Attachment 5(f)

ACCOUNTING STANDARDS BOARD

AMENDMENTS TO THE STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE ON

PRESENTATION OF FINANCIAL STATEMENTS (GRAP 1)

Issued by the Accounting Standards Board
MM 2022

Introduction

Standards of Generally Recognised Accounting Practice

All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

A – Amendments to the Standard of GRAP on *Presentation of Financial Statements*

The relevant GRAP 1 paragraphs on going concern have been included for purposes of this Exposure Draft. Amended text is shown with new text underlined and deleted text struck through. The following paragraphs in GRAP 1 have been amended:

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Going concern

.27 When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When the financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

.28 Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation or some modified form, for example a transfer of functions to another entity or a merger, and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the reporting date. (Also refer to the Standard of GRAP on *Events After the Reporting Date* (GRAP 14) for guidance on assessing going concern).

.28A The establishment, liquidation and/or cessation of an entity, ~~and a~~ transfers of functions, and mergers are ~~is~~ governed by legislation or similar means. A decision may be taken to liquidate an entity, to cease or scale back its operations, to transfer some or all of its functions to another entity, or to merge one or more entities. Under each of these scenarios, ~~the operational existence~~ some or all the functions may continue, or ~~of all, or part of the entity,~~ may cease.

Liquidation and cessation of an entity

.28B Subject to paragraph .28C, if the intention is to liquidate the entity, to cease its operations in its entirety, or when there is no realistic alternative but to do so following the passing of legislation or a decision by the appropriate authority, the going concern basis is inappropriate. An entity will need to prepare its financial statements on a basis other than the going concern as all the functions and operations of the entity will be ceased.

Transfer of functions and mergers

.28C The going concern basis remains appropriate where a decision is taken to transfer some, or all of an entity's functions to another entity, or to merge one or more entities. The entity's functions will continue ~~to operate~~ in a modified form, even if the functions will no longer be provided by the entity itself. The transferor or combining entity applies the Standards of GRAP on *Transfer of Functions Under Common Control, Transfer of Functions Not Under Common Control* and *Mergers*. The presentation and disclosure requirements in the Standard of GRAP on *Discontinued Operations* should be considered.

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Disclosure on going concern

.134A ***~~Paragraph .27 requires disclosure of material uncertainties related to events or conditions that may cast significant doubt upon an entity's ability to continue as a going concern.~~ In assessing whether the going concern assumption is appropriate, an entity shall disclose, ~~the following~~ in the notes to the financial statements,~~:~~ significant judgements and assumptions made as part of management's assessment of whether the going concern assumption is appropriate.~~;~~***

.134B Paragraph .27 requires disclosure of material uncertainties related to events or conditions that may cast significant doubt upon an entity's ability to continue as a going concern. Where one or more uncertainties exist that may cast doubt on the entity's ability to continue as a going concern, the entity shall disclose the following in the notes to the financial statements:

(a) ***the fact that there is one or more uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;***

(b) ***information about the principal events or conditions that give rise to these uncertainties;***

(c) ***the possible effects that the events or conditions resulting in uncertainties may have on current and future reporting periods; and***

(d) ***information about management's plans to address the events or conditions that resulted in uncertainties, and their actions to mitigate the effect of the events or conditions.***

.134C~~B~~ If the information required in paragraph .134B~~A~~(d~~e~~) is published with the financial statements, a cross reference to those documents can be included in the notes to the financial statements.

Effective date

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Entities already applying Standards of GRAP

.150D ***Paragraphs .28A to .28C, .134A~~, and~~ .134B and .134C were added, and paragraph .28 amended by the Amendments to the Standards of GRAP on Presentation of Financial Statements (2022). These amendments are effective for annual periods beginning on or after [proposed as Month Year]. An entity shall apply these amendments prospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. Earlier application is permitted. If an entity elects to apply these amendments earlier, it shall disclose this fact.***

Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain proposals related to the presentation of financial statements. This basis for conclusions accompanies, but is not part of, this Standard.

BC1. The Board undertook a project in 2021 to consider the guidance and disclosure requirements on going concern in the relevant Standards of GRAP. As an outcome of this project, the Board agreed to include additional guidance and disclosures on going concern in this Standard. Consequential amendments are also made to ~~included in~~ the Standard of GRAP on *Events After the Reporting Date.*

Applicability of going concern in the public sector

BC2. An entity prepares its financial statements on a going concern basis unless there is an intention to liquidate the entity, to cease operating, or if there is no realistic alternative but to do so. A liquidation or cessation of an entity's operations will result in the termination of all its functions~~ and operations~~.

BC3. In South Africa, specific legislative requirements need to be followed before a decision is taken to liquidate a public sector entity, to cease or scale back its operations, to transfer some or all of its functions to another entity, or to merge one or more entities. The "intention" to liquidate an entity, to cease or scale back its operations, to transfer some or all of its functions to another entity, or to merge one or more entities needs to be established. This intention can be reflected in a number of ways and may encompass legislation passed in Parliament or a provincial legislature, cabinet decision, ministerial order, a decision made by a municipal council, board, council or equivalent, a regulation or a notice, or other official means.

BC4. The liquidation or cessation of a public sector entity's operations is rare, and only in the case of dissolution without any continuation of the entity's operations will the going concern basis cease to apply. When all, or some of the functions of an entity are transferred to another entity, or when a decision is taken to merge one or more entities, the application of the going concern basis remains appropriate. This is because the entity's functions will continue to be provided in ~~operate~~ a modified form, even though they ~~as its functions or operations~~ are executed by another entity.

BC5. The Board agreed to include explanatory guidance in this Standard on the application of the going concern assumption by public sector entities.

BC5A. Where some of an entity's functions are transferred in a transfer of functions, and the remaining functions are discontinued, there are two separate transactions. The Board concluded that management should assess these transactions separately based on the functions transferred, those to be discontinued (if any), and those that may be retained (if any), to determine if preparing the entity's financial statements on a going concern basis remains appropriate.

Disclosure on going concern

BC6. The Board's project highlighted a need for specific disclosures on going concern, material uncertainties relating to going concern, and actions taken by management to mitigate these uncertainties. Consideration was also given to the practices, guidance and requirements in other countries and/or from other standard-setting bodies on these matters.

BC7. To address the diversity in the information disclosed on going concern, the Board agreed to expand the disclosure requirements in this Standard to ensure that consistent disclosures are provided.

Transitional provisions

BC8. The Board agreed that the amendments to this Standard should be applied prospectively to avoid the application of hindsight.

Consequential amendments to Standards of GRAP

The purpose of this appendix is to identify the consequential amendments to other Standards of GRAP resulting from revisions to the Standard of GRAP on *Presentation of Financial Statements*. Amended text is shown with new text underlined and deleted text struck through.

A1. GRAP 14 *Events After the Reporting Date*

Amend the following paragraphs in GRAP 14:

Going concern

<u>.14</u> The determination of whether the going concern assumption is appropriate needs to be considered by each entity. ~~However,~~ The assessment of going concern is likely to be of more relevance for individual entities than for a government as a whole. For example, an individual entity may not be a going concern because the government of which it forms part has decided to <u>liquidate it</u> ~~transfer all its activities to another entity. However,~~<u>Nonetheless,</u> ~~this restructuring has no impact upon the assessment of~~ <u>the effect of liquidating individual entities should be considered in assessing</u> going concern for the government itself.

.15 An entity shall not prepare its financial statements on the going concern basis if management determines after the reporting date either that there is an intention to liquidate the entity or to cease operating, or that there is no realistic alternative but to do so.

.16 In assessing whether the going concern assumption is appropriate for an individual entity, management needs to consider a wide range of factors. Those factors will include the current and expected performance of the entity, any announced and potential restructuring of organisational units, the likelihood of continued government funding and, if necessary, potential sources of replacement funding.

.17 In the case of entities whose operations are substantially budget-funded by government, going concern issues generally only arise <u>when a decision is taken to</u> ~~if the government announces its intention cease funding the entity~~ <u>liquidate an entity, to cease its operations in its entirety, or when there is no realistic alternative but to do so.</u>

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.21 GRAP 1 requires certain disclosures if:

(a) the financial statements are not prepared on a going concern basis. GRAP 1 requires that when the financial statements are not prepared on a going concern basis, this must be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not considered to be a going concern; or

(b) management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting date. GRAP 1 requires such uncertainties, and the events or conditions that gave rise to them, to be disclosed, along with possible effects of these uncertainties on current and future operations, and management's plans to address these uncertainties and mitigate the impact.

Effective date

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Entities already applying Standards of GRAP

.30A Paragraphs .17 and .21 were added by the Amendments to the Standards of GRAP on Presentation of Financial Statements (2022). These amendments are effective for annual periods beginning on or after [proposed as Month Year]. An entity shall apply these amendments prospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. Earlier application is permitted. If an entity elects to apply these amendments earlier, it shall disclose this fact