

- Should all errors be accounted for using GRAP 3.
- Newly effective pronouncements.
- Frequently Asked Questions.
- Coming up in this quarter.
- Open for comment.
- News from the IPSASB.
- General.



## Should all errors be accounted for using GRAP 3?

In recent discussions on the projects the ASB should undertake during 2021 to 2023, stakeholders indicated a recent trend of disclosing extensive information on the corrections of prior period errors – both in the statement of changes in net assets as well as the notes. Stakeholders indicated that the information provided detracted from the overall quality of the financial statements as it was not relevant to users of the financial statements. The disclosures often related to immaterial amounts, and the aggregation of information was not considered.

This practice means that the principles in GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors* – particularly materiality - are not being considered by entities when preparing their financial statements.

GRAP 3 explains that the Standards of GRAP are only applied to transactions and events that are material. This should always be considered by entities in deciding what accounting treatment should be applied, as well as what and how information should be presented in the financial statements and disclosed in the notes.

The Board's recently issued Guideline on *The Application of Materiality to Financial Statements* provides guidance on the treatment of immaterial errors. The guidance is outlined below.

### *What are errors?*

GRAP 3 explains that prior period errors are omissions from, and/or misstatements in, an entity's financial statements arising from failure to use, or misuse of reliable information that is available, or could reasonably be expected to be obtained.

### *Material errors*

Material errors are errors that individually or collectively could reasonably be expected to influence the users' decisions taken on the basis of those financial statements. An entity must

correct all material errors in accordance with GRAP 3, i.e. retrospective correction and restatement of the error, with disclosure in the notes to the financial statements.

### *Immaterial errors*

As the Standards of GRAP only apply to material items, and entity should consider the following in deciding how to treat errors that are immaterial.

- Immaterial errors do not need to be corrected, unless the errors are made to achieve a particular presentation of an entity's financial position, financial performance or cash flows. When an entity assesses an error not to be material individually, it considers whether it may be material in aggregate with other immaterial errors. The netting of errors is inappropriate.

## **Newly effective pronouncements**

### New Standards of GRAP

The Standards of GRAP on *Interests in Other Entities* are effective for financial years commencing on or after 1 April 2020. These Standards are as follows:

- GRAP 34 *Separate Financial Statements*.
- GRAP 35 *Consolidated Financial Statements*.
- GRAP 36 *Investments in Associates and Joint Ventures*.
- GRAP 37 *Joint Arrangements*.
- GRAP 38 *Disclosure of Interests in Other Entities*.

Once effective, these Standards will replace GRAP 6 *Consolidated and Separate Financial Statements*, GRAP 7 *Investments in Associates*, and GRAP 8 *Interests in Joint Ventures*.

### Other pronouncements

IGRAP 20 on *Adjustments to Revenue* and the related amendments to IGRAP 1 on *Applying the Probability Test on Initial Recognition* will become effective for financial years commencing on or after 1 April 2020.

## **Frequently Asked Questions**

The Secretariat of the ASB publishes Frequently Asked Questions (FAQs) on common issues emerging in practice. These FAQs are not issued by the Board and do not follow a due process. The FAQs can be accessed by following this link: <http://www.asb.co.za/frequently-asked-questions/>.

No new FAQs were issued in May. The FAQs in section 1 of the document on the reporting framework for 2018/2019 were updated.

## Coming up in this quarter

The Board will consider the following documents at its July 2019 Board meeting:

- Analysis of, and responses to, comments received on ED 171 on *Identifying Projects to Prioritise on the ASB's Work Programme for the Period 1 April 2020 to 31 March 2023*.
- Proposed Improvements to the Standards of GRAP (2019).
- Proposed transitional provisions for the adoption of the amendments to GRAP 104 on *Financial Instruments* approved in March 2019.

## Open for comment

The following Exposure Drafts are open for comment:

Topic	Comment deadline
ED 174 - Proposed Directive on <i>The Application of Standards of GRAP by Public Entities that Apply IFRS Standards</i>	31 July 2019
ED 175 – IPSASB's Consultation Paper on <i>Measurement</i>	13 September 2019

## News from the IPSASB

The IPSASB last met in March 2019. A comprehensive summary of the meeting can be accessed by following this link: <http://www.ifac.org/news-events/2019-03/ipsasb-eneews-march-2019>

The IPSASB published a Consultation Paper on *Measurement* for comment. At present, the IPSASs require that certain measurement bases should be used when measuring assets and liabilities (e.g. historical cost, fair value, replacement cost). There is however limited guidance on how these bases should be determined, or the guidance is inconsistent across Standards.

The key objective of the Consultation Paper is to provide guidance to preparers on how to apply the various measurement bases when required to do so by existing IPSASs. The IPSASB will also review the use of the various measurement bases outlined existing IPSASs to assess whether their use is consistent with the principles in the Conceptual Framework.

The ASB has issued the Consultation Paper locally for comment (ED 175). The comment deadline is 13 September 2019. The Secretariat will be arranging a series of discussions with stakeholders to discuss the proposals in the Consultation Paper so that comprehensive feedback can be provided to the IPSASB. If anyone is interested in being involved in the discussions, please email Tsholo Tshoke ([tsholot@asb.co.za](mailto:tsholot@asb.co.za)).

## General

### Next ASB meeting

The next Technical Committee meeting is on the 6<sup>th</sup> of June 2019, and the Board's next meeting is scheduled for the 4<sup>th</sup> of July 2019. As always, observers are welcome to attend these meetings, but it should be noted that space is limited. In order to accommodate observers at meetings, interested parties are asked to complete the registration form available on the website.

### Accessing documents issued by the ASB

Persons and organisations interested in the activities of the ASB should monitor the website, [www.asb.co.za](http://www.asb.co.za), or contact [info@asb.co.za](mailto:info@asb.co.za), for the release of the latest Exposure Drafts for public comment.

A GRAP Handbook with the latest amendments to the Standards of GRAP as well as other pronouncements issued by the Board will be available from Juta in the next quarter.

The Standards of GRAP and translations of the Standards (isiZulu, Sesotho and Afrikaans) are available on the ASB's website.

For ongoing information please visit us on our Facebook page, <https://www.facebook.com/AccountingStandardsBoard>, and "LIKE" us, and follow us on LinkedIn at <http://www.linkedin.com/company/accounting-standards-board>. And be sure to do the same on our Twitter account at @ASB\_SA.



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