Attachment 5(e)

ANALYSIS AND RESPONSES TO VERBAL COMMENT RECEIVED ON

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

(ED 198)

RESPONSES TO THE VERBAL COMMENT RECEIVED ON EXPOSURE DRAFT 198 ON *PROPOSED AMENDMENTS TO THE STANDARD OF GRAP ON FINANCIAL STATEMENTS (GRAP 1)*

The Accounting Standards Board (Board) approved Exposure Draft 198 on *Proposed Amendments to the Standard of GRAP on Presentation of Financial Statements* in April 2022. A Notice was published in the Government Gazette on 14 April 2022 (Notice 46242). The comment period closed on 15 July 2022.

The Exposure Draft was discussed with preparers, auditors, consultants, and other interested parties by way of virtual engagements, as listed in the table on the next page. The verbal comment on ED 198 is summarised in this document and includes the proposed responses from project group members.

The summary of written comment received is included in a separate analysis.

CLASSIFICATION OF VERBAL COMMENT RECEIVED ON THE *PROPOSED AMENDMENTS TO THE STANDARD OF GRAP ON PRESENTATION OF FINANCIAL STATEMENTS (GRAP 1)* (ED 198)

No.	Name/Organisation	Preparers	Users	Auditors	Other interested parties
1.	Auditors and Technical advisors			√	√
2.	Public entities, municipalities, and waterboards	√	√		
3.	Public Sector Accounting Forum (PSAF) members	√	√	√	√

SUMMARY AND ANALYSIS OF VERBAL COMMENT RECEIVED ON THE PROPOSED AMENDMENTS TO THE STANDARD OF GRAP ON *PRESENTATION OF FINANCIAL STATEMENTS* (GRAP 1)

No.	Comments	Project group's proposed response
	SPECIFIC MATTERS FOR COMMENT	
	Question 1 **Explanatory guidance on assessing going concern in the public sector** **Paragraphs .28A to .28C proposes additional guidance to explain the application of going concern by public sector entities.** **Do you agree with the proposed guidance? Please explain your response.**	
1.	**Auditors and technical advisors**	
1.1	Participants supported the proposed guidance.	Noted. No further action required.
1.2	It was proposed that paragraph .28A should include a reference to a merger in the first sentence.	Agreed. A reference to a merger is included in paragraph .28A as proposed.
1.3	Following a transfer of functions or merger, some functions and operations previously provided by an entity, will now be provided by another entity. It is proposed that paragraph .28C be amended for the focus to be on the "functions" that will continue to be provided, rather than that "the entity will continue to operate" in a modified form.	Agreed. Paragraphs .28C and BC4 have been amended as proposed.
2.	**Public entities, municipalities, and waterboards**	
	Participants supported the proposed guidance.	Noted. No further action required.
3.	**PSAF members**	
	Members supported the proposed guidance.	Noted. No further action required.

No.	Comments	Project group's proposed response
	Question 2 **Additional disclosures on assessing going concern** **Paragraphs .134A and .134B proposes additional disclosures on management's assessment of the entity's ability to continue as a going concern, including material uncertainties relating to going concern, as part of the disclosure notes to the financial statements. These disclosures are aimed at addressing the diversity in practice about the information presented in the financial statements on going concern.** **Do you agree with the proposed disclosures? Please explain your response.**	
4.	**Auditors and technical advisors**	
4.1	Participants supported the proposed disclosures.	Noted. No further action required.
4.2	The disclosures in paragraphs .134A(b) to (e) on uncertainties casting doubt on an entity's ability to continue as a going concern, should be separated from the disclosure in paragraph 1.134A(a) on judgements and assumptions applied by management when assessing going concern.	Agreed. The disclosures in paragraph .134A has been separated between those relating to judgements and assumptions applied, and those relating to the disclosure of significant uncertainties.
4.3	With reference to the disclosure in paragraph 1.134A(e), it was questioned how auditors deal with information that is published with the financial statements, if such information is required in terms of the entity's reporting framework. The auditor's responsibility is to express an opinion on the financial statements, which include all information presented and disclosed as part of that financial statements. It was proposed that the Board should discuss the principle of including a reference in financial statements to information presented elsewhere in the financial statements with audit experts to understand the implication on the audit.	Noted. This is a practical audit matter that will be shared with IRBA for their consideration in providing guidance to auditors. No further action is required.
4.4	The global practice in terms of IFRS seems to be that management's assessment of the entity's ability to continue as a going concern, is explained as part of the entity's accounting policy.	Noted. No further action required.

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No.	Comments	Project group's proposed response
4.5	It was questioned if the Board usually explains its rationale for applying amendments prospectively or retrospectively as included in BC8.	Noted. The Board has in the past explained its rational for the transitional provisions in the basis for conclusions. A heading has been included before paragraph BC8 to indicate that the paragraph deals with the transitional provision.
4.6	It was noted that the disclosure required in GRAP 1.134(c) is not highlighted in the amendment to GRAP 14.21(b).	Noted. Paragraph .21(b) in GRAP 14 has been amended to also refer to the event and condition that gave rise to the uncertainty.
5.	**Public entities, municipalities, and waterboards**	
5.1	Participants supported the proposed disclosures.	Noted. No further action required.
5.2	It was questioned how management can mitigate against risks such as political risks. A change in political leadership, either in a province or at a national level, could have an impact on how management assesses going concern.	Noted. Most public sector entities are established in legislation. A change in political leadership is unlikely to have a significant affect on an entity's ability to continue as a going concern. Judgement needs to be applied to determine what the impact of other risks could have on the entity's ability to continue as a going concern. The objective of the disclosures proposed in paragraph .134(A) and (B) is to explain the impact of risks on the entity ability to continue as a going concern, and how management intends to address these uncertainties.

No.	Comments	Project group's proposed response
5.3	It was questioned what is deemed to be "a material uncertainty". In the public sector, an entity can only be liquidated when relevant legislation is enacted to repeal or to cease the operations of the entity. Therefore, a public sector entity will always be a going concern and will not have any uncertainties about its ability to continue as such, as government will continue to fund the entity's operations. Financial uncertainties, however, may impact the entity's service delivery objectives, rather than its ability to continue as a going concern. The proposed disclosure should therefore be clarified to indicate whether disclosures should be provided when there is a going concern uncertainty only, or when there is a financial uncertainty that may impacts the entity's service delivery objectives and/or its cash flows.	Noted. Management's assessment of the entity's ability to continue as a going concern is different to the entity meeting its service delivery objectives. The ability of an entity to continue as a going concern is a financial metric that assesses if the entity is able meet is future financial commitments. Concerns with meeting its service delivery objectives should be discussed as part of the entity's performance information, and/or be reported as part of management information. No further action is proposed.
	It was further proposed that a distinction should be made between exchange and non-exchange transactions in assessing going concern. The disclosures as currently proposed, should rather focus on significant exchange transactions that will impact the entity's ability to continue as a going concern.	Noted. Project group members are of the view that a reduction in both exchange and non-exchange revenue can impact an entity's ability to continue as a going concern. The disclosures should be considered when there is a significant reduction in exchange and/or non-exchange revenue. No further action is proposed.

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No.	Comments	Project group's proposed response
5.4	Clarity should be provided on how much detail should be provided about management's plans and actions to address the events and conditions that resulted in uncertainties.	Noted. The extent of information provided should be guided by the information needs of the entity's users. Judgement needs to be applied in making the disclosures. No further action is therefore proposed.
5.5	In assessing going concern, it was proposed that the going concern for the Republic of South Africa in totality should be assessed. Based on the findings, disclosures should be proposed that can be applied by all public sector entities to ensure consistency.	Noted. Entities should be cautious to not use boiler plate accounting policies and disclosures. An entity's going concern assessment should be entity specific, taking into account the entity's specific circumstances. No further action required.
6.	**PSAF members**	
6.1	Members supported the proposed amendments	Noted. No further action required.
6.2	It was proposed that the disclosure in paragraph .134A(a) should be separated from the other disclosures proposed in paragraph .134A. The disclosure in paragraph .134A(a) applies to significant judgements and assumptions made in assessing going concern, while the disclosures required in paragraph .134A(b) to (e) will only be provided when there are material uncertainties.	Noted. Refer to the response to comment 4.2.

No.	Comments	Project group's proposed response
	GENERAL MATTERS	
7.	**Auditors and technical advisors**	
7.1	It was questioned if an entity can still prepare its financial statements using the Standards of GRAP when it concludes that it can no longer prepare its financial statements on a going concern basis.	Noted. The Secretariat has developed guidance in a GRAP 1 Fact Sheet that explains that the Standards of GRAP do not prescribe the basis that should be applied when the financial statements can no longer prepared on a going concern basis. An entity develops its own accounting policies to explain the specific principles, bases, conventions, rules, and practices that are applied to prepare the financial statements on a basis other than going concern. When the financial statements are prepared using a basis other than going concern, an entity may still apply the recognition, measurement, presentation, and disclosure requirements in the Standards of GRAP to prepare its financial statements. It will, however, not be able to assert compliance with the Standards of GRAP.
7.2	The entity transferring some functions or operations should also consider the presentation and disclosure requirements of a discontinued operation in the Standard of GRAP on *Discontinued Operations* (GRAP 100).	Noted. A reference to GRAP 100 has been included in paragraph .28C.

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No.	Comments	Project group's proposed response
	SPECIFIC MATTERS FOR COMMENT	
8.	**Public entities, municipalities, and waterboards**	
	A scenario was sketched where a decision is taken by Council to liquidate a municipal entity, but the municipality still needs to prepare consolidated financial statements. It was questioned how the decision to liquidate the municipal entity will impact management's assessment of the economic entity's going concern in preparing consolidated financial statements.	Noted. Management should still assess the ability of the economic entity to continue as a going concern when it is aware that a decision was taken to liquidate a controlled entity (the municipal entity). No further action is required.
9.	**PSAF members**	
9.1	Several municipalities are currently in financial distress and/or under administration. There is a definite need for more disclosure on material uncertainties that may cast doubt on the entity's ability to continue as a going concern. It was questioned if examples will be provided on matters that can be considered by management in assessing the entity's ability to continue as a going concern.	Noted. The Secretariat has developed a GRAP 1 Fact sheet that provides examples of events or conditions that management may consider, individually or collectively, when assessing going concern.
9.2	It was noted that, in addition to considering the examples of events and conditions in the GRAP 1 Fact sheet, municipalities should also take note of the criteria in section 139 of the Municipal Finance Management Act (MFMA) that may indicate that there are serious financial problems within the municipality that may result in an intervention.	Noted. The GRAP 1 Fact sheet already includes an intervention by national or provincial treasuries as an example of an event that management may consider in assessing going concern. No further action is therefore proposed.