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PROJECT BRIEF FOR APPROVAL				
Name of project	Combined financial statements			
Project timeframe	Commence in Quarter 3 2019 Finalise in Quarter 4 2020			
Project manager	T Tshoke			
Complexity of project	The project is relatively complex as it involves development of a Standard that will establish principles and procedures for the preparation and presentation of combined financial statements, where the basis of the combination/aggregation is not control. This will require extensive research of practices in other countries and consultations with stakeholders.			
Rating	Urgency	High	Medium	Low
	Impact	High	Medium	Low
	Resources required	High	Medium	Low
PROJECT OVERVIEW				
Area of consideration	Comment			
<i>Project outcome</i>				
Project objective	The objective of the project is to develop guidance on the preparation of combined financial statements.			
Key issues that need to be addressed as part of this project	<p><i>Scope of the project</i></p> <p>To provide guidance on principles to allow entities to present combined financial statements that are not based on control. In particular, the guidance would facilitate the preparation and presentation of these types of financial statements applying the reporting entity concept in the Conceptual Framework.</p> <p>The guidance would assist entities when preparing financial statements that combine all three spheres of government to represent, for example, "RSA government" (i.e. whole of government financial statements) and/or financial statements that combine information of various entities to report on activities, clusters or sectors (i.e. sector reporting).</p>			



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Nature of output to be developed

The project involves establishing new principles for the preparation and presentation of a range of financial statements that are not based on control, but based on the reporting entity concept. Since the project will involve developing new principles, based on the policy on *Nature of Pronouncements to be Developed*, the development of a Standard of GRAP is proposed.

Previous deliberations by the Board

The issue has been raised during trilateral discussions but no clear scoping has been agreed between the trilateral parties. When the Board developed the Conceptual Framework, it considered the reporting entity concept, and its applicability in the local environment.

Chapter 4 of the Conceptual Framework sets out the concept of the reporting entity or group reporting entity. This concept is used to identify when an entity should prepare general purpose financial reports (GPFRs). The Conceptual Framework acknowledges that GPFRs may be prepared for two or more portions of entities or separate entities that may have no control relationship with each other. The Board identified three scenarios in the Conceptual Framework in which the reporting entity would exist:

- (i) The reporting entity is an entity (or group of entities) that is required to prepare GPFRs based on a legislative or similar requirement.
- (ii) The reporting entity is the an entity identified in the first scenario but that elects to prepare GPFRs for a portion, programme or identifiable area of activity within that entity.
- (iii) When legislation or similar requirements do not identify reporting entities.

Guidance developed by the Secretariat in response to issues raised by stakeholders

No guidance has been issued by the Secretariat on the preparation of combined financial statements.

Key issues to be considered

The following issues will be considered:

- (a) What are combined financial statements, and are they general purpose financial statements?
- (b) Who are the primary users of combined financial statements, and what are their information needs?
- (c) What is the basis of preparation in the absence of control?

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	<ul style="list-style-type: none"> (d) Whether or how to apply the concepts of the reporting entity or group reporting entity to identify when and in what circumstances entities may prepare combined financial statements? (e) Whether to establish principles to facilitate the aggregation of information, and elimination of inter-entity transactions? If so, what will they be, and to what extent can some of the principles in the Standard of GRAP dealing with consolidations be used? (f) What will be the accounting requirements for the preparation and presentation of combined financial statements? (g) Is there a specific presentation objective required to address the disclosures to be made by the reporting entity? (h) Whether the Standard of GRAP will be applied voluntarily? (i) Will there be transitional provisions for the guidance? (j) What is the impact of the guidance on compliance with the Standards of GRAP when entities prepare combined financial statements? (k) Would there be any assurance implications when entities prepare combined financial statements? (l) What is the impact of the guidance when entities are required to prepare entity or consolidated financial statements by legislation?
Environment	
Legislation or regulatory requirements affecting the project	The PFMA and MFMA in relation to the legislative consolidation requirements.
Existing accounting guidance in the Standards of GRAP, IPSASs or IFRSs	<p>Conceptual Framework – Chapter 4.</p> <p>The principles in GRAP 6 [GRAP 35] are applied by entities in preparing the consolidated financial statements required in terms of the PFMA and the MFMA. Guidance is included in the MCS Framework that is applied when consolidated financial statements are prepared under the modified cash basis of accounting.</p> <p>IPSAS 22 on <i>General Government Sector</i>.</p>
Practices in other countries	Consolidations prepared by Australia, Canada, New Zealand, the UK and Sweden will be considered to understand the accounting policies and processes that are applied to prepare the whole of government and/or general government sector financial reporting and other sectorial reports.
Use of experts	It is not anticipated that an expert will be necessary.



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Stakeholders	
Entities in the public sector affected by this project	Preparers likely to be involved in the preparation of, and/or users that make use of the information, from whole of government financial statements and sectorial reports.
Key stakeholders to be consulted during the development of the project	<p>The primary stakeholders that will be consulted during the development of the project are as follows:</p> <p><i>Preparers</i></p> <ul style="list-style-type: none"> • Preparers involved in the preparation of financial statements. • Consultants involved in the preparation of financial statements on behalf of these entities. • National Treasury and provincial treasuries – representatives currently responsible for preparing consolidated financial statements. <p><i>Auditors</i></p> <ul style="list-style-type: none"> • A representative group of auditors from the AGSA (specifically ARD and product champions and those responsible for auditing the consolidated financial statements). • IRBA and audit firms (specifically technical divisions to share specific practices for the preparation of combined financial statements or other types of financial statements where control is not the basis of preparation in the private sector). <p><i>Representatives of auditors and accountants</i></p> <ul style="list-style-type: none"> • Professional bodies including SAICA, CIGFARO, SAIPA and SAIGA. <p><i>Users</i></p> <ul style="list-style-type: none"> • Department of Planning, Monitoring and Evaluation. • Ministries overseeing human settlements, health, water and sanitation and education and similar services provided across spheres of government. • National Treasury (Budget Office, OAG, Intergovernmental Relations, PFMA and MFMA implementation team) • Specific entities will be identified (for example the Reserve Bank, STATS SA) as they have experience in compiling some of this information and to understand the challenges.
Key stakeholders to be consulted as part of the <u>public consultation</u> process	Preparers and auditors (and their representative bodies) involved in the preparation or audit of financial statements that are based on Standards of GRAP. Ensure distribution in each of the nine provinces and across all affected entities.



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	<p>A number of the same stakeholders as outlined above will be part of the public consultation process.</p> <p>Other additional stakeholders include:</p> <ul style="list-style-type: none"> • IRBA • COGTA • SALGA • Oversight committees • Provincial Accountants-General.
Linkages	
ASB projects	<ul style="list-style-type: none"> • Practical challenges with consolidated financial statements. • Interests in Other Entities (revisions to GRAP 6, 7, and 8).
IPSASB projects	None at present.
IASB projects	None at present.
Local reforms in public financial management	IFMS project (currently departments are not yet on GRAP)
Project plan	
Key milestones and timing	See Annexure for roadmap.



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Annexure – Road map for the project on Combined Financial Statements

Milestone		Timing	Stakeholder	Linkages
1.	Draft research/issues paper	Quarter 3 2019	Develop in conjunction with stakeholders identified above	
			Present for internal review	
			Present to Technical Committee	
			Present to Board	
2.	Draft Standard of GRAP for review, including discussion of key issues	Quarter 4 2019	Develop in conjunction with stakeholders identified above	
			Present for internal review	
			Present to Technical Committee	
			Present to Board	
3.1	Draft Standard of GRAP for review and approval	Quarter 1 2020	Develop in conjunction with stakeholders identified above	
			Present for internal review	
			Present to Technical Committee	
			Present to Board	
3.2	Communication material	Quarter 2 2020		
4.	Consultation on draft Standard of GRAP	Quarter 2 and 3 2020	Stakeholders identified above.	
4.1	Analysis of comments received on Standard of GRAP	Quarter 4 2020	Develop in conjunction with stakeholders identified above	
4.2	Final Standard of GRAP approved		Present for internal review	
			Present to Technical Committee	
	Present to Board			
4.3	Publish communication material	Quarter 1 2021		
Document management				



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Prepared by:	Tsholo Tshoke	01 August 2018
Revised by:		
Approved by:		