



Responses due by 26 February 2021

ACCOUNTING STANDARDS BOARD

INVITATION TO COMMENT ON PROPOSED INTERPRETATION OF THE STANDARDS OF GRAP ON THE EFFECT OF PAST DECISIONS ON MATERIALITY (ED 185)



Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the Exposure Draft of the proposed Interpretation of the Standards of GRAP on *The Effect of Past Decisions on Materiality* (ED 185).

The proposals in this Exposure Draft may be modified in the final document in the light of comment received. Comment should be submitted in writing so as to be received by **26 February 2021**. Email responses are preferred. Unless respondents to this Exposure Draft specifically request confidentiality, their comment is a matter of public record once the Standard of GRAP has been issued. Comment should be addressed to:

The Chief Executive Officer
Accounting Standards Board
P O Box 7001
Halfway House
1685

Fax: +2711 697 0666

E-mail Address: info@asb.co.za

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Introduction

Interpretation of the Standards of Generally Recognised Accounting Practice

The Accounting Standards Board (the Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

- (a) departments (national, provincial and government components);
- (b) public entities;
- (c) trading entities (as defined in the PFMA);
- (d) constitutional institutions;
- (e) municipalities, municipal entities or any other entities under the ownership control of a municipality and boards, commissions, companies, corporations and funds; and
- (f) Parliament and the provincial legislatures.

The above are collectively referred to as “entities” in Standards of GRAP.

The Board has approved the application of International Financial Reporting Standards (IFRS[®] Standards) issued by the International Accounting Standards Board[®] for:

- (a) public entities that meet the criteria outlined in the Directive on *The Selection of an Appropriate Reporting Framework by Public Entities*; and
- (b) entities under the ownership control of any of these entities.

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard and any related Interpretations of the Standards of GRAP.

Any limitation of the applicability of specific Standards or Interpretations is made clear in those Standards or Interpretations.

All paragraphs in this Interpretation have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This Interpretation should be read in the context of its objective, its basis for conclusions, if applicable, the *Preface to Standards of GRAP*, the *Preface to the Interpretations of the Standards of GRAP* and the *Conceptual Framework for General Purpose Financial Reporting*.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Reference may be made here to a Standard of GRAP that has not been issued at the time of issue of this Interpretation. This is done to avoid having to change the Standards already



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issued when a later Standard is subsequently issued. Paragraph .11 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Background to this Exposure Draft

Problem statement

The Board issued the Guideline on *The Application of Materiality to Financial Statements* (Guideline) in 2018. The Guideline explains how materiality should be applied in selecting accounting policies and deciding what information to present and disclose in the financial statements. The Guideline is based on the principles in the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* (GRAP 3).

GRAP 3 explains how accounting policies should be selected and indicates that the accounting policies set out in the Standards of GRAP are applied, except when the effect of applying them is immaterial. This means that entities could apply alternative accounting treatments to immaterial items, transactions or events.

When stakeholders provided comments on the draft Guideline, they observed that, historically when they applied these alternative accounting treatments to items, they may have been required to keep record of these past items. This was done to assess whether applying these alternative treatments meant that the financial statements became materially “misstated” over time. If the effect was considered material, retrospective adjustments were often made. Stakeholders observed that this negated the potential benefits of applying materiality.

The Board agreed to undertake a separate project to assess whether past decisions about materiality could affect future reporting periods.

Proposed solution

The Board observed that there has been diversity in how practitioners and auditors have viewed past decisions about materiality. As a result, the Board agreed that an Interpretation explaining the application of the principles in GRAP 3 is needed.

The proposed Interpretation concludes the following:

- (a) Entities apply alternative accounting treatments, and accounting policies based on the Standards of GRAP, based on materiality in a reporting period.
- (b) Decisions about materiality are period specific. This means that these decisions do not affect future reporting periods.
- (c) Decisions made by an entity to not apply the Standards of GRAP where the effect of applying them is immaterial, are not departures from the Standards of GRAP, nor are they errors.
- (d) As a result of (b) and (c), retrospective adjustments will not be required unless an error has been made regarding the application of materiality in prior periods.

Next steps

It is anticipated that the Board will analyse the comments received and potentially finalise the proposed Interpretation in the second quarter of 2021.



In terms of the Board's policy, an effective date of 1 April 2023 could be possible for the Interpretation if approved.

Due process and timetable

The Board invites comment on the proposals set out in this Exposure Draft from preparers, users, auditors, standard-setters and other parties with an interest in public sector financial reporting.

Upon the closure of the comment period, the Board will consider the comment received on the Exposure Draft.

Request for comment

Comment on this Exposure Draft is invited by **26 February 2021**. The Board requests that respondents express an overall opinion on whether the Exposure Draft, in general, is supported and to supplement this opinion with detailed comment, whether supportive or critical. Respondents are also invited to provide detailed comment identifying the specific paragraphs to which it relates, explaining the issue and suggesting alternative wording, with supporting reasoning, where appropriate. The basis for accepting or rejecting significant comment will be published on the website.

General matters for comment

As with any other Exposure Draft, comment on any other matter contained in this Exposure Draft would also be welcomed. Comment is most helpful if reference is made to a specific paragraph or group of paragraphs.