



PROJECT BRIEF FOR APPROVAL				
Name of project	Going concern and liquidation basis			
Project timeframe	Project commence – Q1 2021/2022 Project complete – Q4 2022/2023			
Project manager	A Botha			
Complexity of project	The project is moderately complex. It will require the development of guidance on the application of the liquidation basis of accounting and on the assessment of going concern			
Rating	Urgency	High	Medium	Low
	Impact	High	Medium	Low
	Resources required	High	Medium	Low
PROJECT OVERVIEW				
Area of consideration	Comment			
<i>Project outcome</i>				
Project objective	<p>The purpose of the project is to:</p> <ul style="list-style-type: none"> (a) develop guidance to assist entities to assess if they are no longer a going concern; (b) consider whether the current disclosures in the Standards of GRAP on going concern are appropriate; (c) assess whether guidance is needed on the liquidation basis of accounting based on the prevalence of the matter in the public sector; (d) assess whether additional guidance is needed on government restructurings and on the transfer of assets in non-exchange transactions; and (e) if appropriate, develop guidance based on the outcome of the assessments in (a) to (d). 			
	<p><i>Scope of the project</i></p> <p>This first part of the project involves the development of an Issues Paper to understand:</p> <ul style="list-style-type: none"> (a) what entities are currently assessing and disclosing on going concern and key assumptions concerning the future and other key sources of estimation uncertainty; (b) assessing how prevalent the need is in the public sector for preparing financial statements on a liquidation basis of accounting; 			



- (c) whether the scope of the project should be extended to include government restructurings that occur where entities are merged or separated or where parts of an entity are combined with other entities; and
- (d) whether the scope of the project should be extended to include guidance on the transfer of assets in non-exchange transactions or whether the Board should monitor the IPSASB's progress on their project on the transfer of assets.

Based on the outcome of these assessments, the second part of the project involves:

- (a) potentially developing guidance to assist entities to evaluate their ability to continue as a going concern;
- (b) reviewing the going concern guidance and disclosure requirements in existing Standards of GRAP (GRAP 1 on *Presentation of Financial Statements* and GRAP 14 on *Events After the Reporting Date*) and identifying if additional guidance and/or disclosures should be included to inform decision-making;
- (c) potentially developing guidance on government restructurings where entities are wound up and their assets and liabilities are transferred to another entity for a variety of reasons, including when they are in financial distress, and/or where government decides that it is no longer efficient for the entity to perform the specific function/(s).

Nature of output to be developed

The first part of the project involves the development of an Issues Paper. Based on the outcome of the assessments in the Issues Paper, consider the need for, and the type of guidance to be developed on:

- Going concern – To assist entities to assess if they are a going concern, and to consider the appropriateness of existing guidance and disclosures on going concern in the Standards of GRAP.
- Entities that are wound up – If guidance exists, and if yes, what Standards need to be applied and/or what other aspects need to be considered for government restructurings, transfers of assets in non-exchange transactions, and the application of the liquidation basis of accounting.

Previous deliberations by the Board on going concern and the liquidation basis

The Board has not previously discussed any matters relating to going concern and the liquidation basis of accounting.

Guidance developed by the Secretariat in response to issues raised by stakeholders

No specific guidance has been developed to address the liquidation basis of accounting.

The Secretariat of the ASB developed guidance on the accounting implications of COVID-19, e.g. considerations for measuring assets and liabilities.

Key issues to be considered

Going concern

Consult on key issues in developing the Issues Paper, including:

- When is an entity a going concern for financial purposes?
- What is the difference between not being a going concern and being in financial distress, and are the accounting consequences different?
- What type of information or scenarios may indicate that an entity is no longer a going concern?
- Is the current guidance in the Standards of GRAP on going concern appropriate to enable an entity to assess if it is still a going concern?
- Should another basis of accounting be applied when an entity is no longer a going concern (e.g. liquidation basis), or are the principles in the existing Standards of GRAP appropriate?
- Are the disclosures on going concern appropriate to assess accountability and to make decisions?

Liquidation basis

Consult on key issues in developing the Issues Paper, including:

- How prevalent the need is to prepare financial statements on a liquidation basis of accounting?
- When will an entity consider applying existing Standards of GRAP on transfer of functions and mergers where it is wound up and its assets and liabilities are transferred to another entity, including transfer of assets and liabilities in non-exchange transactions?
- What accounting considerations should be considered to measure the assets and liabilities where the entity is wound up and its assets and liabilities are transferred to another entity?
- When will the entity consider applying the liquidation basis of accounting?
- What information should be presented about the entity's resources and obligations where the entity is wound up and its assets and liabilities are transferred to another entity?
- What legislative processes are to be followed when an entity is wound up and its assets and liabilities are transferred to another entity?

Environment	
Legislation or regulatory requirements affecting the project	None.
Existing accounting guidance in the Standards of GRAP, IPSASs or IFRSs	<p><u>Other Standard-setters</u></p> <ul style="list-style-type: none"> The FRTC Sub-committee's deliberations on the need for South African accounting guidance on the liquidation basis of accounting. <p><u>Standards of GRAP</u></p> <ul style="list-style-type: none"> GRAP 1 <i>Presentation of Financial Statements</i> GRAP 14 <i>Events After the Reporting Date</i> GRAP 100 <i>Discontinued Operations</i> GRAP 105 <i>Transfer of Functions Between Entities Not Under Common Control</i> GRAP 106 <i>Transfer of Functions Between Entities Not Under Common Control</i> GRAP 107 <i>Mergers</i> <p>Other stakeholders</p> <ul style="list-style-type: none"> AGSA Frequently Asked Question on going concern that was a specific audit focus area during the 2019/2020 audit cycle.
Practices in other countries	<p>IPSASB – project to align with IFRS 5 on <i>Non-current Assets Held for Sale and Discontinued Operations</i> and potential changes to other IPSAS for transfer of assets.</p> <p>Some standard setters have developed guidance on assessing going concern, along with specific disclosures to be presented in the financial statements. These include:</p> <ul style="list-style-type: none"> GASB – Research project on Going Concern Disclosures (statement 56) XRB Publication by the External Reporting Board – Spotlight on Going Concern Disclosures FASB – Codification topic 450: Contingencies <p>No specific format for preparing financial statements on the liquidation basis of accounting exists, but some standard setters have developed guidance on the measurement of asset and liabilities where financial statements are prepared on the liquidation basis of accounting. These include:</p> <ul style="list-style-type: none"> Financial Reporting Council UK: Amendments to FRS 25 Financial Instruments: Presentation Puttable Instruments and Obligations Arising on Liquidation FASB ASU 201307 Presentation of Financial Statements: Liquidation Basis of Accounting.
Use of experts	Not applicable.

Stakeholders	
Entities in the public sector affected by this project	All entities that prepare their financial statements using Standards of GRAP.
Key stakeholders to be consulted during the development of the project	<p>Stakeholder input and/or consultation is anticipated on the application of going concern and the use of the liquidation basis of accounting.</p> <p>Stakeholder participation will primarily include preparers, auditors and other interested parties.</p> <p><i>Preparers</i></p> <p>A representative group of preparers from public entities, local government, and colleges.</p> <p>Consultants involved in the preparation of financial statements on behalf of these entities.</p> <p>National Treasury: Office of the Accountant-General and provincial treasuries (in their capacity as supporting implementation of the Standards).</p> <p><i>Auditors</i></p> <p>Audit firms (specifically technical divisions).</p> <p>A representative group of auditors from the AGSA (specifically ARD and if needed, product champions).</p> <p><i>Representatives of auditors and accountants</i></p> <p>Professional bodies (SAICA, CIGFARO, SAIPA and SAIGA). SALGA.</p> <p><i>Users</i></p> <p>National Treasury - Public Finance and Budget, and Intergovernmental Relations (local government budget and mSCOA team).</p> <p>Office of the Premier.</p> <p>Legislatures.</p> <p>OAG.</p> <p>Provincial Treasuries.</p>
Key stakeholders to be consulted as part of the public consultation process	<p><i>General consultation</i></p> <p>Preparers and auditors (and their representative bodies) involved in the preparation and audit of financial statements prepared using Standards of GRAP – a number of the same stakeholders as outlined above will be part of the public consultation process.</p>
Linkages	
ASB projects	None.
IPSASB projects	None.
IASB projects	None.
Local reforms in public financial management	None.

Project plan

Key milestones and timing

See Annexure for roadmap.

Annexure – Road map for going concern and liquidation project

Milestone		Timing	Stakeholder	Linkages
1.	Technical Committee and Board's review of Project Brief	Q1 2021/2022 (June/July)	Present to Technical Committee	
			Present to Board	
2.	Desktop review of financial statements to understand going concern disclosures	Q1 2021/2022 (June/July)	Present for internal review	
3.	Issues paper identifying key issues to be addressed	Q2 2021/2022 (September)	Present for internal review	
			Discuss with stakeholders identified above	
			Present to Technical Committee	
			Present to Board	
4.	Draft pronouncement for review and approval	Q3 (2021/2022) and Q4 (2022/2023) (December and March)	Present for internal review	
			Discuss and develop in conjunction with stakeholders identified above	
			Present to Technical Committee	
			Present to Board	
5.	Draft communication material	Q1 (2022/2023) (June/July)	Present for internal review	
6.	Consultation on Draft pronouncement	Q1 and Q2 (2022/2023) (June/July and September)	Engage with stakeholders identified above.	
7.1	Analysis of comments received on draft pronouncement	Q3 2022/2023 (December)	Present for internal review	
			Discuss with stakeholders identified above	

7.2	Final pronouncement	Q3 2022/2023 (December)	Present for internal review	
			Discuss and develop in conjunction with stakeholders identified above	
			Present to Technical Committee	
			Present to Board	
8.	Publish communication material	Q4 (2022/2023) (March)	Present for internal review	

Document management		
Prepared by:	A Botha	5 August 2020
Revised by:	J Poggiolini	19 August 2020
Approved by:	Board	