

# GRAP Update

## 3 February 2023





# Disclaimer

***The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.***





# Overview of today's session

- GRAP reporting landscape - 2022 and beyond
- The effect of past decisions about materiality on future financial statements
- Recently issued guidance
- Overview of Exposure Drafts available for comment
- What is new internationally?



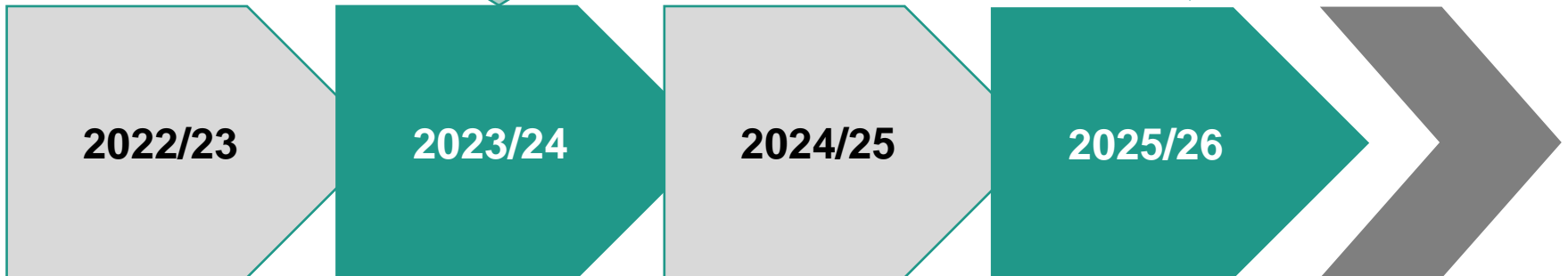
# GRAP reporting landscape – 2022 and beyond



# An overview

- #1 GRAP 25 on *Employee Benefits* (and IGRAP 7)
- #2 IGRAP 21 *The Effect of Past Decisions on Materiality*
- #3 Amendments to GRAP 1
- #4 Improvements to Standards of GRAP, 2020
- #5 Guideline on Landfill Sites

GRAP 104 on *Financial Instruments* (2019)



No mandatory changes

Note: Based on information available on 30 September 2022

# Effective dates of changes

Topic	Effective date	Adoption arrangements
Amendments to GRAP 1 on <i>Presentation of Financial Statements</i>	1 April 2023	Early adopt amendments
IGRAP 21 on <i>The Effect of Past Decisions on Materiality</i>	1 April 2023	Early adopt amendment
Improvements to Standards of GRAP (2021)	1 April 2023	Early adopt amendments (per Standard)
Guideline on Accounting for Landfill Sites	Effective date of Improvements, particularly improvement to GRAP 17 on <i>Property, Plant and Equipment</i>	
GRAP 25 on <i>Employee Benefits</i> (and IGRAP 7)	1 April 2023	Early adoption of <u>entire Standard</u> permitted

# Effective dates of changes

Topic	Effective date	Adoption arrangements
GRAP 103 on <i>Heritage Assets</i>	To be determined	May not early adopt – Minister must still determine effective date
GRAP 1 on <i>Presentation of Financial Statements</i>	To be determined	May not early adopt – Minister must still determine effective date
GRAP 104 on <i>Financial Instruments</i>	1 April 2025	Early adoption of <u>entire Standard</u> permitted

# IFRS not to be applied

Topic	IPSAS	ASB process
Fair Value Measurement (IFRS 13)	ED 77 on <i>Measurement</i>	Wait for IPSASB to complete (likely 2024-26 work programme)
Regulatory Deferral Accounts (IFRS 14)	No equivalent	Following IASB project
Revenue from Contracts with Customers (IFRS 15)	ED 70 on <i>Revenue with Performance Obligations</i>	Wait for IPSASB to complete (likely after 2026)
Leases (IFRS 16)	IPSAS 43 on <i>Leases</i>	Wait for Phase II to be completed (likely after 2026)
Insurance (IFRS 17)	No equivalent	Assessing impact locally



# IPSAS not to be applied

Topic	ASB process
Employee Benefits [IPSAS 39]	Apply GRAP 25 on <i>Employee Benefits</i>
Financial instruments [IPSAS 28-30 and 41]	Apply GRAP 104 on <i>Financial Instruments</i>
Public Sector Combinations [IPSAS 40]	Apply GRAP 105, 106 and 107 on transfers of functions and mergers
Social benefits [IPSAS 42]	Retain current accounting policies. ASB does not support “general approach” in IPSAS 42. Project initiated to develop Standard of GRAP on social benefits.
Amendments to IPSAS 19 for collective and individual services	Retain current accounting policies. ASB will assess accounting once IPSAS on transfer expenses complete.



# Overview of current projects





# What's new at the ASB

Project	Status
<b><i>Projects in progress</i></b>	
Comparison of IPSAS 40 and GRAP 105 to GRAP 107	Board will consider Exposure Draft in March 2023
Standard of GRAP on <i>Social Benefits</i>	Board will consider Exposure Draft in July 2023
Post-implementation review of GRAP 108 on <i>Statutory Receivables</i>	Board approved project brief



# The effect of past decisions about materiality on future financial statements





# Background

- Guideline on *The Application of Materiality to Financial Statements* issued in 2018.
- Respondents to draft raised commented on past practices in applying materiality.
- Historically required to keep record where “alternative accounting treatments” applied.
- View that needed to assess if effect could become material over time.





# Background

- Board agreed to review GRAP 3 as a separate project + identify if guidance needed.
- Based on review, agreed to issue Interpretation.





# Problem statement





# Problem statement

- GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors* used to develop accounting policies.
- Accounting policies in the Standards of GRAP should be applied, except when the effect of applying them is immaterial.







# Problem statement

- This means that entities can apply “alternative accounting treatments” to the recognition and measurement of items.
- Some typical examples...





# Problem statement

- Expensing of immaterial items that meet the definition of an asset. E.g. expensing low value assets that meet the definition of PPE.
- Expensing transaction costs that are immaterial to an asset. E.g. transactions costs incurred to originate financial instruments measured at amortised cost.



# Problem statement

- Classifying assets differently even though they meet the definition of certain types of assets. E.g. immaterial heritage assets accounted for as PPE, servitudes recognised as part of PPE rather than intangible assets.





# Problem statement

- Entities applied alternative accounting treatments in the past + were required to keep record of transactions/items.
- View that needed to assess if effect of applying these treatments became material over time.
- If yes, retrospective adjustments required.





# Principles of IGRAP 21 The Effect of Past Decisions on Materiality





# Scope of IGRAP 21

- Deals with the application of materiality for recognition and measurement.
- Materiality + application to presentation and disclosure dealt with in GRAP 1 on *Presentation of Financial Statements*.





# Two key issues addressed in IGRAP 21

- #1 Do past decisions about materiality affect future reporting periods?
- #2 Is applying an “alternative accounting treatment” an error, or a departure from the Standards of GRAP?





# **Issue #1 – Do past decisions about materiality affect future reporting periods?**







# Do past decisions affect future reporting periods?

- Materiality is assessed during a reporting period and at reporting date.
- Decisions about, and assessments of, materiality are period specific.
- No effect on future periods unless an errors occurred.





# Do past decisions affect future reporting periods?

To answer question raised...

- Retrospective changes only made when (a) change in accounting policy, or (b) an error was made.
- Changing from an accounting treatment to a GRAP accounting policy is not a change in policy.
- Alternative treatments not errors, unless certain circumstance exist.





# Do past decisions affect future reporting periods?

To answer question raised...

- Retrospective changes limited to situations when an error is made by an entity in assessing materiality.





# Accounting treatments and accounting policies

Entities can have:

- Alternative accounting treatments = immaterial items.
- Accounting policies based on Standards of GRAP = material items.





# Accounting treatments and accounting policies

Accounting treatments and accounting policies applied:

- Based on materiality during the reporting period and at reporting date.
- Using all relevant facts and circumstances at date materiality assessed.
- Applied consistently to similar items, transactions and events.





# Accounting treatments and accounting policies

Accounting treatments and accounting policies applied:

- Materiality determined quantitatively and qualitatively.
- Considering effect on individual items, as well as collectively.
- Assessment considers effect on both current as well as future reporting periods (based on available information).





# Issue #1 - Examples



# Example 1

Metropolitan Municipality A applies materiality to decide which items of computer equipment should be recognised as assets in accordance with the Standard of GRAP on *Property, Plant and Equipment* (GRAP 17). Computer equipment comprises (a) computer peripherals such as printers, screens, keyboards; and (b) high value computer equipment such as tablets, laptops, and servers. Computer equipment is mainly used for administrative purposes.







# Example 1 (contd.)

The municipality considers the nature, and value of computer equipment both individually and collectively, in determining materiality. The municipality determines that the effect of not capitalising computer peripherals in accordance with GRAP 17, even if considered collectively, is likely to have an immaterial effect on the financial statements both now and in the future.



# Example 1 (contd.)

Based on this assessment, the municipality develops:

- Criteria identifying what is considered a computer peripheral based on the nature of the item using qualitative materiality.
- A quantitative materiality threshold which indicates that computer peripherals with an individual cost of less than R5 000 are immaterial and should be expensed in the year of purchase.
- An policy indicating that items that are either not “computer peripherals” and items that have an individual cost of more than R5 000, should be capitalised as assets in terms of GRAP 17.

# Example 1 (contd.)

## *Analysis*

- In this scenario, the municipality acquires a range of similar items that are classified as “computer equipment”. This could result in individual items of computer equipment (the computer peripherals) with a value of less than R5 000 being expensed, and individual items of computer equipment with a value of more than R5 000 being capitalised.
- The alternative accounting treatment or accounting policy is applied consistently to all similar items in the same category of assets. The accounting will however depend on the materiality of each individual item.





# Example 1 (contd.)

- The municipality would have both an accounting policy and an alternative accounting treatment and apply these based on materiality. This would be applicable to both the current and subsequent reporting periods.
- The municipality would need to determine the threshold at a low enough level to ensure that the effect of the cumulative expensing of individual items in the current and future reporting periods will not have a material effect on the financial statements – either in part or when taken as a whole.





## Example 2

College A develops a materiality threshold for the acquisition of computer equipment. Computer equipment comprises (a) computer peripherals such as printers, screens, keyboards, and external cameras and microphones; and (b) other computer equipment such as desktop computers, laptops, servers, and 3D printers. The College mainly offers IT related qualifications and most computer equipment acquired is used by students in its computer labs.





## Example 2 (contd.)

Given the volume and use of the computer equipment by students, computer equipment is an integral part of the College's infrastructure and service delivery. The College determines that while the value of individual items of computer equipment – including some computer peripherals - are immaterial, the collective (aggregate) value of all computer equipment is material. As a result, the College decides that all computer equipment should be recognised in accordance with GRAP 17 because of its collective materiality.





# **Issue #2 – Are alternative accounting treatments errors or departures?**





# Can accounting treatments be errors or departures?

- GRAP 3 allows entities to not apply the Standards to immaterial items.
- As a result, applying alternative treatments is not a departure and not an error.
- Errors arise when...





# Errors can arise...

1. Immaterial items are omitted from the financial statements.
2. Inappropriate accounting treatment applied because of a failure to use, or misuse of, reliable information that was available or could reasonably have been expected to be used.



## Errors can arise...

3. Alternative accounting treatment is applied to achieve a particular presentation in the financial statements.
4. An incorrect assessment of materiality is made resulting in material transactions accounted for as immaterial transactions.

**GRAP 3 applies to errors.**





# Issue #2 - Examples



# Example 3

Using the same facts as in Example 1.

## *Background*

### Year 1

The total value of computer peripherals acquired during the year with an individual cost of less than R5 000 amounted to R100 000 and was recognised as an expense. The total value of computer peripherals and other computer equipment acquired with an individual value of more than R5 000 amounted to R4 million and was recognised as property, plant and equipment.





# Example 3 (contd.)

## Year 2

The municipality establishes a major, high-tech call centre to respond to service delivery, finance and other related queries from the public. This results in a significant investment in new computer equipment of all types (both computer peripherals and other computer equipment). The establishment of the call centre means that the municipality needs to reconsider its assessment of materiality for computer equipment.



# Example 3 (contd.)

## Year 2

Given the nature and volume of computer equipment acquired during the year, as well as expected purchases in subsequent reporting periods, the municipality revises its criteria and materiality threshold to indicate that only certain items of computer equipment with a value of R3 000 or less can be expensed. The result is that some items that either by their nature or value were considered “computer peripherals” and expensed in prior years, would now be recognised as assets in accordance with GRAP 17.





# Example 3 (contd.)

## *Analysis*

Based on the fact pattern, there is a change in the both the qualitative criteria as well as the quantitative materiality threshold from year 1 to year 2. Materiality is assessed during a reporting period and at the reporting date based on facts and circumstances on the date of assessment. The municipality's determination of materiality in year 1 was appropriate based on the information available and activities undertaken as that time. As a result, the municipality will not make any adjustments in year 2 for the computer equipment that was expensed in year 1 as a result of the change in materiality for the same items in year 2 if they were to be acquired under the revised materiality threshold.





# First time application of IGRAP 21







# Transitional provisions

- Assessments of materiality are period specific and require judgement.
- Difficult to assess whether materiality correctly assessed in the past.
- Transitional provisions = prospective + no need to assess past decisions.





# Some practical issues to consider...





# Practical issues to consider

- Alternative accounting treatments not based on “accounting policies” for specific transactions in Standards.
- Developed so that not inconsistent with the Conceptual Framework.





# Practical issues to consider

- Guideline identifies a process to assess and apply materiality.
- Document materiality considerations and discuss with management and oversight structures.
- Emphasise importance of clearly documenting considerations.
- Consider all available information + consider effect on future periods.





# Recently issued guidance



# What's new at the ASB

Project	Status
<b><i>Recently completed</i></b>	
Work programme for 2024 to 2026	Consultation finalised; work programme is available on the ASB website
Amendments to GRAP 103 <i>Heritage Assets</i> approved by the Board in June 2022	Effective date pending
Amendments to GRAP 1 to address going concern (ED 198)	Board approved amendments after public consultation Effective date pending Fact Sheets have been issued





# What's new at the ASB

Project	Status
<b><i>Approved November 2022</i></b>	
Improvements to Standards of GRAP, 2022	Board approved ED 201 and ED 202 - Public consultation in 2023
Post-implementation Review of GRAP 109 <i>Accounting by Principals and Agents</i>	Board approved ED 200 - Public consultation in 2023
<b><i>Issued January 2023</i></b>	
Proposed IPSAS on <i>Concessionary Leases and Right-of-Use Assets In-Kind</i> (ED 203)	Concurrent issue of IPSASB ED



# Newly published resources

Topic	Applicable date
<i>Research Paper on The Desktop Review of Cash Flow Statements Presented in the Financial Statements</i>	Not applicable Entities (and auditors) to review findings
<i>Review Report on Presentation of Budget Information in the Financial Statements</i>	Not applicable Entities (and auditors) to review findings
<i>Fact Sheet on Presentation of Budget Information in the Financial Statements</i>	Not applicable
<i>Fact Sheet on Assessing Going Concern</i>	Not applicable
<i>Fact Sheet on Preparing AFS on a Basis Other Than Going Concern</i>	Not applicable



# Other resources - non-authoritative

Topic	Issued by	Access
Frequently Asked Questions	Secretariat of the ASB	ASB website
Fact Sheets	Secretariat of the ASB	ASB website
Review Reports and Research Papers	Board	ASB website
Presentations and Recordings	Secretariat of the ASB	ASB YouTube ASB website
GRAP Accounting Guidelines	Office of the Accountant-General	OAG website
GRAP Disclosure Checklist	Office of the Accountant-General	OAG website



# Overview of Exposure Drafts available for comment





# Exposure Drafts available for comment

ED	Description	Comment by
ED 200	Post-Implementation Review on <i>Accounting by Principals and Agents</i>	15 Sept 2023
ED 201	Improvements to Standards of GRAP 2022	28 April 2023
ED 202	IGRAP on <i>Foreign Currency Transactions and Advance Consideration</i>	28 April 2023
ED 203	Proposed IPSAS on <i>Concessionary Leases and Right-of-Use Assets In-Kind</i>	6 April 2023





# ED 200: Background to the post- implementation review

- GRAP 109 became effective 1 April 2019
- Transitional provisions:
  - Retrospective application for all arrangements in progress at the effective date
- Available guidance to assist with implementation:
  - Secretariat's FAQs (<https://www.asb.co.za/frequently-asked-questions/>)
  - Presentation by the OAG ([Technical Support website](#))

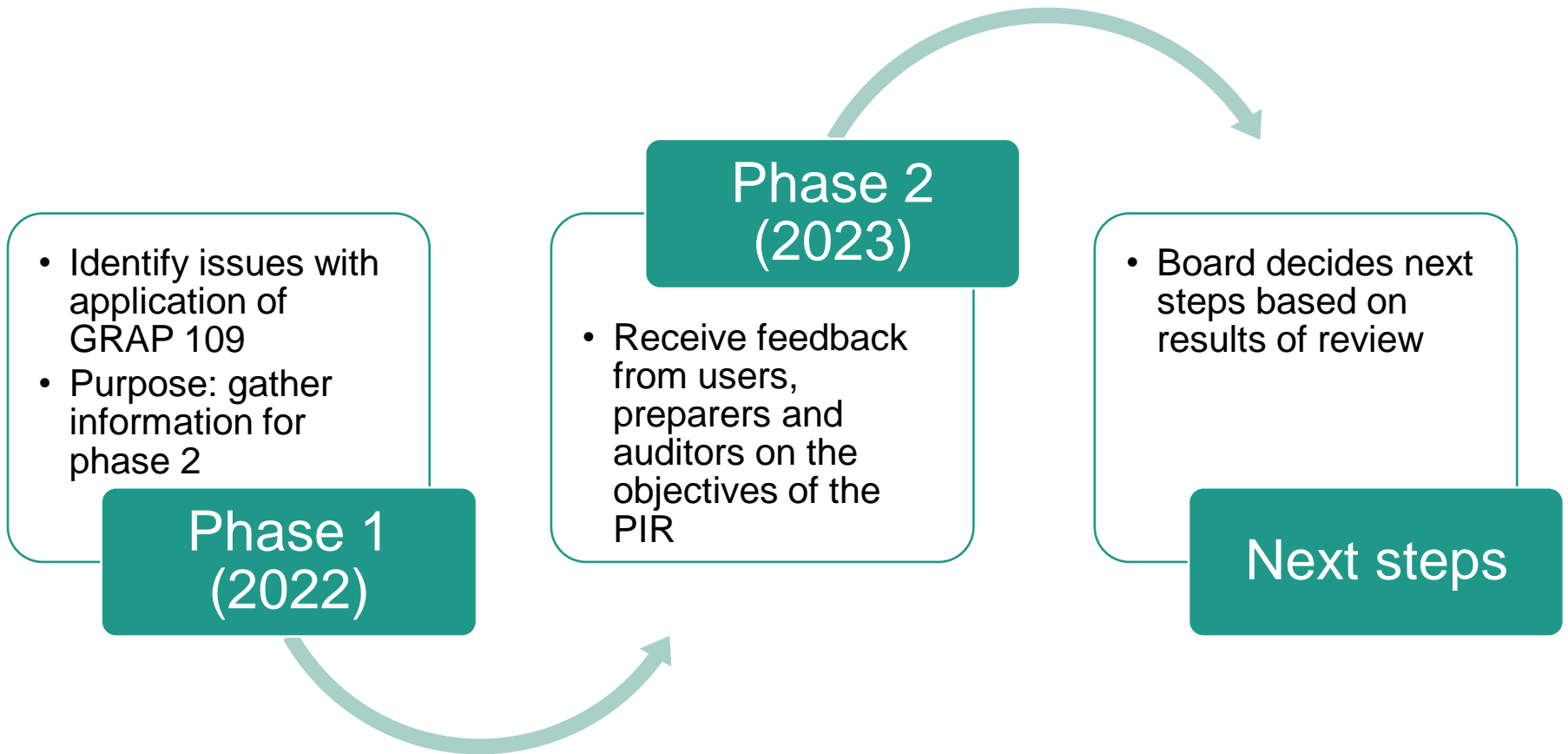


# ED 200: Objectives of the post- implementation review

- Board agreed with stakeholders to do a post-implementation review to:

Users	<ul style="list-style-type: none"> <li>• Determine extent to which GRAP 109 provides relevant &amp; useful information to users of financial statements</li> <li>• Identify what other information users require on principal-agent arrangements in financial statements</li> </ul>
Preparers	Understand implementation challenges, and extent to which these challenges impair consistent application of GRAP 109
Auditors	Understand audit issues raised on accounting by principals and agents

# ED 200: Phases of the post- implementation review





# ED 200: Have your say

- ED 200 *Invitation to Participate in PIR of GRAP 109* on website (<https://www.asb.co.za/ed-200/>)
- ED includes specific questions to preparers and users of financial statements
  - Stakeholders respond based on their experience
- Comment period closes **15 September 2023**

# ED 200: Have your say

- Supporting material on website with ED:
  - Executive summary
  - Presentation
- Participate through:
  - Questionnaires (on website) – submit responses to [info@asb.co.za](mailto:info@asb.co.za)
  - Any form of written submission to [info@asb.co.za](mailto:info@asb.co.za)
  - Stakeholder engagements – contact [info@asb.co.za](mailto:info@asb.co.za) to ensure you are invited





# ED 201 – Improvements to Standards of GRAP (2022)

## Developing the ED:

- Amendments to IPSAS as part of 2019 and 2021 Improvements to IPSAS.
- Amendments IFRS® Standards as part of improvements to IFRS Standards (2018-2020 cycle) and other narrow-scope amendments.
- General improvements.



# High level overview of proposed amendments

# Overview

Standards of GRAP	Proposed amendment
GRAP 1 – <i>Presentation of Financial Statements (2013)</i>	Disclosure of Accounting Policies: Changes from “significant accounting policies” to “material accounting policies” because the Standards of GRAP do not define the term “significant”.
GRAP 1 – <i>Presentation of Financial Statements (2013)</i> , GRAP 2 – <i>Cash Flow Statements</i> , GRAP 13 – <i>Leases</i> , GRAP 19 - <i>Provisions, Contingent Liabilities and Contingent Assets</i> , GRAP 23 - <i>Revenue from Non-exchange Transactions</i> , GRAP 27 – <i>Agriculture</i> , GRAP 31 – <i>Intangible Assets</i> , GRAP 104 – <i>Financial Instruments (2019)</i>	Remove encouraged disclosures with limited information value.

# Overview

Standard of GRAP	Proposed amendment
GRAP 3 – <i>Accounting policies, Changes in Accounting Estimates and Errors</i>	<p>Change in the definition of an accounting estimate because the previous definition was not sufficiently clear.</p> <p>Clarify that the requirements to disclose Standards issued but not yet effective only apply to Standards of GRAP that are not yet effective for which the Minister of Finance has already determined an effective date.</p>
GRAP 5 – <i>Borrowing Costs</i> , GRAP 24 - <i>Presentation of Budget Information in Financial Statements</i>	Addition of Illustrative Examples

# Overview

Standard of GRAP	Proposed amendment
GRAP 17 – <i>Property, Plant and Equipment</i>	Amendments are made to prohibit proceeds from selling items produced before that asset is available, to be deducted from the cost of property, plant and equipment.
GRAP 20 – <i>Related Party Disclosures</i> , GRAP 31 – <i>Intangible Assets</i> , <i>Guideline on the Application of Materiality to Financial Statements</i>	Amendments to ensure consistency and clarity between the Standards of GRAP.
GRAP 24 – <i>Presentation of Budget Information in Financial Statements</i>	Provide clarity to the terms “publicly available” and “publicly accountable”. Simplify the disclosures on the presentation of a reconciliation to improve the quality of reporting, by not prescribing the line items to reconcile.

# Overview

Standard of GRAP	Proposed amendment
GRAP 104 – <i>Financial Instruments</i> (2019)	<p>Interest Rate Benchmark Reform - Amendments to provide a practical expedient not to treat changes in contractual cash flows as a modification.</p> <p>Amendments to clarify the fees that an entity includes when it applies the “10 percent” test to derecognise a financial liability.</p>
Annexure A	Editorials



# ED 202 – IGRAP on Foreign Currency Transactions and Advance Consideration

- Monitoring convergence with the IASB®.
- IGRAP on *Foreign Currency Transactions and Advance Consideration* based on IFRIC 22 - clarifies which exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency.
- Minor adaptations were made to IFRIC 22- mainly aligning terminology in the IFRIC to the terminology used in our local standards.



# ED 201 and ED 202: Have your say

- Roundtable discussions in February and March
- Invitation to Comment is available on the ASB website
- Comment period closes **28 April 2023**





# ED 203 – Proposed IPSAS on *Concessionary Leases and Right-of-Use Assets In-kind*

- IPSASB project phase I – approval of IPSAS 43
- IPSASB project phase II – public sector lease issues for concessionary leases and right-of-use assets in-kind
- Comment closing locally 6 April 2023
- Stakeholder engagements during April 2023 to submit comment letter by 17 May 2023



# ED 203 – Proposed IPSAS on *Concessionary Leases and Right-of-Use Assets In-kind*

## Concessionary leases

- A lease at below market terms that has an exchange and non-exchange component
- Guidance for lessee accounting
  - measure liability as PV of contractual lease payments
  - discount lease payments – interest rate implicit to the lease (or incremental borrowing rate)
  - right-to-use asset measured as PV of payments for a lease at market rate



# ED 203 – Proposed IPSAS on *Concessionary Leases and Right-of-Use Assets In-kind*

## Concessionary leases

- Guidance for lessor accounting
  - apply guidance in IPSAS 43
  - finance lease transfer of underlying asset is measured at its carrying amount
  - operating lease recognise lease payments as revenue either on straight-line basis or on a other systematic basis



# ED 203 – Proposed IPSAS on *Concessionary Leases and Right-of-Use Assets In-kind*

## Right-of-use asset in-kind – lessee

- An arrangement that conveys the right-to-use underlying asset for zero consideration
- Not meeting definition of a lease
- Propose accounting to be similar as for concessionary lease
- Right-of-use asset in-kind measured at PV of payments for the lease at market terms (current use)



# ED 203 – Proposed IPSAS on *Concessionary Leases and Right-of-Use Assets In-kind*

## Amendments to IPSAS 23 disclosures

Enhanced disclosures for right-of-use asset in-kind such as:

- Nature and type of major classes of right-of-use assets
- Depreciation charge
- Carrying amount at the end of the reporting period by class of underlying asset





# What is new at the IPSASB?



# Recently approved pronouncements

Pronouncement	Effective date
IPSAS 43 on <i>Leases</i> (aligned with IFRS 16 on <i>Leases</i> )	1 January 2025
IPSAS 44 on <i>Non-current Assets Held for Sale and Discontinued Operations</i>	1 January 2025
Improvements to IPSAS, 2021	1 January 2023 Except changes related to IBOR (applicable from 1 January 2022)
Conceptual Framework limited scope update - phase 1 Measurement	N/A
IPSAS on <i>Property, Plant and Equipment</i>	Aligned with IPSAS on Measurement [TBD]





# Consultations in progress

## Pronouncement

## Comment date

ED 84 on *Concessionary Leases and Right-of-Use Assets In-kind (Amendments to IPSAS 43 and IPSAS 23)*

- Issued concurrently as ED 203

17 May 2023

6 April 2023





# Completed consultations – projects in progress

Pronouncement	Effective date
ED 81 on <i>Conceptual Framework Update: Chapter 3 Qualitative Characteristics and Chapter 5 Elements</i>	Concurrently issued as ED 197; IPSASB is considering feedback
ED 82 on <i>Retirement Benefit Plans</i>	IPSASB is considering feedback on the ED



# Completed consultations – sustainability reporting

Pronouncement	Effective date
Consultation Paper on <i>Natural Resources</i>	IPSASB is considering feedback on the ED, together with sustainability reporting project
Consultation Paper on <i>Advancing Public Sector Sustainability Reporting</i>	Concurrently issued as ED 199; IPSASB agreed to proceed with research and scoping of potential public sector specific sustainability reporting projects
ED 83 on <i>Reporting Sustainability Program Information - RPGs 1 and 3: Additional Non-Authoritative Guidance</i>	IPSASB is considering feedback on the ED





# Other projects in progress

Other projects in progress include:

- Revenue and Transfer Expenses
- Measurement
- Presentation of financial statements
- Differential reporting





# Stay informed





# Stay informed

- All information can be accessed on our website [www.asb.co.za](http://www.asb.co.za).
- FAQs
- Follow the ASB on LinkedIn, Facebook, Twitter, YouTube
- Subscribe to our Newsletter via our website.
- Translations of the Standards.





# Stay informed

- GRAP Updates (for public entities) on YouTube



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