



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

**PROPOSED IMPROVEMENTS TO STANDARDS OF GRAP
(2019)**

(ED 176)

RESPONSES TO THE VERBAL COMMENT RECEIVED ON THE PROPOSED IMPROVEMENTS TO STANDARDS OF GRAP (2019) (ED 176)

The Accounting Standards Board (Board) approved an Exposure Draft of the proposed *Improvements to Standards of GRAP (2019)* (ED 176) in July 2019. A notice was published in the Government Gazette on 19 July 2019 (Notice 42584). The comment period closed on 31 October 2019.

The proposed *Improvements to Standards of GRAP* were discussed with preparers, auditors, consultants and other interested parties by way of roundtable discussions and other meetings as listed in the table on the next page. The verbal comment on ED 176 is summarised in this document and includes the Board's responses.

The summary of written comment received is included in a separate analysis.

CLASSIFICATION OF VERBAL COMMENT RECEIVED ON THE PROPOSED *IMPROVEMENTS TO STANDARDS OF GRAP (2019)* (ED 176)

No.	Name/Organisation	Preparers	Users	Auditors	Other interested parties
1.	Public Sector Accounting Forum (September 2019)	X	X	X	X
2.	Roundtable discussion with preparers	X			X
3.	Office of the Accountant-General and MFMA unit		X		
4.	Roundtable discussion with firms, auditors, consultants and other interested parties		X	X	X
5.	Western Cape Municipal Working Committee	X			

ANALYSIS OF RESPONSES ON ED 176 PROPOSED
IMPROVEMENTS TO STANDARDS OF GRAP (2019)

NO.	COMMENT	BOARD'S RESPONSE
	SPECIFIC MATTER FOR COMMENT	
	<p>The Board proposes to expand the definition of a related party, and the disclosure of related party transactions in the Standard of GRAP on <i>Related Party Disclosures</i> (GRAP 20). The proposed amendment includes, within the definition of a related party, transactions that arise when an entity, or any member of a group of which that entity is part, provides management services to the reporting entity, or the controlling entity of the reporting entity.</p> <p>This amendment is proposed to address divergent practice of some entities not identifying and disclosing management services as a related party transaction. The proposed improvements are included in paragraphs .10, .27A, and .27B to GRAP 20 (see section A5 of the proposed Exposure Draft).</p> <p>(a) Explanatory guidance of what management services comprise has been included in paragraph .27B. Do you agree with the explanatory guidance included in this paragraph? If not, please explain your response by indicating how the guidance should be amended.</p> <p>(b) The proposed improvement clarifies that where an entity receives management services from an entity, it should disclose the service fee paid, or payable, and any other related party transactions with the management entity. An entity is not required to apply the disclosure requirements for remuneration to management for the compensation paid or payable by the management entity, to the management entity's employees or those charged with governance.</p> <p>In your view, do you foresee any practical implementation issues with introducing this amendment in GRAP 20? Please explain your response.</p>	
1.1	Public Sector Accounting Forum	
	Participants supported the proposed improvement but noted that some entities may find it difficult to apply as they may not have the information available as required for this disclosure.	Noted. A submission will be made to the Minister of Finance to propose an effective date for the improvements, which is for periods commencing on or after 1 April 2021. Entities should therefore have enough time to gather the required information.

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NO.	COMMENT	BOARD'S RESPONSE
1.2	Roundtable discussion with preparers	
1.2.1	<p>Participants supported the expansion of the definition of a related party to include transactions that arise when an entity, or any member of a group of which the entity is part, provides management services.</p> <p>It was proposed that the amendment should emphasise that these transactions only arise where employees of the management entity participate in the strategic direction and policy making decisions of the entity.</p>	<p>Noted.</p> <p>Noted. The Board agreed to align its description for “management services” to the definition of management in GRAP 20. GRAP 20 defines “management” as “those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions”.</p>
Roundtable discussion with preparers (continued)		
1.2.2	<p>Participants questioned whether the disclosure of management services will also be required where management services are provided free of charge, or at a nominal fee.</p>	<p>Where management services are provided to an entity at no, or for a nominal consideration, the principles in GRAP 23 on <i>Revenue from Non-exchange Transactions (Taxes and Transfers)</i> should be applied to account for the services-in-kind.</p> <p>A paragraph has been included in GRAP 20 to clarify that amounts incurred for the provision of management services include amounts paid or payable, and amounts recognised and/or disclosed in terms of the GRAP 23.</p>

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NO.	COMMENT	BOARD'S RESPONSE
1.3	Office of the Accountant-General and MFMA unit	
1.3.1	Participants supported the proposed improvement and the explanatory guidance of what management services comprise. Participants noted that the inclusion of some practical examples in the GRAP 20 Implementation Guideline will be useful to ensure the consistent application of the improvement.	Noted. The comment will be shared with the Office of the Accountant-General for their consideration in updating the applicable GRAP Accounting Guideline. Also refer to the response to comment 1.2.1.
1.3.2	Participants questioned the need to clarify that the improvement will only apply to material management services undertaken by an entity.	Noted. As the principles in the Standards of GRAP only apply to material transactions, the Board agreed that no specific emphasis is needed. Entities should consider the Guideline on <i>The Application of Materiality to Financial Statements</i> to ensure that they do not present information that is immaterial and does not meet users' needs.
1.4	Roundtable discussion with firms, auditors, consultants and other interested parties	
1.4.1	Participants supported the proposed improvement to expand the definition of a related party to include transactions that arise when an entity, or any member of a group of which the entity is part, provides management services. Participants, however, noted that this amendment could have far reaching effects in the public sector, as some consultants could be reluctant to provide certain services to entities.	Noted. The improvement to GRAP 20 is similar to the amendment included in IAS 24 <i>Related Party Disclosures</i> . The objective of the improvement is to address the divergent practice in identifying the nature of these arrangements as a related party transaction. The functions performed by employees of the management entity are similar to those performed by the management of the reporting entity, and therefore result in a related party relationship as defined in GRAP 20. Disclosing these related party relationships will provide useful information to users to hold entities accountable and to enable decision-making. The Board therefore agreed that the amendment to GRAP 20 should be retained.

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NO.	COMMENT	BOARD'S RESPONSE
1.4.2	Participants recommended that the explanatory guidance on what management services comprise, should emphasise that these transactions only arises where employees of the management entity influence the strategic direction and policy making decisions of the entity. This clarification is needed to ensure that disclosures are not provided for outsourcing and/or secondment arrangements where employees of the management entity do not influence the operating activities of the entity.	Noted. Refer to the response to comment 1.2.1. The comment will also be shared with the Office of the Accountant-General for their consideration in providing additional guidance in updating the applicable GRAP Accounting Guideline.
1.5	Western Cape Municipal Working Committee	
	Participants supported the proposed improvement and the explanatory guidance on what management services comprise.	Noted. Refer to the response to comment 1.2.1.

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NO.	COMMENT	BOARD'S RESPONSE
	GENERAL MATTERS FOR COMMENT	
2.	GRAP 5 <i>Borrowing Costs</i>	
2.1	Roundtable discussion with preparers	
	Participants supported the proposed improvement to include borrowings made specifically to obtain a qualifying asset in general borrowings when that asset is ready for its intended sale or use.	Noted. No further action required.
2.2	Office of the Accountant-General and MFMA unit	
	Participants proposed that the improvement could be illustrated through an example to ensure consistent application.	Noted. The comment will be shared with the Office of the Accountant-General for their consideration in updating the applicable GRAP Accounting Guideline.
3.	GRAP 13 <i>Leases</i>	
3.1	Public Sector Accounting Forum	
	Participants questioned whether the proposed clarification that operating leases and sale and lease back transactions may also be assessed for impairment in accordance with GRAP 21 on <i>Impairment of Non-cash-generating Assets</i> , resulted in an improvement to GRAP 16 on <i>Investment Property</i> .	Noted. A similar improvement to that in GRAP 13 is included in GRAP 16.
3.2	Roundtable discussion with preparers	
	Participants supported the proposed clarification that operating leases and sale and lease back transactions may also be assessed for impairment in accordance with GRAP 21.	Noted. No further action required.

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NO.	COMMENT	BOARD'S RESPONSE
4.	GRAP 16 Investment Property	
4.1	Roundtable discussion with preparers	
4.1.1	<p>Participants supported the clarification on the transfer to or from investment property when there is a change in use and evidence supporting the change.</p> <p>A practical concern was noted on when properties under construction become available for use. It was noted that when the construction of a building is completed, it may take some time for the municipality to issue the final clearance certificate before the property can be occupied. It was noted that there may be divergent practice as some entities account for properties as completed assets when the construction is finalised, while others account for the asset as work-in-progress until the final clearance certificate is issued by the municipality.</p>	<p>Noted.</p> <p>Noted. The entity needs to apply judgement to assess when the property is in the location and condition necessary for it to operate as intended by management. As this is a practical implementation issue, the comment will be shared with the Office of the Accountant-General for their consideration in updating the applicable GRAP Accounting Guideline.</p>
4.1.2	<p>The improvement clarifying the transfer to and from investment property is to be applied prospectively, with retrospective application permitted if hindsight is not applied. Participants were of the view that the improvement should only be applied prospectively. To improve comparability, entities should not be given a choice between retrospective and prospective application.</p> <p>Participants also noted that, from a practical point of view, entities are most likely to apply the improvement prospectively as they will most likely not have prior year information available to apply the improvement retrospectively.</p>	<p>Noted. The Board agreed to only require the prospective application of the improvement to improve comparability and to prevent the application of hindsight. The option to apply the improvement retrospectively was deleted.</p>
4.2	Office of the Accountant-General and MFMA unit	
	<p>The transitional provision for the improvement on transfers to and from investment property should only be applied prospectively. It is likely that most entities will not have the information available to apply the improvement retrospectively. Entities may then incorrectly apply hindsight, which is inappropriate.</p> <p>If entities are required to only apply the improvement prospective, it will enhance comparability.</p>	<p>Noted. Refer to the response to comment 4.1.2.</p>

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NO.	COMMENT	BOARD'S RESPONSE
4.3	Roundtable discussion with firms, auditors, consultants and other interested parties	
	<p>Participants supported the clarification on the transfer to or from investment property when there is a change in use, and evidence supporting the change.</p> <p>Participants questioned the retrospective transitional arrangement. It was indicated that, as some entities may want to reflect prior year errors as a change in an accounting policy, the improvement should only be applied prospectively.</p>	Noted. Refer to the response to comment 4.1.2.
4.4	Western Cape Municipal Working Committee	
	Participants proposed that preparers should not be given an option to apply transitional arrangements for the improvement on transfers to and from investment property. Participants proposed that the improvement should only be applied prospectively.	Noted. Refer to the response to comment 4.1.2.
5.	GRAP 17 <i>Property, Plant and Equipment</i>	
5.1	Public Sector Accounting Forum	
	Participants questioned whether an entity may still depreciate land used in a landfill prior to the Guideline on <i>Accounting for Landfill Sites</i> , and the proposed improvement to GRAP 17 on <i>Property, Plant and Equipment</i> , becoming effective.	Noted. Entities may continue to apply their current accounting policies until the amendment to GRAP 17 becomes effective. An effective date for reporting periods commencing on or after of 1 April 2021 will be proposed to the Minister of Finance, at which time the Guideline on <i>Accounting for Landfill Sites</i> will also be included in the GRAP Reporting Framework.

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NO.	COMMENT	BOARD'S RESPONSE
5.2	Roundtable discussion with preparers	
	<p>The improvement proposes the deletion of the example in GRAP 17 indicating that quarries and land used for landfill may be depreciated in certain cases.</p> <p>Participants indicated that it may be challenging to apply the improvement retrospectively when land used for landfill was previously depreciated. They noted that land used for landfill cannot be assessed for impairment retrospectively as it will result in hindsight.</p>	<p>Noted. The transitional provisions have been amended to:</p> <ul style="list-style-type: none"> • explain that the amendments should be accounted for as a change in an accounting policy, and not as an error. GRAP 3 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> requires that a change in an accounting policy is applied retrospectively; and • require an entity to assess, on adoption of the improvements, if land used in a quarry or site used for landfill is impaired. If impaired, the impairment requirements are applied prospectively in accordance with GRAP 3.
5.3	Office of the Accountant-General and MFMA unit	
	<p>Participants questioned the proposal to apply the improvement retrospectively as some entities may not have the information available to make retrospective adjustments for depreciation.</p>	<p>Noted. Information to adjust the depreciation should be available. Refer to the response to comment 5.2.</p>
5.4	Roundtable discussion with firms, auditors, consultants and other interested parties	
	<p>Participants noted that, in applying the improvement, entities should be able to retrospectively adjust for depreciation of land used in a landfill if their accounting policy, prior to the Guideline being included in the GRAP Reporting Framework, required depreciation. Participants questioned the requirement to retrospectively consider the impairment of land as it will result in hindsight.</p>	<p>Noted. Refer to the response to comment 5.2.</p>

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NO.	COMMENT	BOARD'S RESPONSE
5.5	Western Cape Municipal Working Committee	
	Participants proposed that the Secretariat should request the International Public Sector Accounting Standards Board to also consider deleting the example in IPSAS 17 <i>Property, Plant and Equipment</i> indicating that quarries and land used for landfill, may be depreciated in certain cases.	Noted. The comment will be raised with the staff of the IPSASB for consideration as part of their next Improvements to IPSAS.
6.	GRAP 20 <i>Related Party Transactions</i>	
6.1	Roundtable discussion with preparers	
	<p>Participant's views were mixed on the improvement to delete the disclosure requirement that requires the disclosure of outstanding related party balances where transactions occur within normal supplier and/or client recipient relationships that are undertaken within normal established operating parameters.</p> <p>Some participants noted that their users find the disclosure of outstanding related party balances useful. In their view, only disclosing narrative information about the nature of these transactions will not provide useful information to the users. Participants also noted that the information is used when preparing consolidated financial statements. Participants therefore proposed that the Board should exclude the amendment from its 2019 improvements.</p> <p>Other participants noted that the misstatement of amounts in this disclosure requirement could result in an audit qualification, if material, and therefore supported the deletion of the disclosure requirement.</p>	Noted. The Board agreed to retain the disclosure of outstanding related party balances based on its relevance and usefulness to users' decisions.
6.2	Office of the Accountant-General and MFMA unit	
	<p>Participants noted that they currently use the disclosure of outstanding related party balances where the entity is exempted from disclosing its related party transactions that occur within normal supplier and/or client recipient relationships, to prepare the legislative consolidation.</p> <p>Participants noted that if this disclosure is deleted, they will have to identify alternatives methods to obtain information on inter-entity balances when preparing the legislative consolidation.</p>	Noted. Refer to the response to comment 6.1.

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NO.	COMMENT	BOARD'S RESPONSE
6.3	Roundtable discussion with firms, auditors, consultants and other interested parties	
	<p>Participants noted that, based on the current economic environment, the disclosure of outstanding related party balances where the entity is exempted from disclosing its related party transactions that occur within normal supplier and/or client recipient relationships, would be useful. Participants therefore proposed that the disclosure requirement should not be deleted.</p> <p>Participants also noted that assessing what “normal supplier and/or client recipient relationships” entails, is a practical challenge as entities may conclude differently in applying judgement.</p>	<p>Noted. Refer to the response to comment 6.1.</p> <p>The comment will be shared with the Office of the Accountant-General for their consideration in updating the applicable GRAP Accounting Guideline.</p>
6.4	Western Cape Municipal Working Committee	
	<p>Participants supported the deletion of the requirement to disclose information of outstanding related party balances where the entity is exempted from disclosing its related party transactions that occur within normal supplier and/or client recipient relationships.</p>	<p>Noted. Refer to the response to comment 6.1.</p>

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NO.	COMMENT	BOARD'S RESPONSE
7.	<p>Annexure A Deletion of Appendices outlining illustrative examples</p>	
7.1	<p>Roundtable discussion with preparers</p>	
	<p>Participants supported the Board's recommendation to delay the deletion of appendices outlining illustrative examples until its next Improvements project.</p>	<p>Noted. The Board previously agreed to delete appendices outlining illustrative examples once the applicable GRAP Accounting Guideline is developed by the Office of the Accountant-General. This is to avoid any inconsistencies between the illustrative examples and the guidance provided in the GRAP Guides.</p> <p>Archived appendices to the Standards of GRAP have been provided to the Office of the Accountant-General to assess whether they should be included in the GRAP Accounting Guidelines.</p> <p>Based on the feedback received, the Board agreed to amend its previous decision to delete all appendices outlining illustrative examples once a Standard becomes effective.</p>
7.2	<p>Western Cape Municipal Working Committee</p>	
	<p>Participants supported the Board's recommendation to retain the appendices outlining illustrative examples. They noted that these examples are useful in understanding how to apply the principles in a Standard of GRAP.</p> <p>Participants proposed that the Board should reconsider its decision to delete the appendixes all together.</p>	<p>Noted. Refer to the response to comment 7.1.</p>