

## In this edition of the newsletter:

- **Accounting Implications of Covid-19**
- **Updates from the Office of the Accountant - General**
- **News from the IPSASB**
- **Events**



## Accounting Implications of COVID-19

A nationwide lockdown came into effect from 27 March as a result of the COVID-19 crisis. The effect of the lockdown and the ongoing crisis means that the economy will experience a significant downturn, while there will be an increased need for government services and assistance. The volatility in interest rates may also negatively affect entities.

Areas that could be affected as a result of the crisis include the following:

Construction, maintenance and related activities may be curtailed depending on whether they are seen as essential. This could impact the completion of entities' capital projects and planned maintenance.

Public facilities may not be operational and certain services may not be provided as a result of the lockdown (and beyond). This could impact the revenue of entities as well as the ongoing demand for services.

There may be an increased demand for government:

Services such as medical services, the provision of water and other sanitation services, and the provision of temporary housing or accommodation.

Assistance and support to the unemployed, businesses that are temporarily closed, NGOs, etc. due to the reduced activity in the economy.

As some consumers of services and taxpayers may be unable to work or earn revenue during the lockdown period, there is a potential increase in the non-payment for services such as water, electricity, property taxes, levies, etc. that are due to government entities.

While it is impossible to provide accounting guidance for all the implications related to the COVID-19 crisis, the Secretariat of the ASB has published a document outlining the high-level issues that entities that apply Standards of GRAP should consider in preparing their financial statements for 31 March 2020 or 30 June 2020. The document can be accessed by following this link: <https://www.asb.co.za/covid-19/> The key themes from that document are outlined below.

## Presentation and disclosure in the financial statements

Entities should consider reviewing the following:

- Accounting policies should be reviewed to ensure that they are still relevant. In particular, attention should be given to whether the classification of assets and liabilities, the valuation methodology applied, and inputs into the valuation methodology are appropriate.
- Presentation of items in the financial statements. Items that are material – either qualitatively or quantitatively - should be presented separately in the financial statements. Certain items relating to COVID-19 may be material and require separate presentation or disclosure in the financial statements. In making these disclosures, it is important that entities still apply the classification approaches to revenue and expenses outlined in GRAP 1 on Presentation of Financial Statements.
- Disclosures on judgements, assumptions, estimates and uncertainties. Entities are required to provide information where judgement, assumptions, and estimation uncertainty were applied in the preparation of the financial statements. This is an area where entities have historically provided either no, or poor, information. Given the uncertain environment within which entities will be preparing their financial statements, there is an increased need to provide this type of information to users of the financial statements.
- Events after the reporting date. A key issue that entities will need to consider is how to deal with events that occur after the reporting date in GRAP 14 on Events After the Reporting Date. Entities adjust the amounts recognised or disclosed in the financial statements for events that provide evidence of conditions that existed at the reporting date. Entities do not adjust the financial statements for events that arise after the reporting date but could disclose such events, if material.
- Legislative reporting requirements. Entities should consider whether any legislative reporting requirements apply, for example, disclosure on losses incurred.

As a reminder, entities should include all information in the financial statements that is relevant to the users of the financial statements. This could include information that is not specifically required by a Standard of GRAP.

## **Existence of liabilities**

A consequence of the increased need for government services and government assistance is the potential for increased expenses. The key consideration in accounting for the increased services and assistance is whether an obligation exists. Government may make promises and commitments to undertake certain activities or provide support, but until there is a clear past event that has occurred (through a contract, legislation or past practice) that means that there is no realistic alternative but to settle the obligation, there is no liability and no related expense.

There are many Standards that deal with accounting for liabilities. Entities determine the nature of any additional liabilities that should be recognised and/or disclosed, or whether the measurement of existing liabilities should be changed, based on the following Standards: financial liabilities in GRAP 104 on *Financial Instruments*, lease liabilities in GRAP 13 on *Leases*, accruals and provisions in GRAP 19 on *Provisions, Contingent Liabilities and Contingent Assets*, and liabilities related to employee benefits in GRAP 25 on *Employee Benefits*.

Particular attention should be given to recognising and/or disclosing information about financial and other guarantee contracts issued by an entity. GRAP 19 should be applied in these instances.

## Measurement of assets

### Non-monetary assets

Non-monetary assets include inventories, investment properties, items of property, plant and equipment, intangible assets, biological assets or agricultural produce, and heritage assets.

The impact of the COVID-19 crisis is most likely to affect the valuation of non-monetary assets at reporting date. As most non-monetary assets are measured either at cost less impairment and/or depreciation/amortisation or using a revaluation model or fair value, entities should consider the following potential implications on their valuation:

- Depreciation/amortisation – Assess if there is any indication that there has been a change in expected useful life, for example, because of a change in how an asset is used, its utilisation rate, delays in carrying out maintenance, or changes in the condition of the asset.
- Impairment – Assess whether there are indications that its assets are impaired, for example, because of long-term changes in the use of the asset, decisions to stop the construction of an asset, or physical damage.
- Valuation at reporting date – Given the economic environment, it is likely that there will be revisions to the fair values of assets. The valuation methodology used may need to be modified based on the availability of information, along with considering whether the inputs into the valuation methodology need to be revised.

### Monetary assets

Monetary assets include financial assets in GRAP 104, lease receivables in GRAP 13, plan assets in GRAP 25, and statutory receivables in GRAP 108 on *Statutory Receivables*.

As with non-monetary assets, a key consideration for entities will be the valuation at reporting date. Where assets are measured at amortised cost, cost or using the cost method, it should be considered whether there is any indication that an impairment loss has been incurred on these assets. Due to the economic impact of the COVID-19 crisis on consumers, taxpayers and businesses, there is a high likelihood that there is observable evidence of an impairment loss, for example, default on the payment terms agreed, or financial difficulty of the counterparty.

Particular attention should be given to accounting for assistance given to others as concessionary loans.

## **The impact of COVID-19 on legal compliance by public entities and municipalities**

Given the COVID-19 lockdown, the Ministers of Finance and Co-operative Governance and Traditional Affairs have issued regulations regarding the application of the Public Finance Management Act (Act No. 1 of 1999, as amended) (PFMA) and Municipal Finance Management Act (Act No. 56 of 2003) (MFMA). The details of the Gazettes are as follows:

- Gazette No. 43181 and No. 43184 issued on 30 March 2020 for the MFMA.
- Gazette No. 43188 issued on 31 March 2020 for the PFMA.

Due to the extension of the lockdown period, the submission of financial statements for PFMA entities has been extended by two months.

## **Updates from the Office of the Accountant-General**

### **Reporting to the B-BBEE Commission**

Departments and public entities are required to report certain information to the B-BBEE Commission. The Office of the Accountant-General at the National Treasury has issued guidance in the Annual Report Guide on how this information should be reported. The following information is important:

- Annexure D is the template prescribed by the Department of Trade and Industry that departments and public entities need to complete and includes the information on relevant documents departments must attach in the submission to the B-BBEE Commission. Annexure D should not be included in the annual report as they are the supporting documents that must be submitted to the B-BBEE Commission only.
- “Part C: Governance” in the Annual Report Guide indicates the information which needs to be completed for the annual report itself.

The Annual Report Guide can be accessed by following this link: [Office of the Accountant-General > Publications > 20. Annual Report Guide](#)

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## **Events**

In accordance with the Level 4 lockdown requirements, we will continue to have any scheduled events for May 2020 virtually where this is possible. If any new information becomes available, this will be communicated.

The events for the various topics the ASB will be hosting are outlined below.

## **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	Event	Stakeholder group
25 May	Roundtable discussion	Firms, technical specialists
26 May	Roundtable discussion	Eastern Cape – public entities and municipalities
10 June	Roundtable discussion	Session with CIGFARO/SALGA
30 June	Roundtable discussion	Public entities
6 July	Roundtable discussion	Session with CIGFARO/SALGA
7 July	Roundtable discussion	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](mailto: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/>

## Participate in discussions on IPSASB's proposals for revenue and expenses

We will be hosting education sessions and roundtable discussions on the new Exposure Drafts issued by the IPSASB on potential changes to the revenue standards as well as issuing new guidance for government expenses. The Exposure Drafts are as follows:

- ED 181 on *IPSASB Exposure Draft on Revenue with Performance Obligations* (ED 70)
- ED 182 on *IPSASB Exposure Draft on Revenue without Performance Obligations* (ED 71)
- ED 183 on *IPSASB Exposure Draft on Transfer Expenses* (ED 72)

The education sessions will provide an overview of the proposals in the Exposure Drafts, while the roundtable discussions will focus on discussing issues to be included in the comment letter to the IPSASB on the Exposure Drafts.

The Exposure Drafts can be accessed on the ASB's website by following this link: <https://www.asb.co.za/proposal-feedback/>

Date	Event	Stakeholder group
3 June	Education session – ED 181	All stakeholders
5 June	Education session – ED 182	All stakeholders
17 June	Education session – ED 183	All stakeholders
22 June	Education session – ED 181	Public entities, provincial treasuries, Parliament and legislatures
23 June	Education session – ED 182	Public entities, provincial treasuries, Parliament and legislatures
29 June	Education session – ED 183	Public entities, provincial treasuries, Parliament and legislatures
1 July	Education session – ED 181	Members of the Public Sector Accounting Forum
2 July	Education session – ED 182	Members of the Public Sector Accounting Forum
3 July	Education session – ED 183	Members of the Public Sector Accounting Forum
13 July	Education session – ED 181	Municipalities
14 July	Education session – ED 182	Municipalities
20 July	Education session – ED 181	Auditors, firms, technical specialists, professional bodies, and academics
21 July	Education session – ED 182	Auditors, firms, technical specialists, professional bodies, and academics
23 July	Education session – ED 183	Auditors, firms, technical specialists, professional bodies, and academics
11 August	Roundtable discussion – ED 181	Public entities, provincial treasuries, Parliament and legislatures
12 August	Roundtable discussion – ED 182	Public entities, provincial treasuries, Parliament and legislatures
13 August	Roundtable discussion – ED 183	Public entities, provincial treasuries, Parliament and legislatures
17 August	Roundtable discussion – ED 181	Auditors, firms, technical specialists, professional bodies, and academics
18 August	Roundtable discussion – ED 182	Auditors, firms, technical specialists, professional bodies, and academics

19 August	Roundtable discussion – ED 183	Auditors, firms, technical specialists, professional bodies, and academics
31 August	Roundtable discussion – ED 181	Members of the Public Sector Accounting Forum
2 September	Roundtable discussion – ED 182	Members of the Public Sector Accounting Forum
4 September	Roundtable discussion – ED 183	Members of the Public Sector Accounting Forum
14 September	Roundtable discussion – ED 181	Municipalities
15 September	Roundtable discussion – ED 182	Municipalities

## 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.



### Contact us

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