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Tips to improve the quality of your entity's financial statements

It's the time of year again when entities are in the process of compiling their financial statements and preparing for the upcoming audit.

In recent desktop reviews undertaken by the ASB, a number of areas were identified where preparers can improve the quality of the financial statements. These include:

- Applying materiality in preparing the financial statements.
- Reviewing and amending accounting policies so that they are relevant to the entity's activities.
- Describing the impact of Standards of GRAP that are not yet effective.

Applying materiality in preparing financial statements

The financial statements should provide users of the financial statements with relevant information that helps them to hold entities accountable and make decisions. Materiality helps preparers to understand what information will be relevant to users.

Materiality should be considered when formulating an entity's accounting policies as well as deciding what information to present and disclose in the financial statements.

The Standards of GRAP only apply to material items. This means that an entity need not apply:

- The recognition and measurement principles in the Standards of GRAP when formulating an accounting policy for an item that is immaterial. An entity develops its own accounting treatments for immaterial items. Examples include not applying the asset-related Standards to low value assets or transaction costs that are immaterial. GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors provides guidance on the development of accounting policies.
- The presentation and disclosure requirements of the Standards if the effect of applying them is immaterial. For example, an entity may not separately present a type of asset on the face of the statement of financial position as required in GRAP 1 on Presentation of Financial Statements if it is immaterial.

Materiality is considered from both a quantitative and qualitative perspective. Thresholds and criteria should be developed to clearly identify what is material for an entity, as well as ensuring that consistent decisions are made by preparers when applying the Standards of GRAP to that entity.

Developing accounting policies and deciding what to present and disclose in the financial statements requires judgement. Preparers should clearly document their materiality considerations as well as discuss them with the relevant oversight structures such as the audit committee.

The ASB's Guideline on The Application of Materiality to Financial Statements provides guidance on how to apply materiality: <http://www.asb.co.za/wp-content/uploads/2019/04/The-Application-of-Materiality-to-Financial-Statements.pdf>

Reviewing and amending accounting policies

Entities' accounting policies frequently repeat the principles in the Standards without explaining how they have been applied by the entity, and often include policies for transactions or events not undertaken by the entity.

Accounting policies need to be reviewed and amended so that they:

- deal with transactions undertaken and events that occur at an entity, or judgements and assessments that have been applied by management; and
- explain how the principles in the Standards have been applied by an entity in preparing their financial statements.

Examples of what can be done to improve existing accounting policies are included in the annexure. FAQ 3.2 issued by the Secretariat should also be consulted.

The financial statements should also only include those accounting policies that are significant to an entity. An entity could, for example, present its significant accounting policies in the financial statements and make a complete list of all accounting policies available on its website. This fact could be explained in the financial statements.

Disclosing information about the impact of Standards of GRAP that are not yet effective

GRAP 3 requires entities to disclose (a) the existence of issued but not yet effective Standards of GRAP, and (b) known or reasonably estimable information relevant to assessing the possible impact of the application of the new Standard of GRAP on the entity's financial statements in the period of application.

Entities frequently just disclose a list of Standards that are not yet effective, with some Standards on the list that are not relevant to an entity's activities. As the purpose of the disclosure is to provide predictive information to the users of the financial statements about potential changes to an entity's financial performance, financial position and cash flows, disclosure of a list of Standards is insufficient.

An entity should disclose information about those Standards that are not yet effective, and which are relevant to an entity's activities. The information should include information about the possible impact of the Standard on the entity's financial statements. Entities should refer to the list of not yet effective Standards of GRAP included in Directive 5 on Determining the GRAP Reporting Framework. Entities should also consult FAQ 1.16 issued by the Secretariat.

Common questions

The Secretariat issues Frequently Asked Questions based on questions commonly asked by stakeholders. There were two specific questions that were asked on a number of occasions during the last audit cycle:

- The treatment of fully depreciated assets. See FAQ 2.2 and 2.8.
- The classification of expenses by nature or function in the statement of financial performance. See FAQ 3.4.

The FAQs can be accessed by following this link: <http://www.asb.co.za/frequently-asked-questions/>.

Available resources

Apart from consulting the FAQs, there are a number of other resources available on the ASB's website that may assist in preparing the financial statements. These include:

- Recordings presented by the Secretariat on various topics: <http://www.asb.co.za/asb-webcast-updates/>
- Research Papers on various issues: <http://www.asb.co.za/research-papers-and-position-papers/>
- Articles: <http://www.asb.co.za/technical-articles-and-publications/>
- Newsletters: <http://www.asb.co.za/stay-informed/>

Events

In the wake of the COVID-19 crisis, we have cancelled all our scheduled events for April 2020. We are committed to fulfilling our scheduled events for May 2020 but will reassess closer to the time whether these will go ahead as planned.

Participate in the review of GRAP 103 on Heritage Assets

The Board is undertaking a post-implementation review of GRAP 103. The purpose of the review is to receive feedback from preparers, users and auditors of financial statements about the implementation of the Standard. We will be hosting roundtable discussions where you can raise your views with the Board. The details are as follows:

Date	Region	Event	Stakeholder group
5 May	Gauteng	Hosted by the ASB	Firms, technical specialists
25 May	Gauteng	Hosted by the ASB	Firms, technical specialists
7 July	Gauteng	Hosted by the ASB	Preparers

How else can you get involved?

Views can also be submitted through the questionnaires on the ASB's website.

The deadline for comment is 15 September 2020.

Contact details?

If you are interested in attending an event, or have any questions about the project, please email amandab@asb.co.za or call on 011 697 0660.

Read more about ED 180 on Post-implementation Review of the Standard of GRAP on Heritage Assets and access the questionnaires: <http://www.asb.co.za/ed-180/>

ASB meeting dates

The dates of the ASB's Board and Technical Committee meetings are as follows:

Technical Committee	Board
11 June	8 July
3 September	30 September
12 November	1 December

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 ASB's website.

Coming up

On the ASB's work programme for the July Board meeting is the consideration of the following:

- An issues paper on the review of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.
- Proposed Revision of GRAP 25 on Employee Benefits.

As a standard-setter, the credibility of our due process is being able to engage with stakeholders during the development phase of new projects. We may not be in a position to meet with all stakeholders in the wake of the COVID-19 crisis. As a result, the items on the Board's July agenda may need to be reconsidered. Any changes will be communicated in future editions of the Newsletter or on social media.

Highlights of IPSASB meeting

The IPSASB met in March 2020 to discuss key issues to progress a number of projects. These decisions are discussed below.

Existing projects

Measurement

The IPSASB issued a Consultation Paper on Measurement in 2019 and is in the process of analysing the comment received from stakeholders. The first issue that the IPSASB is dealing with is *borrowing costs*.

At present, the accounting treatment in IPSAS 5 on Borrowings Costs is as follows:

- Benchmark accounting treatment – expense all borrowings costs.
- Allowed alternative treatment – capitalise borrowing costs that are directly attributable to the construction, acquisition or production of a qualifying asset, i.e. an asset that takes a substantial period of time to get ready for its intended use or sale.

The IPSASB proposed expensing all borrowing costs in the Consultation Paper, mainly because of the complexity in allocating borrowing costs to assets when borrowing is done centrally.

Respondents to the Consultation Paper expressed mixed views about the proposal. While many supported expensing borrowing costs for the reasons outlined in the Consultation Paper, many did not.

Those respondents that did not support the expensing of borrowing costs did not believe that borrowing costs should be treated differently for public sector entities as the issues – particularly for centralised borrowings and general borrowings – are the same in the private sector. They also noted conceptual arguments for capitalising borrowing costs.

Given the diversity of views either in support of expensing or capitalising borrowing costs, the IPSASB agreed to retain both options in IPSAS 5. Proposed guidance will be added to IPSAS 5 to deal with the allocation of borrowing costs and explaining the results of the IPSASB's consultation on the issue. Any amendments to IPSAS 5 will be published as part of the IPSASBs annual improvements project in June 2020.

Accounting for heritage and infrastructure assets

The IPSASB has been working on developing guidance on heritage assets based on feedback received to its Consultation Paper issued in April 2017. The proposed guidance will be included in IPSAS 17 on Property, Plant and Equipment. Guidance will be provided on when a heritage item meets the definition of an asset, when it should be recognised, and issues on subsequent measurement, for example, depreciation and impairment.

The IPSASB has been through a process of identifying issues on infrastructure assets where additional guidance is needed. The IPSASB will also include guidance on these issues in IPSAS 17.

As amendments are being made to IPSAS 17 for both heritage and infrastructure assets, the amendments to IPSAS 17 will be issued for comment.



Contact us

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