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TO: **MEMBERS OF THE TECHNICAL COMMITTEE**

FROM: **AMANDA BOTHA**

SUBJECT: **AMENDMENTS TO THE STANDARD OF GRAP ON *PRESENTATION OF FINANCIAL STATEMENTS* (GRAP 1)**

DATE: **18 OCTOBER 2022**

FILE REF: **ATTACHMENT 5(a)**

BACKGROUND TO THE PROJECT

1. The Accounting Standards Board (hereafter referred to as "the Board") approved an Exposure Draft of the proposed amendments to the Standard of GRAP on *Presentation of Financial Statements* (GRAP 1) and consequential amendments to GRAP 14 on *Events After the Reporting Date* (GRAP 14) (ED 198) in March 2022. Comment on ED 198 closed on 15 July 2022.

PURPOSE OF THIS MEMORANDUM

2. The purpose of this memorandum is to:
   (a) outline the consultation process;
   (b) consider the key issues raised and actions proposed by project group members; and
   (c) recommend the proposed amendments to GRAP 1, including the consequential changes to GRAP 14 to the Board for its consideration and approval.
3. An analyses of the written and verbal comments received on ED 198 are included as attachments 5(d) and 5(e). The proposed revisions to GRAP 1 are included in marked-up text in attachment 5(f).
4. The analyses of comment and the proposed changes to GRAP 1 were discussed at two project group meetings that were held during October 2022. Project group members supported the proposed actions on the key issues. The draft minutes of the meetings are included as attachment 5(b) and 5(c).

OVERVIEW OF THE CONSULTATION PROCESS

How did the Secretariat raise awareness about ED 198?

5. A Notice was published in the Government Gazette on 14 April 2022 (Notice 46242) outlining a request to comment on ED 198.
6. The Secretariat scheduled three sessions to discuss ED 198 with preparers, auditors, consultants, and other interested parties by way of virtual engagements during the

comment period. The proposed amendments were also highlighted to SAICA members during a Tech-Talk session held in July 2022. Articles on ED 198 were published on various ASB social media platforms.

7. The Board received a comment letter from SAICA. The Office of the Provincial Accountant-General: Free State Treasury also issued a questionnaire to which a number of the entities in the Free State responded.

8. The Secretariat is of the view that sufficient awareness of ED 198 was raised, and that the stakeholders identified in the project brief were given sufficient opportunity to participate in the comment process.

ACTION REQUESTED #1

The Technical Committee is requested to NOTE the overview of the consultation process.

AMENDMENTS TO GRAP 1 FOLLOWING COMMENT RECEIVED

9. Stakeholders were supportive of the amendments proposed to GRAP 1. Based on feedback from stakeholders, the project group proposed the amendments outlined below.

Explanatory guidance on assessing going concern in the public sector

10. Following the comment received on ED 198, the following amendments are proposed:

- Appropriateness of going concern in a transfer of functions where all the functions are transferred: Some respondents noted that when the functions of an entity are transferred in there entirely to another entity, the entity ceases to exist. It may be inappropriate for this entity to use the going concern basis to prepare financial statements. A similar observation was made when for an entity is involved in a merger, i.e., because all the functions on an entity are combined with that of others, the entity will no longer exist.

  Project group members noted that the basis for conclusions to GRAP 1 explains that a liquidation or cessation of an entity's operations will result in the termination of *all* the functions provided by that entity. However, only in the case of dissolution, without any continuation of the entity's operations, will the going concern basis cease to apply (see paragraph BC2 and BC4).

  Project group members concluded that, even though the transfer of functions may involve a transfer of all the entity's functions, the functions and/or service previously provided by the entity will continue to be provided by another entity. This also applies in a merger where the functions will continue to be provided by the combined entity after the merger. Thus, preparing financial statements on the going concern basis is appropriate for both a merger and a transfer of functions where some, or all of the functions are transferred.

  Project group members also noted that when some of the functions and/or services are transferred, and the remaining functions in an entity are discontinued, there are two separate transactions. In this instance, management should separately assess if preparing the entity's financial statements on the going concern basis remains relevant for both events. Project group members agreed that (a) the basis for conclusions should be clarified that an assessment should be made in each instance;

and (b) an example should be included in the GRAP 1 Fact Sheet #1 *Assessing Going Concern* to explain the application of this principle.

- Reference to GRAP 100 on *Discontinued Operations:* Following comment received, a reference was included in paragraph .28C as a reminder that the presentation and disclosures requirements in GRAP 100 should be applied to a discontinued operation.

ACTION REQUESTED #2
The Technical Committee is requested to CONFIRM the proposed amendments as noted in paragraph .10.

Additional disclosures on assessing going concern

11. Stakeholders proposed that the disclosure of significant judgements and assumptions applied by management, should be separated from the disclosures relating to uncertainty. ED 198 combined these disclosures as a single paragraph.

12. Project group members agreed with the propose to separate the two disclosures. As a result, paragraph .134A was amended to now require disclosure of significant judgements and assumptions applied by management in assessing going concern. Paragraph .134B requires disclosure where one or more uncertainty exists.

ACTION REQUESTED #3
The Technical Committee is requested to CONFIRM the proposed amendments as noted in paragraph .12.

PROPOSED AMENDMENTS TO GRAP 1

13. The amendments proposed to GRAP 1 are included as attachment 5(f). Attachments 5(d) and 5(e) include the analysis of written and verbal comment received on ED 198.

ACTION REQUESTED #4
The Technical Committee is requested to:
(a) REVIEW the analysis of the written and verbal comment and the project group's proposed responses thereto; and
(b) REVIEW the amendments to GRAP 1, and if deemed appropriate, RECOMMEND the final amendments to the Board for its consideration.

THE NEED FOR RE-EXPOSURE

14. Based on the nature of the changes made to respond to comments from stakeholders, the Secretariat is of the view that a re-exposure is not required as:

    (a) no substantial changes were made to the principles proposed in ED 198, such that respondents did not have an opportunity to make their views known before the Board reaches a final decision; and

    (b) no new matters, not previously deliberated by the Board, need to be considered or debated.

ACTION REQUESTED #5

The Technical Committee is requested to CONFIRM that re-exposure of ED 198 is not required.

NEXT STEPS

15. If the proposed amendments are recommended by the Technical Committee, the Board will consider the amendments to GRAP 1 at its November 2022 meeting.

16. The Secretariat will also include an example in the Fact Sheet#1 as recommended by project group members.

Proposed effective date

17. Following the approval of the final amendments by the Board, a recommendation will be made to the Minister of Finance to determine the effective date for the revisions to GRAP 1.

18. Based on the principles set out in the Board's Due Process Handbook, new or revised requirements should be in the public domain at least a year before they become effective. 1 April 2024 is therefore the earliest proposed effective date that can be recommended to the Minister for the amendments to GRAP 1. This date is based on an approval of the effective date being made by the Minister by 31 March 2023. If that is not the case, the date would need to be extended by a year. This will ensure that entities are aware of the amendments to GRAP 1 and have at least a year to implement the changes.

ACTION REQUESTED #6

The Technical Committee is requested to CONFIRM that a date of 1 April 2024 be recommended to the Board for the implementation of the amendments to GRAP 1.