Newly approved Standards of GRAP

At the ASB Board meeting in March 2019 a number of new pronouncements were issued by the Board that affect local government. These are discussed below. The documents are available on the ASB's website on www.asb.co.za.

Guideline on Accounting for Landfill Sites

The Guideline provides guidance on how to account for landfill sites using the principles in GRAP 17 on *Property, Plant and Equipment* and GRAP 19 on *Provisions, Contingent Liabilities and Contingent Assets.* Guidance is provided on accounting for land used in landfill, the recognition and measurement of the landfill site asset, and the rehabilitation provision. The key features of the guidance are as follows:

- Land and the landfill site asset should be accounted for as separate assets.
- Land used in a landfill is not depreciated.
- When costs to develop and/or construct a landfill site should be capitalised.
- Landfill site assets should be depreciated over the period that it is available for use. This is from the date that the landfill site asset is capable of operating in the manner intended by management, while it receives waste, during rehabilitation and while it stores waste pending an alternative use (during the post-closure and monitoring period, which could be up to thirty years).
- An entity's obligations in relation to landfill sites could be twofold: (1) to dismantle any construction on the site, and/or (2) to restore the landfill site related to the deposition of waste. Whether both obligations exist would depend on the type of landfill site.

The Board agreed that to reduce the divergent accounting practices, the Guideline should be included in the GRAP Reporting Framework. The application of the Guideline will be linked to proposed amendments to GRAP 17. The date is likely to be 1 April 2021.

Guideline on The Application of Materiality in Financial Statements

Many of the issues raised about the Standards of GRAP - e.g. that the Standards are complex, the Standards deal with topics that are not relevant to some entities, and that the information in the financial statements is voluminous and often not used by users – relate to the fact that entities do not consider and apply materiality in preparing financial statements.

In accordance with GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors,* the Standards only apply to material transactions and events. Materiality should be considered in deciding whether to apply the requirements of the Standards of GRAP for recognition, measurement, presentation and disclosure.

As materiality is aimed at ensuring that the most relevant information is provided to users of the financial statements, it is important to understand who the users are of an entity's financial statements and their information needs. The Guideline outlines a process that entities could follow in identifying users, their information needs, and how this affects the application of the Standards of GRAP.

To promote the use of the Guideline and to ensure practice develops in the sector, the application of the Guideline is voluntary. The Board may reconsider the status at a future date.

Amendments to GRAP 104 on Financial Instruments

Amendments were approved to GRAP 104 to align it with the most recent thinking in the private sector. The key changes relate to:

- The treatment of financial guarantees issued by an entity, i.e. those arrangements where one entity guarantees the debt between a specific lender and borrower. They are now in the scope of GRAP 104. They were previously in the scope of GRAP 19 on *Provisions, Contingent Liabilities and Contingent Assets.* These arrangements are commonly found in group entities where the controlling entity guarantees specific lending arrangements in place at its controlled entities This may be of relevant to municipalities with municipal entities.
- The classification of financial assets. The classification is based on (1) management's intention in holding financial assets, i.e. to sell them or to hold them to collect the contractual cash flows, and (2) understanding the characteristics of the underlying cash flows and whether they are consistent with a basic lending arrangement. The classification is likely to affect the classification of investments and loans granted by a municipality.
- The impairment of financial assets. The principles of the impairment model are modified so that an entity focuses on expected credit losses. The expected credit losses are based on a probability weighted assessment of various outcomes, using past, present and current data about customers. At a basic level, municipalities will need to reconsider their policies for impairing debtors.

The Board will be consulting on the proposed transitional provisions and an effective date for GRAP 104 during the second half of 2019.

By: Jeanine Poggiolini, Technical Director