



Accounting Standards Board

Responses due 28 February 2019

ACCOUNTING STANDARDS BOARD

IDENTIFYING PROJECTS TO PRIORITISE ON THE ASB'S WORK PROGRAMME FOR 1 APRIL 2020 TO 31 MARCH 2023

ED 171



ED 171

Commenting on this Exposure Draft

The Board seeks comment on the Exposure Draft on *Identifying Projects to Prioritise on the ASB's Work Programme for 1 April 2020 to 31 March 2023* (ED 171). The Board will utilise the feedback received from stakeholders to identify projects to add to its work programme.

Comment should be submitted in writing so as to be received by **28 February 2019**. Email responses are preferred. Unless respondents to this Exposure Draft specifically request confidentiality, their comment is a matter of public record once the work programme has been issued. Comment should be addressed to:

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Background to the Exposure Draft

The role of the work programme in meeting the ASB's objectives

The key objective of the Accounting Standards Board (ASB) is to set Standards of GRAP that are relevant, credible, and can be implemented by entities in the public sector. To ensure that this objective is met, it is critical that the ASB focuses its efforts in the most appropriate areas. The ASB's Board uses the work programme to direct its standard-setting activities. The work programme outlines which projects the Board intends undertaking during a particular reporting period.

Reflecting on the last work programme

The Board's last work programme consultation was in 2016 and covered the period 1 April 2017 to 31 March 2020. By 31 March 2020, it is anticipated that the Board would have completed the following projects:

- (a) Develop guidance on *The Application of Materiality in Financial Statements, Accounting for Adjustments to Revenue, Accounting for Landfill Sites, Use of the Standards of GRAP by Entities that Apply IFRS Standards*, and issue *Improvements to the Standards of GRAP*.
- (b) Revise the Standard of GRAP on *Financial Instruments*.
- (c) Research topics on interim financial statements, practical issues related to the preparation of consolidated financial statements, the reporting of information to citizens and the use of the cash flow statement to facilitate comparison with the budget.
- (d) Complete reviews of the presentation of information in the statement of financial performance, and the amendments made to the Standards of GRAP on property, plant and equipment and investment property.

At 31 March 2020, the Board is committed to complete projects on Combined Financial Statements, revision of GRAP 25 on *Employee Benefits*, Application of GRAP by Small Entities, and finalising the reviews of the Directive on *The Selection of an Appropriate Reporting Framework by Public Entities* (Directive 12) and the Standard of GRAP on *Heritage Assets* (GRAP 103) and actioning any outcomes arising from these reviews.

For more information on the current projects on the Board's work programme, follow this link: <http://www.asb.co.za/Development-of-GRAP/Work-programme>.

Looking ahead

The Board is undertaking formal consultation on its work programme for the period 1 April 2020 to 31 March 2023. The purpose of this consultation is to identify projects the Board should undertake during this period. Assisting the Board to identify projects ensures that its work is relevant, and that projects are given the appropriate priority.

Due process and timetable

The Board invites comment on the proposals set out in this Exposure Draft from preparers, users, auditors, standard setters and other parties with an interest in public sector financial reporting. Upon the closure of the comment period, the Board will consider the comment received on the Exposure Draft. A



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work programme for the period 1 April 2020 to 31 March 2023 will be developed by the Board based on the feedback received.

Invitation to comment

Comment is invited by **28 February 2019** on this Exposure Draft. The Board requests that respondents express an overall opinion on the proposals in the Exposure Draft, as well as provide feedback on the specific issues outlined in the Exposure Draft. An analysis of the comments received will be published on the website.

Identifying Projects to Prioritise on the ASB's Work Programme for the period 1 April 2020 to 31 March 2023

The need to consult and how the work programme is developed

1. The ASB sets the accounting Standards that are used by entities in the public sector to prepare their financial statements. The Standards are designed to result in information in the financial statements that enables users to hold entities accountable and make decisions.
2. To ensure that the information in the financial statements meets these objectives, the ASB is seeking feedback from stakeholders about the projects it should prioritise on its work programme. This consultation will assist the Board to ensure that its standard-setting activities focuses on the right issues, and appropriately balances projects between new areas, and issues of adoption and ongoing application of the Standards.
3. The Board is seeking feedback on the issues it should prioritise on its work programme for the period 1 April 2020 to 31 March 2023. A three year period has been selected as it links to the MTEF period over which resources are made available to the ASB, and broadly to the time horizon of other standard-setters' work plans.

The role of the work programme

4. To identify appropriate projects for the Board to include in its work programme, it is important to understand the purpose of the work programme and its role within the ASB.
5. The Board's work programme is the list of projects that it plans to undertake in a particular reporting period, and which drives the standard-setting activities of the Board. The projects that are undertaken should support the Board to deliver on its strategic goal and strategic objectives. The strategic goal and strategic objectives of the ASB (insofar as they relate to standard-setting activities locally) are as follows:

Strategic goal of the ASB

To enhance financial reporting in all three spheres of government on a continuous basis to engender confidence in financial reporting and improve accountability and decision-making.

Strategic objective 1 – Set Standards of GRAP

Objective 1 requires that the ASB sets Standards of GRAP which provide accounting and reporting requirements for all material transactions and events. The Standards should be understandable, and should be implemented by all three spheres of government.

Strategic objective 3 – Promote the adoption of the Standards of GRAP

Objective 3 requires that the ASB monitor and facilitate the adoption of the Standards of GRAP by public sector entities through the development of transitional provisions and transitional arrangements when the Minister of Finance approves a new Standard.

Strategic objective 4 – Monitor the application of the Standards of GRAP

Objective 4 requires the ASB to monitor and evaluate the consistent application of the Standards of GRAP on an ongoing basis by considering whether or not the needs of users of financial reporting are met. This includes the undertaking of post-implementation and similar reviews.

6. Based on the Board's strategy, a number of potential projects have been identified which could be undertaken over the period 1 April 2020 to 31 March 2023. A list of these projects is included in the section below. Feedback is requested on whether these projects should be undertaken, and if yes, an indication of their priority. Stakeholders are also requested to identify any additional projects which should be undertaken as well as their urgency.
7. The Board believes that the work programme should be appropriately balanced so as to ensure that projects are undertaken in each of its strategic areas. If stakeholders are of the view that more emphasis should be given to a particular strategic objective, the Board would welcome such views and comments.

Criteria to select and prioritise projects

8. It is important that stakeholders understand how projects will be evaluated to determine whether or not they should be added to the ASB's work programme, as well as how they will be prioritised.
9. The Board has identified criteria that will be used to evaluate the merits of individual projects, as well as constraints that should be considered in selecting and prioritising projects. These are outlined in the paragraphs that follow.

Criteria to evaluate individual projects

10. The Board has identified the following criteria that will be used to evaluate individual projects. They are as follows:

Criteria to evaluate projects

1. **No guidance exists** in either the public or private sector, for new or existing issues, which results in inappropriate or divergent accounting results. Where no guidance exists, it is likely that the projects will require more resources and take longer to complete.
2. **Inconsistent application of existing guidance**, which results in inappropriate or divergent accounting results. Issuing guidance on the application of existing Standards may require fewer resources, and may take less time to complete.
3. Importance of **maintaining alignment with International Public Sector Accounting Standards (IPSASs) or IFRS[®] Standards**. Alignment with IPSASs (or IFRS Standards) may be important as it may address or alleviate practical issues where entities apply different reporting frameworks, e.g. consolidation and other issues; and it may be an opportunity to maximise resource utilisation by avoiding duplication of efforts internationally and locally.
4. Importance of **maintaining the current suite of Standards of GRAP** to ensure that they are relevant and are appropriately applied.

Constraints to be considered in selecting and prioritising projects

11. The Board has identified the following constraints which it considers in selecting and prioritising projects:

Constraints in selecting and prioritising projects

1. **Resources available to the ASB**, including the capacity of the Secretariat and Board, as well as financial resources.
2. The **financial management environment** within which entities operate, including the timing and anticipated impact of reforms by other organisations.
3. **Resources available at stakeholders to participate in the standard setting process**. Consultation with stakeholders during the standard-setting process is imperative and ensures that pronouncements issued by the Board are credible, relevant and can be implemented.
4. **Resources available at entities to implement new or revised pronouncements**.
5. The **impact of an issue** in the context of its significance to accountability and decision-making, and how widespread the issue is in the public sector.
6. **Urgency** of the issue to the public sector.

Applying the criteria in responding to this Exposure Draft

12. It would be useful if stakeholders apply the project specific criteria in paragraph 10 when responding to which projects should be undertaken. As this Exposure Draft is aimed at identifying the projects the ASB should select and prioritise over the period 1 April 2020 to

31 March 2023, it would be useful if the urgency to deal with a particular issue is considered and highlighted to the Board.

Identifying and evaluating projects

13. The Board has identified a number of projects for each of its strategic objectives. Respondents should consider (a) which, if any, of these projects should be undertaken, and (b) how they should be prioritised using the criteria discussed above and considering the urgency of the issue. Under each strategic objective, opportunity is allowed to provide feedback on any other projects the Board should consider undertaking. The same criteria should also be considered in evaluating other proposed projects. They are discussed below. The Annexure to this Exposure Draft provides a visual indication of the number of projects that could be undertaken under each objective and when they could be initiated. This is only indicative and will depend on the feedback received during the consultation process.
14. As noted in the background to the Exposure Draft, the Board is committed to undertake a number of projects in the 2019/2020 reporting period, which will only be completed in 2020/2021. As the Board is already committed to these projects, they are not subject to the consultation in this document but provide context for the Board's current work commitments. These projects are included in the Annexure to this document. The Annexure also includes when particular pronouncements will or may need to be implemented over the 2021 to 2023 period so as to provide respondents information about existing time commitments.

Strategic objective 1 – Set Standards of GRAP

15. The Board aims to develop Standards of GRAP (which includes Interpretations, Directives and Guidelines) that:
 - respond to needs identified locally;
 - maintain the existing suite of Standards; and
 - maintain alignment with IPSASs (and IFRS Standards where relevant).
16. The Board identifies projects to address local needs through post-implementation and desktop reviews, feedback from stakeholders, and through discussions with the National Treasury and the Auditor-General of South Africa to identify emerging issues. The maintenance projects are either identified through monitoring the work of the International

Public Sector Accounting Standards Board (IPSASB) and International Accounting Standards Board® (IASB).

Possible projects

17. The Board has identified a number of possible projects on its work programme under this objective which are discussed below.

Local initiatives

Review of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors

18. During the development of the proposed Guideline on *The Application of Materiality in Financial Statements*, debates arose about the accounting treatment of items that were considered immaterial in previous reporting periods, but which have become material either over time or in the current reporting period. The specific example discussed during the development of the proposed Guideline was the use of capitalisation thresholds for assets. To illustrate: An entity adopts a policy of only capitalising furniture and fittings in excess of X R-value. Some preparers were of the view that an entity should decide every year whether applying such a policy has a material impact on the financial statements for the current and future reporting periods. Other preparers were of the view that an entity should consider both the historical, cumulative effect of applying such policies, as well as the effect on current and future reporting periods. The key difference between the views is whether the historical effects of certain policy decisions require adjustment in the current (and/or prior) year's financial statements.
19. There was no consensus reached by preparers on the appropriate treatment. The main issue of contention is that GRAP 3 indicates that an entity need not apply the Standards of GRAP to items that are considered immaterial. If the entity made appropriate assessments of materiality in prior years, then there is no requirement in GRAP 3 for an entity to retrospectively adjust or restate its financial statements as this is not seen as a change in accounting policy, nor was an error made by the entity in preparing prior year financial statements. GRAP 3 is unclear about whether decisions about materiality and applying Standards of GRAP are only considered in individual reporting periods.
20. When the Board approved the proposed Guideline for issue, it agreed that GRAP 3 does not provide adequate guidance on how to deal with these situations and that there may be a need to review the requirements of the Standard. The review of GRAP 3 would be limited to how to deal with the application of materiality in the financial statements rather than a general review of GRAP 3. If considered appropriate, amendments may be proposed to GRAP 3.

Review of GRAP 1 on Presentation of Financial Statements

Part A

21. The Board undertook a project in 2017 to research entities' practices on presenting information in the statement of financial performance¹. One of the findings of the research was that entities have differing approaches to the presentation of gains and losses. Some entities present:
- (a) total revenue and total expenses, with all gains and/or losses reported under each of those headings, and present a single surplus or deficit for the year; or
 - (b) revenue and expenses, with gains and losses on certain assets and liabilities reflected separately, with a diversity of non-GRAP measures of the surplus or deficit reported for the year.
22. It was also observed that entities present additional sub-totals in the statement of financial performance, most commonly labelled "*operating surplus/deficit*". The calculation of this subtotal varies extensively across entities and excludes a range of items from total revenue and total expenses on the face of the statement of financial performance. GRAP 1.98 allows 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.
23. As the two issues noted in paragraph 21 are linked, the Board considers that there could be merit in undertaking further research on the presentation of items in the statement of financial performance, and whether there are measures of performance that users find relevant to holding entities accountable and making decisions. Depending on the outcome of the research, this could result in amendments to GRAP 1.

Part B

24. The Board undertook research to identify whether there is a need for separate reporting to users of financial statements such as individuals or businesses that provide resources such as taxes, levies and other fees to, and receive service from, government, e.g. taxpayers, ratepayers, recipients of government services (and their representatives such as civil society organisations and NGOs). These users are broadly referred to as "citizens". The research identified that there was a need for reporting to these users, and that they require information, reported in a simplified, concise manner, on specific issues such as information linking planned and actual financial and non-financial performance, service delivery achievements, and spending on projects (and the location of the spend). While the Board acknowledged the need for the reporting of this information, it may be premature given the financial maturity of the sector to report on these issues.
25. While the research identified specific areas of information, during this process questions were raised about whether there are specific measures of financial performance that should

¹ Access Research Paper *Presentation of Information in the Statement of Financial Performance* <http://www.asb.co.za/Portals/0/Documents/GRAP/research%20papers/Research%20Paper%20on%20Presentation%20of%20Information%20in%20the%20Statement%20of%20Financial%20Performance%20Jul%202018.pdf>

be developed for public sector entities. The example used was the equivalent of “earnings per share” in the private sector. While this is an inappropriate measure for the public sector, there may be merit in identifying basic financial measure(s) that would provide an indication of a public sector entity’s financial performance.

Liquidation basis of accounting

26. Some stakeholders raised with the Board that there may be a need for guidance on the liquidation basis of accounting. There are potentially two aspects to consider in the public sector:
- (a) Government restructurings occur frequently where entities are merged, separated or parts of an entity combined with other entities. In these cases, there may be a limited need for financial statements based on the liquidation basis of accounting as the entity will continue, albeit in a different structure or with a different name. Some guidance is provided in the Standards of GRAP on *Transfers of Functions of Functions Between Entities Under Common Control* (GRAP 105), and *Discontinued Operations* (GRAP 100).
 - (b) There are some situations where entities are wound up and their assets and liabilities transferred to another entity (usually another entity with similar objectives). In these cases there may be merit in providing guidance on the measurement of assets and liabilities once the decision is made to cease an entity’s operations. The project could also examine whether existing disclosures such as those in GRAP 1 and GRAP 100 are appropriate.

Issue # 1 – Request for feedback on local initiatives

The Board has potential capacity to take on at least **three** new local initiatives over the period 2021-2023.

- (a) Which of the projects outlined above do you believe the Board should undertake (if at all) and why?
 - Review of GRAP 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.
 - Review of GRAP 1 *Presentation of Financial Statements* – Part A only, Part B only, or both Part A and B.
 - Liquidation basis of accounting.
- (b) Are there any other suggested topics that should be considered by the Board?

Please evaluate the proposed projects using the criteria in paragraph 10, and consider the urgency of the issue.

Maintenance of Standards

27. The Board undertakes two routine projects as part of its ongoing maintenance of the existing Standards of GRAP. These are as follows:

Reporting Framework

- The Board issued a Directive on *Determining the GRAP Reporting Framework* (Directive 5) in the early stages of the development of the suite of Standards of GRAP. The purpose was to outline which Standards of GRAP and international pronouncements were to be used in the preparation of an entity's financial statements. Since then, the suite of Standards has been completed, and the reliance on other Standards has been reduced to specialised areas such as tax, insurance and mining activities.
- The Board has continued to issue an updated annexure to the Directive each year to outline the reporting framework for the upcoming reporting period. The continued need for the publication of this annexure annually is because some Standards have different effective dates for different entities, and because there are always new entrants into the public sector who require guidance on the reporting framework.
- After the last work programme consultation, the Board agreed to not subject the annexure to a public consultation process if the changes are administrative in nature.

Improvements Project

- The Board undertakes a project every three years to make minor, non-urgent, or narrow scope amendments to the current suite of the Standards of GRAP.
- Some of these changes are made to align with similar improvements made to the IPSASs and IFRS Standards by the IPSASB and IASB respectively, some changes address areas where the current understandability or interpretation of a pronouncement could be clarified, or where minor inconsistencies exist. If issues are considered more than minor and require a principle to be changed, the Board undertakes a separate project to address the proposed changes.

Issue # 2 - Request for feedback on maintenance of Standards

Are there any specific issues that the Board should consider to maintain the existing suite of Standards?

Please provide a brief description of the issue or the nature of the project.

Please evaluate the proposed projects using the criteria in paragraph 10, and considering the urgency of the issue.

Projects to maintain alignment with IPSASs

28. The Board has a policy of converging with IPSASs (or IFRS Standards) where these are relevant to the public sector. Before deciding to adopt a new, or revise an existing pronouncement, the Board assesses whether adoption of a new, or revising an existing pronouncement, is (a) consistent with the ASB's mandate and strategic objectives, and (b) after considering factors such as the legislative environment locally, the capacity of entities to implement a new or revised pronouncement, the potential timing of a change on other financial management reforms, and/or the urgency to deal with a specific issue.

Alignment with IPSASs

29. Subject to the assessment outlined in paragraph 28, the Board believes that maintaining alignment with IPSASs ensures that the Standards of GRAP are based on international best practice and the latest thinking on key accounting issues.
30. At present, the IPSASB has a number of projects on its work plan in various stages of completion. The IPSASB also recently consulted on potential projects for its 2019-2023 work programme. The results of this process are yet to be finalised.
31. The projects currently on the IPSASB's work plan are outlined below. Table 1 outlines the projects and their expected completion:
 - (a) Social Benefits – The IPSASB plans to issue an IPSAS on social benefits in December 2018. The Standard will provide guidance on how to account for social benefits paid in cash to individuals and households. This IPSAS would be relevant in the local environment in accounting for, among others, social grants by the Department of Social Development, benefits paid by the UIF, Compensation Fund and Road Accident Fund. No guidance currently exists either in IPSAS or Standards of GRAP on how to account for social benefits.
 - (b) Non-exchange expenses – The purpose of this project is to provide guidance on accounting for collective and individual goods and services, as well as grants and other transfers paid to entities (and any other cash transfers that do not meet the definition of a social benefit). The outcome of this project will complement the IPSAS on *Social Benefits*. The project is currently planned for completion in the first half of 2021.
 - (c) Leases – The IASB issued IFRS Standard 16 on *Leases* in 2016 (IFRS[®] 16). The IPSASB agreed to align its existing guidance in IPSAS 13 on *Leases* with IFRS 16. The IPSASB will finalise its Standard in June 2019. The current Exposure Draft issued by the IPSASB proposes new accounting approaches for both lessors and lessees.
 - (d) Revenue – Following the issue of IFRS Standard 15 on *Revenue from Contracts with Customers* (IFRS[®] 15) by the IASB, the IPSASB considered whether it should revise IPSAS 9 on *Revenue from Exchange Transactions* and IPSAS 23 *Revenue from Non-exchange Transactions (Taxes and Transfers)*. The introduction of a performance obligation approach to the recognition of exchange revenue prompted the IPSASB to consider whether it should change its approach to the recognition of both exchange and non-exchange revenue. This project currently comprises three parts:
 - (i) Part I – Convergence with IFRS 15 – The IPSASB agreed to align IPSAS 9 with IFRS 15. This is likely to be completed in the first half of 2020.
 - (ii) Part II – Limited update of IPSAS 23 – The IPSASB will make changes to GRAP 23 to provide guidance on the accounting for social contributions and

revise the requirements for services received in-kind. This will likely be completed in the first half of 2020.

- (iii) Part III – Grants and other transfers – The output of this project is still being discussed by the IPSASB. It could result in some grants and transfers, specifically those with performance obligations, being accounted for using a modified IFRS 15 performance obligation approach with the remainder being recognised in IPSAS 23. Alternatively all grants and transfers could remain in the scope of IPSAS 23. This project is due to be completed in the first half of 2021.
 - (e) Public Sector Measurement – The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (Framework) outlines new principles for selecting measurement bases for financial assets and financial liabilities. The Framework also outlines a number of different measurement bases that could be used to value assets and liabilities. The IPSASB agreed to review the principles in the existing IPSASs. The outcome of this project is likely to be completed in the first half of 2021 and will result in an IPSAS outlining the principles of measurement as well as consequential amendments to existing IPSASs.
 - (f) Heritage – The IPSASB issued a Consultation Paper on if, and how, heritage items should be accounted for in financial statements. Most respondents agreed that heritage items should be recognised as assets in the financial statements, but a range of views were expressed about how to measure these assets. The finalisation of guidance on heritage is dependent on the measurement project. The project is therefore likely to be completed in the second half of 2021.
 - (g) Infrastructure assets – During the last work plan consultation, respondents indicated a need for guidance on infrastructure assets. The IPSASB has not commenced work yet on this project. It is likely that the first phase will be identifying the issues that exist in accounting for infrastructure assets. The work is due to be completed in the first half of 2021.
32. Since the last work programme consultation, the IPSASB has also issued a Standard on *Public Sector Combinations* (IPSAS 40). This Standard is the equivalent of the Standards of GRAP on transfers of functions and mergers.

Alignment with IFRS Standards

- 33. While the Board primarily aims to base Standards of GRAP on IPSASs, it does consider whether any IFRS Standards should be adopted in the public sector. Before using an IFRS Standard, the Board applies the same assessment as that explained in paragraph 28.
- 34. The most recent IFRS Standards issued by the IASB are IFRS 15, IFRS 16 and IFRS Standard 17 on *Insurance Contracts* (IFRS[®] 17). The IPSASB has projects underway to align IFRS 15 and IFRS 16 with IPSASs. The IPSASB is not planning to issue an equivalent of IFRS 17 at present, even though the principles in IFRS 17 could be used in accounting

for certain social benefit and other schemes. The application of IFRS 17 by social benefit schemes that meet certain criteria will be optional rather than mandatory.

35. The International Financial Reporting Interpretations Committee has issued two Interpretations:
- (a) IFRIC Interpretation 22 on *Foreign Currency Transactions and Advance Consideration* (IFRIC[®] 22). Although foreign currency transactions are limited in the public sector, the guidance is useful when these transactions occur and amounts are paid in advance of the assets, goods or services being received.
 - (b) IFRIC Interpretation[®] 23 on *Uncertainty Over Income Tax Treatments*. As entities in the public sector do not routinely pay income tax, there is no need to develop an equivalent Interpretation. Entities will be directed to apply the Interpretation through Directive 5.

Table 1 – IPSASB’s proposed timelines for completing projects

Project	2018	2019		2020		2021		
	2 nd half	1 st half	2 nd half	1 st half	2 nd half	1 st half	2 nd half	
Social Benefits	In progress							
Non-exchange expenses	In progress							
Leases	In progress							
Revenue								
Part I – IFRS 15	In progress							
Part II – IPSAS 23	In progress							
Part III – Grants and transfers	In progress							
Public sector measurement	In progress							
Heritage	In progress							
Infrastructure assets	Not yet commenced							

Proposals for aligning with international standards

36. Many of the IPSASB’s projects will only be completed during 2021. Given the inherent uncertainty in the completion of standard-setting projects, it is not feasible for the Board to commit to undertake alignment projects where the underlying IPSASs will only be completed in 2021 or later.
37. Based on the expected completion of projects by the IPSASB, the Board is of the view that it may be feasible to undertake alignment projects in the following areas:
- Social Benefits –There is no Standard of GRAP on these significant government expenses. As a result, issuing guidance on social benefits is seen as critical to fulfilling the Board’s mandate to promote transparency in, and accountability of, government expenditure. There are no specific reforms currently underway on social benefits locally that would affect accounting and reporting in the financial statements.

The Board would however need to consider whether the approach proposed by the IPSASB in the final IPSAS is suitable for the schemes locally.

- Leases – Concerns have long been expressed about the judgement involved in distinguishing operating and finance leases. While IFRS 16 no longer makes this distinction for lessees, it does for lessors. The IPSASB currently proposes using a single “right of use” approach for both lessees and lessors. Aligning with the IPSAS is important as it (a) ensures that the latest thinking on lease accounting is applied in the public sector, (b) may resolve some of the issues raised with the current approach, and (c) ensures that the consolidation adjustments are minimised when preparing mixed group consolidations (i.e. those that include entities that apply both Standards of GRAP and IFRS) at national and provincial level. The Board would however need to consider whether the approach proposed by the IPSASB in the final IPSAS is suitable for the arrangements locally.
 - Public Sector Combinations – The Board has issued GRAP 105, and Standards of GRAP on *Transfers of Functions Between Entities Not Under Common Control* (GRAP 106), and *Mergers* (GRAP 107). The IPSAS deals with amalgamations (which are similar to mergers) and acquisitions, whether under common control or not. The Standards of GRAP have been effective for most entities since 1 April 2015. No specific issues have been raised with the Board about the principles in GRAP 105 to 107. It would be useful to understand what the specific differences are between the principles in IPSAS 40 and the equivalent Standards of GRAP to understand whether alignment with the IPSAS should be pursued given local circumstances. This should be done before deciding on alignment with IPSAS 40.
38. Based on the IPSASB’s work plan, the revenue project will be completed in three phases. The Board is reluctant to commence work on a revenue project where a significant component of the project, i.e. on grants and transfers still needs to be completed. Commencing work with a key part remaining unfinished may mean having to make amendments to newly revised documents which is inefficient, not only for the Board but also for implementers of the Standards. While work on the revisions to IPSAS 23 on taxes and similar transactions could be commenced, it is unlikely to be the most efficient way of dealing with changes to the revenue Standards.
39. As noted above, the IPSASB is not planning to issue an equivalent of IFRS 17. This decision was made in the context of social benefit schemes that demonstrate characteristics of insurance. From a social benefit perspective, it is likely that only a limited number of schemes locally will qualify to apply an insurance approach. There are also entities that provide other services or benefits in the local environment that are, or are similar to, insurance activities, but these are also limited. Some of these entities, whether providing social benefits or other services/benefits, have been applying, or developing accounting policies based on International Financial Reporting Standard[®] 4 on *Insurance Contracts*. Given that the number of affected entities is low, the Board proposes that entities consider IFRS 17 through the application of Directive 5.

40. IFRIC 22 interprets the application of the International Accounting Standard® on *The Effects of Changes in Foreign Exchange Rates*, for which there is an equivalent Standard of GRAP. To ensure appropriate, consistent application of the Standard of GRAP, the Board believes that an equivalent of IFRIC 22 should be issued.

Issue # 3 - Request for feedback on projects to maintain alignment with IPSASs

- (a) The Board believes that it has the capacity to undertake **three** IPSAS projects. Do you agree that the Board should undertake the three projects listed in paragraph 37?

- Social Benefits
- Leases
- Public Sector Combinations.

The Board believes that it should issue an equivalent of IFRIC 22 (see paragraph 40). Do you agree with this proposal? Please provide rationale for your response.

Strategic objective 3 – Promote the adoption of Standards of GRAP

41. The main activity of the Board for this strategic objective is the development of transitional provisions or transitional arrangements for the initial adoption of Standards of GRAP. This activity includes transitional provisions for new Standards issued, but also includes developing transitional provisions for any new entities that adopt Standards of GRAP.

Transitional provisions for new Standards

42. If the Board develops any new Standards during 2021-2023, the Board will either issue or commence development on transitional provisions for the adoption of those Standards.

New entities adopting Standards of GRAP

43. Standards of GRAP are applied by all the entities for which the Board is required to set Standards of GRAP, with the exception of national and provincial departments. No policy decision has been made about the adoption of accrual accounting by departments.
44. As a result, the Board proposes monitoring progress on policy developments and making recommendations to the Minister of Finance when required.
45. There has been no directive from the Department of Higher Education and Training on the development of transitional provisions for the adoption of Standards of GRAP by Community Education and Training (CET) Colleges. This project has however been included in the work programme as work will need to be undertaken once there is clarity on the matter.

Educational material for users of the financial statements

46. Stakeholders often indicate that the financial statements are not used because their role, purpose and content are not well understood. There is a need to educate users on the role of the financial statements, what the various components and line items of the financial statements mean, and how they can be used to hold entities accountable. A possible project to undertake under this objective is the development of educational material for users. The focus would be on producing a document(s) that explains the role of the financial statements, explains the linkages with the budget and performance information, what the various line items mean and how they can be used to make decisions in a simple, understandable format. The intention is not to produce training material, but rather an informational type booklet that can be downloaded from the website.
47. While this is an important project, the Board has limited resources. If this is deemed to be a priority project, then a project in another area would need to be sacrificed.

Issue # 4 - Request for feedback on projects to promote the adoption of Standards of GRAP

The Board believes that it should continue to monitor developments regarding the proposed adoption of accrual accounting by national and provincial departments and make recommendations when required.

Should the Board issue any new Standards of GRAP (based on the projects identified through this consultation) transitional provisions will be developed as part of that process.

- (a) Do you agree with the Board's proposals? Please provide supporting rational for your answers.
- (b) Do you believe that the Board should develop educational material for users of the financial statements? If yes, from which other objective should a project be reprioritised?
- (c) Are there any other projects the Board should consider?

Strategic objective 4 – Monitor the application of the Standards of GRAP

48. The Board monitors the application of the Standards of GRAP through:
- Comprehensive post-implementation reviews of selected Standards.
 - Limited desktop or similar reviews of specific issues.
 - Discussion with preparers, firms, consultants and other interested parties at the Public Sector Accounting Forum and liaison with the OAG and AGSA.

Post-implementation reviews

49. Post-implementation reviews aim to assess whether the requirements of the Standards result in information in the financial statements that is relevant to users, as well as identify any issues preparers may experience in applying the Standards. Post-implementation reviews are not undertaken on all Standards of GRAP given the resource implications. Instead, the Board identifies Standards where post-implementation reviews may be needed, particularly where issues are being experienced in practice. By 2020, the Board would have undertaken post-implementation reviews of the Standard of GRAP on *Investment Property* (GRAP 16) and the Standard of GRAP on *Property, Plant and Equipment* (GRAP 17), the Directive 12, and GRAP 103. The feedback received during these reviews is invaluable, and either has or will result in a number of additional projects being considered by the Board to address the issues experienced in practice.
50. Post-implementation reviews are only undertaken once a Standard has been fully implemented, and there is sufficient stability in accounting practice. A review could be done on an existing or on a newly implemented pronouncement. The following pronouncements will be implemented in 2019 and 2020, which may allow for post-implementation reviews to be undertaken on these Standards during the 2021-2023 period:
- GRAP 18 on *Segment Reporting* (applicable for municipalities in 2020).
 - GRAP 32 on *Service Concession Arrangements: Grantor*
 - GRAP 20 on *Related Party Transactions*
 - GRAP 109 on *Accounting by Principals and Agents*
 - IGRAP 17 on *Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset*
 - IGRAP 18 on *Recognition and Derecognition of Land*
 - IGRAP 19 on *Liabilities to Pay Levies*
 - Guideline on *Accounting for Arrangements Undertaken in Terms of the National Housing Programme*.

Although The Standards of GRAP on *Statutory Receivables* (GRAP 108) and on *Living and Non-living Resources* (GRAP 110) are effective in 2019 and 2020 respectively, their transitional provisions which allow for a 3 year transitional period, make them ineligible for a post-implementation review during the 2021-2023 work programme.

51. Given that post-implementation reviews are resource intensive, only **one** can be undertaken in the 2021 to 2023 period.

Desktop reviews

52. As an alternative to undertaking comprehensive post-implementation reviews, the Board has started undertaking desktop reviews of the application of its pronouncements and/or selected issues identified in practice. The reviews are based on published financial statements as well as discussions with preparers. The reviews are aimed at identifying

practice issues as well as areas of non-compliance with the Standards. Specific outputs of the review could include proposals to amend the Standards or undertake further research on issues, issuing FAQs or similar guidance, as well as publishing a Research Paper on the findings and actions. The Board undertook one such review in 2017 to 2020, which resulted in a Research Paper on *Presentation of Information in the Statement of Financial Performance*.

53. The Board is able to undertake approximately **three** desktop reviews in the 2021 to 2023 period. Some areas where a desktop review may be appropriate are included below. Reviews could however be undertaken on any existing or newly implemented pronouncement.
- GRAP 24 on *Presentation of Budget Information in Financial Statements* – GRAP 24 requires that entities present a comparison of their budgeted and actual financial information in the financial statements. This comparison is critical to holding entities accountable for the resources they were allocated for a particular period. Questions have been raised about whether, or in what circumstances, entities should present the comparison of budget and actual information required by the Standard. At present, the requirement to provide this information is linked to whether an entity makes its budget “publicly available”. The interpretation of “publicly available” in practice has varied. Issues have also been raised about how to adjust the actual information in the financial statements to make it comparable with the budget, and it has been observed that not all the disclosure requirements are adhered to, e.g. the reconciliation to the cash flow information. Given that there are potential issues with the application of the Standard, it may be better to undertake a desktop review before undertaking a post-implementation.
 - GRAP 2 on *Cash Flow Statements* – The cash flow statement provides useful information to users about the amounts and sources of cash received and spent during the year. The cash flow also plays a role in reconciling the actual information in the financial statements to the budget. Based on outcomes of the JSE’s review, issues were raised with the treatment of accounting transactions in, and presentation of information on, the cash flow statement. As the JSE’s review covered both equity and debt issuers (some of whom apply Standards of GRAP), it is worthwhile assessing how pervasive the issue is on the public sector so that corrective action can be taken (if any).
 - GRAP 18 on *Segment Reporting* – The information in the statements of financial performance and position provide aggregated information about an entity revenue, expenses, assets and liabilities. To enhance decision making, entities are required to disclose segment information in the notes to the financial statements when certain criteria are met. There has been diversity in practice about how these criteria have been applied. Questions have also been received about whether, or in what circumstances, information about geographical segments should be provided. As the Standard. While GRAP 18 is included in the list of potential projects for the subject of a post-implementation review, it may be more appropriate to undertake a desktop

review of selected issues before undertaking a comprehensive post-implementation review.

- GRAP 12 on *Inventories* – The Standard requires certain disclosures about inventory in the notes to the financial statements, including information reconciling opening and closing balances at year end. This reconciliation can be difficult to prepare, particularly when deciding how to report any losses or other changes that occur. It may be useful to review compliance with the Standard for these disclosures, as well as how entities report losses or other changes in the financial statements.

Issue # 5 - Request for feedback on projects to monitor the application of the Standards of GRAP

Post-implementation reviews

The Board can undertake **one** post-implementation review. Should the review be undertaken on an existing pronouncement, or one of the pronouncements in paragraph 50?

Desktop reviews

The Board can undertake at least **three** desktop reviews. Should the application of any specific pronouncement be reviewed, and/or what specific issues identified in practice could be reviewed? Topics could be drawn from the list in paragraph 53 or alternative topics suggested based on effective pronouncements of the Board.

ANNEXURE - INDICATIVE PROJECTS FOR 2021 TO 2023

		2 new	6 new	6 new
Project	Existing or new project	1 April 2020 to 31 March 2021	1 April 2021 to 31 March 2022	1 April 2022 to 31 March 2023
Objective #1 Set Standards of GRAP				
Application Local initiatives				
Development of guidance to respond to issues				
The Application of Materiality to Financial Statements	2017-2020	Application		
Adjustments to Revenue	2017-2020	Possible implementation		
Accounting for Landfill Sites	2017-2020	Possible implementation		
Use of Standards of GRAP by Entities that apply IFRS	2017-2020	Possible implementation		
Combined Financial Statements	2017-2020	Finalise Q2 2020 [1]		Possible implementation
Results of post-implementation review of GRAP 103 <i>Heritage Assets</i> and possible amendments	2017-2020	Committed [2]		
Results of review of Directive 12 (2020) and possible amendments (2021)	2017-2020		Committed [1]	
New projects				
New project #1	New		New project [2]	
New project #2	New			New project [1]
New project #3	New			New project [2]
Research				
Application of GRAP by Small Entities	2017-2020	Potential development [3]		
New projects				

		2 new	6 new	6 new
Project	Existing or new project	1 April 2020 to 31 March 2021	1 April 2021 to 31 March 2022	1 April 2022 to 31 March 2023
Maintenance of Standards				
Reporting Framework	New	New project	New project	New project
Improvements to Standards	New			New project [3]
Convergence with IPSASB and IASB				
GRAP 104 Financial Instruments	2017-2020			Possible implementation
GRAP 34 to 38 on Interests in Other Entities	2017-2020	Implementation		
Employee Benefits	2017-2020	Finalise Q1 2021 [4]		Possible implementation
New projects	New			
New project #1	New	New project [5]		
New project #2	New		New project [3]	
New project #3	New			New project [4]
IFRIC 22			New project [4]	
Objective #3 – Promote adoption of Standards of GRAP				
First Time Adoption of Standards of GRAP		Monitor	Monitor	Monitor
Transitional Provisions for revised Employee Benefit Standard (proposal to include in Standard?)	2017-2020			
Transitional Provisions for IPSAS project #1	New		New project [5]	
Transitional Provisions for IPSAS project #2	New			New project [5]
Transitional Provisions for IPSAS project #3	New			[to next work plan cycle]
Directive for CET colleges	New			



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		2 new	6 new	6 new
Project	Existing or new project	1 April 2020 to 31 March 2021	1 April 2021 to 31 March 2022	1 April 2022 to 31 March 2023
Objective #4 – Monitor the Application of the Standards				
Post-implementation review #1	New		New project [6]	
Desktop Review # 1	New	New project [6]	New project [7]	
Desktop Review # 2	New			New project [6]
Desktop Review # 3	New			