



**ANALYSIS AND RESPONSES TO WRITTEN COMMENT  
RECEIVED ON**

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

**(ED 198)**

**RESPONSES TO THE WRITTEN 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 Board received two comment letters. This includes a comment letter from the Department of Treasury of the Free State Province to which entities listed on the next page have responded. The comments received are summarised in this document and include the Board's responses.

ED 198 was also discussed with preparers, auditors, and consultants by way of virtual engagements. The summary of comment received from these engagements is included in a separate analysis.

**CLASSIFICATION OF WRITTEN 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.	South African Institute of Chartered Accountants (SAICA)				√
2.	<p>Free State Provincial Treasury including submissions from:</p> <ul style="list-style-type: none"> <li>• Office of the Premier</li> <li>• Department of Economic, Small Business Development, Tourism and Environmental Affairs (DESTEA)</li> <li>• Provincial Treasury</li> <li>• Provincial Treasury: Asset and Liability Management</li> <li>• Education</li> <li>• Social Development</li> <li>• Department of Cooperative Government and Traditional Affairs (COGTA)</li> <li>• Public Works and Infrastructure</li> <li>• Police, Roads, and Transport</li> <li>• Sports, Arts, Culture and Recreation</li> <li>• Free State Gambling and Liquor and Tourism Authority (FSGLTA)</li> <li>• Fleet Management Trading entity</li> </ul>	<p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p>	<p>√</p> <p>√</p>		

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

No.	Comments	Board's response
<b>SPECIFIC MATTERS FOR COMMENT</b>		
<p><b>Question 1</b></p> <p><b>Explanatory guidance on assessing going concern in the public sector</b></p> <p><b>Paragraphs .28A to .28C proposes additional guidance to explain the application of going concern by public sector entities.</b></p> <p><b>Do you agree with the proposed guidance? Please explain your response.</b></p>		
1.	<b>SAICA</b>	
1.1	<p><b>Paragraph .28</b></p> <p>SAICA acknowledges that the inclusion of the transfer of functions to another entity as an example will minimise the uncertainty around the use of the going concern basis where functions are transferred to another entity. However, the ASB should consider the following:</p> <ul style="list-style-type: none"> <li>• If the functions of an entity are wholly transferred to another, or there is a merger, the one entity ceases to exist and cannot render services in its capacity. It may therefore be inappropriate to use the going concern basis to prepare financial statements of an entity that will cease to exist.</li> <li>• A transfer of functions will involve the transfer of resources, assets and liabilities and responsibilities from the transferring entity to the acquiring entity. A transfer of the whole entity (significant functions within the entity) may result in the entity not continuing to prepare its financial statements on a going concern basis as it would cease to exist. The extent of the transfer should therefore be evaluated in deciding whether the going concern basis is still appropriate.</li> </ul>	<p>Noted. Paragraph BC2 explains that a liquidation or cessation of an entity's operations will result in the termination of all the functions provided by that entity. Therefore, only in the case of dissolution, without any continuation of the entity's operations, will the going concern basis cease to apply (see paragraph BC4).</p> <p>Following a merger, the operations previously provided by an entity, will continue to be provided in a modified form. Similarly, when functions are transferred, the functions will continue to be provided even though they are executed by another entity, and/or in another form. Irrespective of whether an entity transfers some, or all of its functions, the transfer will not impact the operations as these will continue to be provided. Preparing the financial statements on a going concern basis is appropriate, for both a merger and in a transfer of some, of all of an entity's functions.</p>

No.	Comments	Board's response
	<p>(continue)</p> <ul style="list-style-type: none"> <li>The timing of a decision taken to transfer and the actual implementation date needs to be considered since it may affect the two entities where their financial year ends are different.</li> </ul>	<p>The Board agreed that the principle should be explained in the GRAP 1 Fact Sheet on <i>Assessing Going Concern</i> to explain that when some of the functions and/or services are transferred in a transfer of functions, and the remaining functions in an entity are discontinued all together, there are two separate transactions. Management should separately assess if preparing the entity's financial statements on the going concern basis remains relevant for both events.</p> <p>GRAP 105 on <i>Transfer of Functions Between Entities Under Common Control</i>, GRAP 106 <i>Transfer of Functions Between Entities Not Under Common Control</i>, and GRAP 107 on <i>Mergers</i> provide disclosures to enable users to understand which entities are involved in the transfer or merger, and what functions form part of the transfer.</p> <p>Noted. As noted in paragraph BC3, a decision to liquidate an entity, to cease or scale back its operations, to transfer some of its functions to another entity, or to merge one or more entities, is subject to specific requirements.</p>

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No.	Comments	Board's response
	<p>(continue)</p> <p>The probability of the merger or the transfer of functions between entities should be considered as this may impact the going concern disclosures at year end.</p> <p>This is further confirmed by paragraph 14 of GRAP 14, Events after the Reporting Date "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. <u>For example, an individual entity may not be a going concern because the government of which it forms part has decided to transfer all its activities to another entity.</u> However, this restructuring has no impact upon the assessment of going concern for the government itself".</p>	<p>This includes the promulgation of legislation in Parliament or a provincial legislature, or a cabinet decision, ministerial order, a decision made by a municipal council, board, council or equivalent, a regulation or a notice, or other official means. Guidance is included in GRAP 105, 106 and 107 on how to account for the transfer of functions or merger by both the acquirer and transferor. The Board agreed that no further is required.</p> <p>Noted. The probability of a merger or transfer may impact management's assessment of continuing as a going concern, rather than the disclosures itself. Guidance is included in the GRAP 1 Fact Sheet on factors that management may consider to assess going concern. One of these factors refers to the need to restructure the entity. The Board agreed that no further is required.</p> <p>Noted. Paragraph 14 was amended to align with the amendments included in GRAP 1.</p>
1.2	<p><b>Paragraph .28A</b></p> <p>SAICA agrees with the amendment as it provides clear guidance and certainty. It further minimises the risk of misinterpretation and inconsistent application of the going concern principle in these scenarios.</p>	<p>Noted. No further action required.</p>

No.	Comments	Board's response
1.3	<p><b>Paragraph .28B</b></p> <p>SAICA agrees with the amendment as the intention is to liquidate the entity and to cease its operation which will therefore mean that the entity will cease to exist in the future.</p>	Noted. No further action required.
1.4	<p><b>Paragraph .28C</b></p> <p>It is acknowledged that the paragraph provides guidance on the appropriateness of the going concern basis and that the functions transferred will be performed by another entity. However, SAICA recommends that the ASB considers the following:</p> <ul style="list-style-type: none"> <li>• If the functions of an entity are wholly transferred to another, or there is a merger resulting in one entity ceasing to exist and cannot render services in its capacity, it may be inappropriate to use the going concern basis to prepare financial statements of the entity that will cease to exist as this may be misleading to the users of the financial statements since the entity that used to render their services will no longer exist despite the services being transferred to a new entity.</li> <li>• Mergers should be treated differently to a transfer of functions. In a transfer of functions, the entity will continue to operate in a modified form even if the functions or operations will no longer be provided by the entity itself. The extent of the transfer is the determining factor to what extent the operations continue or cease. It may therefore be appropriate for the ASB to issue further guidance in this regard.</li> <li>• The impact of contingencies that exist at the time of the transfer of functions and or merger must be carefully considered.</li> </ul>	<p>Noted. Refer to the response to comment 1.1.</p> <p>Noted. The Board concluded that the principle to assess an entity's ability to continue as a going concern should be applied consistently in a merger, or in a transfer of some or all of an entity's functions. Refer to the response to comment 1.1.</p> <p>Noted. This should be considered by management as part of its assessment of uncertainties that may cast significant doubt on the entity's ability to continue as a going concern. As the guidance in the GRAP 1 Fact Sheet already refers to the need to restructure an entity as a factor to be considered when assessing an entity's ability to continue as a going concern, the Board agreed that no further action is required.</p>

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No.	Comments	Board's response
	<p>(continue)</p> <ul style="list-style-type: none"> <li>It may also be appropriated for the Standard to require full and detailed disclosure of the transfer/merger to enable a user to have a full appreciation of the published financial statements.</li> </ul>	<p>Noted. GRAP 105, 106 and 107 provide sufficient disclosures to enable users to understand which entities are involved in the transfer or merger, and what functions form part of the transfer. The Board agreed that no further action is required.</p>
<b>2.</b>	<b>Free State Provincial Treasury: DESTEA</b>	
	<p>The going concern is not important if the entity ceases to operate in its entirety. There will be no need to prepare the financial statements on a going concern basis. However, if the entity's operations are transferred to another entity, it is important to consider the going concern basis.</p>	<p>Noted. No further action required.</p>
<b>3.</b>	<b>Free State Provincial Treasury: Provincial Treasury</b>	
	<p>In agreement with the guidance give in paragraph 28(A) to 28(C).</p>	<p>Noted. No further action required.</p>
<b>4.</b>	<b>Free State Provincial Treasury: Social Development</b>	
	<ol style="list-style-type: none"> <li>If an entity or part of is liquidated or some of the functions are transferred, this will have an effect on the going concern and the impact must be reported.</li> <li>If also it is known that the entity will cease to exist in its entirety, then the going concern will be inappropriate.</li> <li>In a situation of transfer of functions or mergers the going concern basis remains appropriate.</li> </ol>	<p>Noted. Refer to the response to comment 1.1.</p> <p>Noted. Refer to the response to comment 1.1.</p> <p>Noted. Refer to the response to comment 1.1.</p>
<b>5.</b>	<b>Free State Provincial Treasury: Public Works and Infrastructure</b>	
	<p>Yes. It will clarify appropriate steps to take when doing the going concern assessment. It will also explain further for cases where some or all of an entity's functions are transferred to another entity, or when the entity is involved in a merger.</p>	<p>Noted. No further action required.</p>
<b>6.</b>	<b>Free State Provincial Treasury: Police, Roads, and Transport</b>	
	<p>This gives clarity as to the going concern requirements with regards to liquidation and ceasing of operations.</p>	<p>Noted. No further action required.</p>



No.	Comments	Board's response
7.	<b>Free State Provincial Treasury: Fleet Management Trading entity</b>	
	The additional disclosures will help the users to better understand the situation of an entity.	Noted. No further action required.

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No.	Comments	Board's response
	<p><b>Question 2</b></p> <p><b>Additional disclosures on assessing going concern</b></p> <p><b>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.</b></p> <p><b>Do you agree with the proposed disclosures? Please explain your response.</b></p>	
8.	SAICA	
8.1	<p><b>Paragraph 1.134A</b></p> <p>SAICA agrees with the amendment due to the following:</p> <ul style="list-style-type: none"> <li>• The disclosure will provide useful information to the users of financial statements in relation to the considerations that were made in determining the going concern basis and any potential uncertainties that exist as well as management's plans to address the uncertainties.</li> <li>• There will be more consistency in the disclosure of going concern.</li> <li>• The disclosure allows for more transparency on the financial sustainability of public entities which will inform better decision-making by users, including the government in general.</li> </ul> <p>SAICA further recommends that where public entities are dependent on additional funding from government, disclosure should include the timing of the application, the amounts involved and the probability of approval or ratification by the Finance Minister, where necessary.</p>	<p>Noted. No further action required.</p> <p>Noted. This information is better suited as management information. A recommendation will be made to the National Treasury to consider this comment in updating the Annual Report Guidance.</p>

No.	Comments	Board's response
8.2	<p><b>Paragraph 1.134B</b></p> <p>SAICA agrees that the cross reference should be included in the financial statements as this will minimise the duplication of information in the financial statements and improve their usefulness.</p> <p>However, the current wording in the Standard appears to suggest that the inclusion of the information required by paragraph .134(A)(e) is optional which may contradict the requirements of paragraph .134(A)(e). SAICA recommends that the wording of paragraph .134(A)(e) includes an option to disclose the information either in the notes or elsewhere in the financial statements.</p>	<p>Noted.</p> <p>The Board agreed that the preference will be for entities to disclose the information in the notes. A cross reference to documents can be considered when information is included elsewhere, to avoid the unnecessary duplication of information in the financial statements. The Board agreed that no further action is required.</p>
9.	<b>Free State Provincial Treasury: DESTEA</b>	
	All those disclosure considerations must be taken into account when disclosing in the note to the financial statements. The information is important to disclose on circumstances that may have material uncertainties on the entity to continue as a going concern.	Noted. No further action required.
10.	<b>Free State Provincial Treasury: Provincial Treasury</b>	
	In agreement with the additional disclosures as indicated in paragraph 134(A) and 134(b).	Noted. No further action required.
11.	<b>Free State Provincial Treasury: Social Development</b>	
	Yes. Departments are already disclosing the going concern in the notes to the Annual Financial Statements. All details in 134A are already disclosed.	Noted. No further action required.
12.	<b>Free State Provincial Treasury: Public Works and Infrastructure</b>	
	Yes. Material uncertainties relating to going concern will not only compel management disclose it compliance but also have mechanisms in place to mitigate the uncertainties.	Noted. No further action required.

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No.	Comments	Board's response
13.	<b>Free State Provincial Treasury: FSGLTA</b>	
	<p>Yes. The entity submits its going concern assessment as follows:</p> <p>The annual financial statements have been prepared based on accounting policies applicable to going concern. This basis presumes that the transfers of grant from DESTEA will be available in the next MTEF period 2022/23 to 2024/25 to finance future operations and that the realisation of assets and settlements of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The ability of the entity to continue as a going concern is dependent on a number of factors, most significant of these is that the Accounting Officer to continue to solicit funds to ensure core function of the entity is operational.</p>	<p>Noted. No further action required.</p> <p>An entity's going concern assessment should be entity specific, taking into account the entity's specific circumstances. This is also highlighted in the GRAP 1 Fact Sheet.</p>
14.	<b>Free State Provincial Treasury: Fleet Management Trading entity</b>	
	<p>The additional disclosure will help the users to better understand the situation at an entity. It should however be noted that the auditors may start auditing these assumptions disclosed in the AFS. As this is an estimate by management, the auditors may indicate that it is not verifiable and deem it a limitation of scope.</p>	<p>Noted. No further action required.</p> <p>The auditing of assumptions disclosed in the financial statements is an audit matter that cannot be resolved in an accounting Standard. The comment will be shared with the AGSA.</p>

No.	Comments	Board's response
<b>GENERAL MATTERS</b>		
<b>16.</b>	<b>Free State Provincial Treasury: FSGLTA</b>	
	<p>This would also assist if the assessment of a going concern its basis would not take into account Provision for leave as it falls under liabilities as that provision can only be realized should all the current employee resigns.</p>	<p>Noted. In assessing going concern, management should consider if any material uncertainties exist that may cast significant doubt on the entity's ability to continue as a going concern. All available information about the future, which is at least, but not limited to twelve months from the reporting date is considered in making this assessment.</p> <p>The Board agreed that no further action is required.</p>