><td>The Secretariat will follow a process to update contact details when updating its website, and will continue to raise awareness during outreach activities on how the ASB can be contacted.</td></tr>
<tr><td>Entities appear to use consultants with private sector knowledge who are not experts in the requirements of the Standards of GRAP.</td><td rowspan="2">The National Treasury is assisting entities with resolving accounting issues which, together with the GRAP e-learning platform that the National Treasury has made available, educate preparers on the requirements of the Standards of GRAP.</td></tr>
<tr><td>Most preparers study private sector financial reporting requirements and are unfamiliar with the differences between the Standards of GRAP and IFRS Standards.</td></tr>
</table>

Transversal issues on the structure of information

The research identified two transversal issues relating to the way in which entities structure information in the financial statements. Some entities present:

(a) only certain items as part of total revenue and total expenditure, and present a single surplus or deficit for the year; or

(b) revenue, expenses, with gains and losses on certain assets and liabilities reflected separately, with various non-GRAP variations on the surplus or deficit reported for the year.

These transversal issues are discussed below.

(a) Presentation of total revenue and total expenditure

A practice exists of presenting certain items of revenue and expenditure separately from total revenue and total expenditure. Items typically excluded and presented separately are finance income, finance cost, profit / loss from the sale of assets, fair value adjustments and actuarial gains and losses.

This presentation can be illustrated as follows:

Revenue	
Revenue from exchange transactions	XX
Revenue from non-exchange transactions	XX
Total revenue	**XX**
Expenditure	
Employee related costs	(XX)
Finance costs	(XX)
General expenses	(XX)
Total expenditure	**(XX)**
Profit on sale of assets	XX
Fair value adjustment to assets	XX
Actuarial losses	(XX)
Surplus/(deficit) for the year	**XX**

Instances were also noted where no subtotals for total revenue and total expenditure have been included. This can be illustrated as follows:

Revenue	XX
Administrative expenses	(XX)
Employee related costs	(XX)
Operating expenses	(XX)
Profit on disposal of assets	XX
Investment revenue	XX
Surplus/(deficit) for the year	**XX**

(b) Presentation of non-GRAP measures

GRAP 1.98 requires entities to include additional line items, headings and sub-totals on the face of the statement of financial performance when they are relevant to a user's understanding of the entity's financial performance.

A practice exists to present certain additional sub-totals, most commonly labelled *"operating surplus/deficit"*. The calculation for this subtotal varies extensively across entities and excludes a range of items from total revenue and total expenditure on the face of the statement of financial performance. The calculation usually excludes the same items as discussed in (a) above.

The presentation of an "operating surplus/deficit" subtotal can be illustrated as follows:

Revenue	
Revenue from exchange transactions	XX
Revenue from non-exchange transactions	XX
Total revenue	**XX**
Expenditure	
Employee related costs	(XX)
Finance costs	(XX)
General expenses	(XX)
Total expenditure	**(XX)**
Operating surplus / (deficit)	**XX**
Profit on sale of assets	XX
Fair value adjustment to assets	XX
Actuarial losses	(XX)
Surplus/(deficit) for the year	**XX**

Way forward

The Secretariat received differing views regarding the information needs of users when consulting on these issues. Some stakeholders indicated that all items should be included in total revenue and total expenditure, and measures used for profit orientated entities, such as *"operating surplus/deficit"* are inappropriate for the public sector. Others viewed separately presenting certain items, and including non-GRAP measures in the statement of financial performance, as important to provide meaningful information to users. Different views translated into divergence in practice.

The Board will consult on these matters and the need for a separate project in its work programme for 2021 to 2023. This will also allow the Board to consider developments internationally in the private sector and the research that is currently being done by the IASB on these matters.

Section 3 – Addressing the issues

Existing guidance

Use of National Treasury guidelines and guidance

Illustrative guidance is included in the Standards of GRAP when they are issued. Once these Standards become effective, all illustrative examples are removed and included in the National Treasury guidelines developed for Standards of GRAP that have been issued.

It has become evident from the research that entities are not using the National Treasury guidelines as intended. Preparers indicated there is a need for implementation guidance that is based on the latest requirements of the Standards of GRAP.

The Secretariat will continue to communicate the updated requirements to the National Treasury.

Other existing guidance

For a number of issues identified, guidance already exists. The guidance was found to not be used, as it has become out-dated, is incorrect, or required amendment.

To ensure that correct and up-to-date guidance is available on topical issues, the Secretariat has updated the following FAQs, as discussed in Section 2 of this Research Paper:

- *"What does it mean to analyse expenditure by either nature or function?"*
- *"Do in-kind benefits only involve goods and services provided by individuals and how should in-kind benefits be accounted for?"*
- *"How should a municipality account for free or subsidised goods and services, as well as rebates provided to its consumers and other foregone revenue?"*

Refer to the ASB website for the latest FAQs issued: http://www.asb.co.za.

To raise awareness of the requirements of Standards of GRAP and guidance that exists, the Secretariat communicated amendments to existing guidance to stakeholders at various fora.

Where guidance issued by other parties was found to be out-dated, incorrect, or unclear, this was communicated to them.

Guidance explaining the application of the Standards of GRAP

Guidance to explain what entities should consider when applying the Standards of GRAP was developed as an outcome of the research. The Secretariat developed the guidance as two new FAQs. Refer to section 2 of this Research Paper for the following two issues on which FAQs were developed:

- the classification of revenue as exchange or non-exchange; and
- the presentation of information in addition to the requirements of GRAP 24.

Consideration of amendments to existing requirements of Standards of GRAP

Current presentation requirements of GRAP 1

The Board heard from stakeholders that there may be a need to consider the current presentation requirements of GRAP 1 as they do not separate "recurring" revenues and expenses from "non-recurring" profits, gains and losses.

Because the IASB is doing work in this area internationally, a separate project will be proposed in the Board's next work programme consultation for 2021 to 2023. The project will consider the local implications of any amendments made by the IASB to presentation requirements, and obtain a better understanding of the information needs of users.

Use of other comprehensive income

Stakeholders asked the Board to consider the use of "other comprehensive income" in the Standards of GRAP. The Board previously decided that such a measure does not provide meaningful information to users of public sector financial statements.

The International Public Sector Accounting Standards Board (IPSASB), after completing its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, identified that it would need to consider the impact of its framework on the presentation of information in the existing International Public Sector Accounting Standards (IPSAS).

The Board will consider the appropriateness of "other comprehensive income" after the IPSASB has undertaken work in this area, as this may be an area where alignment with the IPSAS is important to ensure comparability between financial statements prepared using Standards of GRAP and IPSAS.