

Improving the disclosures on going concern in the financial statements

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Over the past few years, South Africa faced several disruptions, such as COVID-19, protests and socio-political unrests that were characterised by widespread looting. These disruptions, along with the current state of the economy and decreasing budgets, necessitates management to think ahead on how the entity will continue to meet service delivery objectives and financial obligations as and when they become due.

Going concern requirements in the GRAP Standards

The Standards of GRAP on *Presentation of Financial Statements* (GRAP 1) and *Events After the Reporting Date* (GRAP 14) require management to assess an entity's ability to continue as a going concern when preparing its financial statements. When management is aware of any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern (hereafter "material uncertainties"), information about these uncertainties need to be disclosed in the financial statements.

What is an auditor's responsibility relating to going concern?

Audit standards set out auditors' responsibilities relating to going concern. An auditor is required to evaluate management's assessment of the entity's ability to continue as a going concern by considering information over the same period as that used by management. They are also required to ensure that management considered all the relevant information to make this assessment.

Why were changes made to GRAP 1?

In a recent project to review going concern requirements, the Accounting Standards Board (the Board) observed that a limited number of entities disclose information in their financial statements on material uncertainties. The Board further observed that management is unsure if an entity's financial statements should continue to be prepared on a going concern basis in certain circumstances. For example, when some or all of the entity's functions are transferred to another entity through a transfer of functions or merger.

To address these observations, the Board agreed to provide further clarification in GRAP 1 and require additional disclosures. These are explained below.

New guidance on the application of going concern in the public sector

GRAP 1 is clarified to explain that when a decision is taken to liquidate an entity, to cease its operations in its entirety, or when there is no realistic alternative but to do so, preparing financial statements on the going concern basis is inappropriate. This is because all the functions and operations of the entity will be terminated.

Preparing financial statements on a 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. This is because the functions previously provided by the entity will continue to be provided, either by another entity, or in a modified form (the new combined entity).

Management should assess going concern separately when some of an entity's functions are transferred, and others are discontinued.

New disclosure requirements relating to going concern

GRAP 1 now specifically requires management to disclose its significant judgements and assumptions in assessing going concern. When management is aware of one or more material uncertainties in making this assessment, the fact that there are uncertainties should be disclosed, along with the following specific information about these uncertainties:

- (a) the principal events or conditions that gave rise to the uncertainties;
- (b) the possible effect that the uncertainties may have on current and future reporting periods; and
- (c) management's plans to address the uncertainties and actions to mitigate the effect of the events or conditions giving rise to the uncertainties.

If information about management's plans and actions to mitigate uncertainties is published elsewhere in the financial statements, a cross reference can be included to that information. Information need not be repeated in the notes to the financial statements.

Consequential amendments were also made to GRAP 14 to align with the amendments in GRAP 1.

Available resources

The additional guidance on the application of the going concern basis and the new disclosure requirements in GRAP 1 will be applied prospectively. The Minister of Finance must still determine the effective date.

The amendments to GRAP 1 can be accessed [here](#). Two Fact Sheets were developed to assist management with its going concern assessment:

- [Fact Sheet #1](#) on *Assessing Going Concern*
- [Fact Sheet #2](#) on *Preparing Financial Statements on a Basis Other Than Going Concern*