



Attachment 9(b)

PROJECT BRIEF FOR APPROVAL				
Name of project	Review of GRAP 3 on <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>			
Project timeframe	Commencement Quarter 2 2020 Completion Quarter 3 2021			
Project manager	T Tshoke			
Complexity of project	The project is complex as it involves determining the appropriate accounting treatment of previous materiality assessments and decisions in relation to the application of accounting policies.			
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	<p>GRAP 3 states that the accounting policies set out in the Standards of GRAP need not be applied when the effect of applying them is immaterial to the financial statements.</p> <p>The purpose of the project is to review the requirements of GRAP 3 to provide guidance on the appropriate accounting treatment of past materiality assessments and decisions on the application of accounting policies set out in the Standards of GRAP in the current and/or future periods.</p> <p>Any IASB amendments made to the definition of accounting policies, estimates or other related amendments will also be considered.</p>			
Key issues that need to be addressed as part of this project	<p><i>Scope of project</i></p> <p>The review of GRAP 3 would primarily focus on how to deal with the application of materiality to accounting policies set out in the Standards of GRAP. However, any projects by the IASB that are relevant to the project will be considered when the review of GRAP 3 commences.</p>			



Nature of output to be developed

The project may result in amendments to GRAP 3 being issued by the Board. The project may require consequential amendments to other Standards of GRAP and/or the Guideline on *The Application of Materiality to Financial Statements*.

Previous deliberations by the Board

During the development of the guideline on materiality, preparers questioned the impact of not applying the requirements in the Standards of GRAP on future reporting periods. In particular, it was unclear whether there is a change in accounting policy or error when the effect of applying the requirements in the Standards was assessed to be immaterial in one year, and subsequently the effect of applying those requirements becomes material.

The question was asked in the context of the use of capitalisation thresholds. 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 and entities would need to keep track of the cumulative effect on the financial statements.

The Board concluded that GRAP 3 is unclear about whether decisions about materiality and applying Standards of GRAP are only considered in individual reporting periods. The Board agreed that since GRAP 3 does not provide adequate guidance on how to deal with these situations, there was a need to review the requirements of the Standard.

	<p><i>Guidance developed by the Secretariat in response to issues raised by stakeholders</i></p> <p>The Board agreed that the Guideline on <i>The Application of Materiality to Financial Statements</i> should not discuss the appropriate treatment as it had not reached a consensus. Instead, the Guideline only clarifies that when an entity has developed a particular accounting policy, without following the specific requirements in the Standards of GRAP, it needs to be aware of the materiality of the individual or aggregate transactions and the cumulative effect that the policy may have on the statement of financial position, statement of changes in net assets and notes to the financial statements. Such an assessment takes into account both qualitative and quantitative factors.</p>
	<p><i>Key issues to be considered</i></p> <p>The project will review the requirements in GRAP 3 and consider:</p> <p>(a) Whether decisions about materiality and applying Standards of GRAP are only considered in individual reporting periods?</p> <p>(b) Whether adjustments are necessary to the financial statements, and if so, what type of adjustments?</p>
Environment	
Legislation or regulatory requirements affecting the project	None at present.
Existing accounting guidance in the Standards of GRAP, IPSASs or IFRSs	The Standard of GRAP on <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> (GRAP 3) Guideline on <i>The Application of Materiality to Financial Statements</i>
Practices in other countries	Request views on the current interpretation and practice of other standard setters including IASB, IPSASB, AASB, NZASB, PSAB and UK FRC.
Use of experts	It is not anticipated that an expert will be necessary.
Stakeholders	
Entities in the public sector affected by this project	All entities in the public sector that apply Standards of GRAP.



<p>Key stakeholders to be consulted <u>during</u> the development of the project</p>	<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"> • A representative group of preparers. • Consultants that assist entities to prepare financial statements. <p><i>Auditors</i></p> <ul style="list-style-type: none"> • A representative group of auditors from the AGSA (specifically Audit Research and Development unit of the AGSA and product champions). • IRBA and audit firms, specifically technical divisions. • SAICA's APC. <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"> • National Treasury and provincial treasuries.
<p>Key stakeholders to be consulted as part of the <u>public consultation</u> process</p>	<p>A public consultation process will be followed after the Board has approved the proposed amendments to GRAP 3 for exposure.</p> <p><i>General consultation</i></p> <p>Preparers, auditors, consultants, and other representative bodies involved in the preparation or audit of financial statements that are prepared using Standards of GRAP will be consulted, including those that raised the issue in the materiality project. Ensure distribution in each of the nine provinces across all affected entities.</p> <p>A number of the same stakeholders as outlined above will be part of the public consultation process.</p>
<p><i>Linkages</i></p>	
<p>ASB projects</p>	<p>None at present.</p>
<p>IPSASB projects</p>	<p>None at present.</p>
<p>IASB projects</p>	<p>None at present.</p>



Local reforms in public financial management	mSCOA
<i>Project plan</i>	
Key milestones and timing	See Annexure for roadmap.

Annexure – Road map for the Review of GRAP 3

Milestone		Timing	Stakeholder	Linkages
1.	Research proposed amendments to GRAP 3	Q2 2020 (Jul – Sep '20)	Consultation with various groups of stakeholders, as per stakeholder engagement plan. Issues paper presented to the Technical Committee and Board	
2.1	Draft Amendments to GRAP 3 for review and approval	Q3 2020 (Oct – Dec '20)	Developed in conjunction with stakeholders identified above Presented for internal review Presented to Technical Committee Presented to Board	
2.2	Publish communication material	Q4 2020	Presented for internal review	
3.	Consult on ED on proposed amendments to GRAP 3	Q4 2020 to Q1 2021 (Jan – Jun '21)	Consultation with various groups of stakeholders, as per stakeholder engagement plan.	
4.1	Final Amendments to GRAP 3 for approval	Q2 2021 (Jul – Sep '21)	Developed in conjunction with stakeholders identified above Presented for internal review Presented to Technical Committee Presented to Board	
4.2	Publish communication material	Q3 2021 (Oct – Dec '21)	Presented for internal review Technical Committee and Board review, if necessary	



Document management		
Prepared by:	T Tshoke	01 August 2019
Revised by:		
Approved by:		