

In this edition of the newsletter:

- Events
- Why are we forgetting to apply the basic accounting principle of substance over reform?
- News from IPSASB
- Have your say!



Events

The ASB staff will be holding events in 2022 to discuss various Exposure Drafts and provide updates in advance of the 2022 financial year-ends.

If you would like to attend any of these events, please email juliannev@asb.co.za to receive the invitation. There is no cost to attend these events.

Topic?	Date and time?	Who should attend?
GRAP Update	4 February 2022 09:00 to 13:00	Public entities, Water Boards, Constitutional Institutions, TVET/CET colleges, Parliament and legislatures
Have your say on the ASB's work programme	18 February 2022 09:00 to 11:00	Public entities, Water Boards, Constitutional Institutions, TVET/CET colleges, Parliament and legislatures
Have your say on the ASB's work programme	25 February 2022 09:00 to 11:00	Municipalities and municipal entities
Have your say on the ASB's work programme	11 March 2022 09:00 to 11:00	Firms, auditors, consultants, professional bodies, academics
Provide input on the ASB's public due process	11 March 2022 11:00 to 13:00	Firms, auditors, consultants, professional bodies, academics
Provide input on the ASB's public due process	25 March 2022 09:00 to 11:00	All stakeholders

Why are we forgetting to apply the basic accounting principle of substance over form?

As accountants, there are a few basic “rules” we live by when preparing financial statements – relevance, faithful representation, comparability, verifiability and timeliness.

Faithful representation means that the accounting in the financial statements depicts the underlying economic characteristics of transactions and events. Financial statements aim to represent the economic characteristics underlying events and transactions and not their legal substance. This is why the financial statements are prepared using accounting standards and not based on a list of prevailing laws and regulations.

So why are we not applying the principle of “substance over legal form” in preparing the financial statements?

Since the outcome of a Court case in 2021 challenging the outcome of a particular audit, there is an emerging view that the Courts should be used to solve accounting disputes. As Court orders are binding, the parties to the case are compelled to implement the outcome of the judgement or face being in contempt of Court. Implementing the outcomes of Court rulings in preparing the financial statements blurs the line between applying accounting principles aimed at reflecting economic realities and complying with Court rulings based on legal jurisprudence.

While acknowledging the rights of parties to exercise their freedoms under law, using a Court to interpret accounting standards is ill advised. Here’s why...

Lawyers have an understanding of what is called legal jurisprudence, i.e. the philosophy of law. Their jurisprudence or “legal universe” is based on an interpretation of specific laws and regulations, and common law or “case” law which is based on past Court rulings on similar matters.

Accountants have an understanding of the Conceptual Framework which outlines the philosophy underpinning the preparation of the financial statements. The Conceptual Framework, specific Standards of GRAP, and accounting policies developed based on equivalent practice for similar transactions, is the “accounting universe” used to drive the decisions of accountants and the provision of information in the financial statements.

As the Public Finance Management Act both requires entities to apply Standards of GRAP and gives the Minister of Finance the authority to issue Standards of GRAP, the Standards of GRAP are in themselves legislation and have to be applied by public entities and others.

As the Standards of GRAP are law, legal professionals should be interpreting the Standards when resolving disputes or providing opinions on accounting matters referred to the Courts. However, without a sound knowledge and understanding of the “accounting universe”, they often revert to providing opinions based on the “legal universe”. Lawyers also would not think about the users of the financial statements and their information needs as this means applying judgement rather than rigid legal rules.

Where opinions or Court rulings are based on the “legal universe” as opposed to the “accounting universe” the financial statements could fail to “faithfully represent” the economic realities of transactions and events in the financial statements as envisaged by the reporting framework. Where this is the case, applying Court rulings rather than Standards of GRAP to prepare the financial statements has the potential to erode the credibility of the Standards, financial reporting practices, and the principles of sound public financial management.

There are no winners when legal opinions are sought to interpret accounting matters.

News from the IPSASB

The IPSASB met in December 2021. The key highlights are as follows:

New IPSAS issued

The following IPSAS and amendments to IPSAS were issued:

- IPSAS 43 on Leases was approved and will replace IPSAS 13 on Leases. The effective date is 1 January 2025. As IPSAS 43 aligns with IFRS 16 on Leases, the IPSASB will shift its focus to dealing with public sector specific leasing issues as part of the next phase of its project on leases.
- The Improvements to IPSAS, 2021 were approved. The amendments are effective from 1 January 2023, with the exception of the changes related to the Interest Rate Benchmark Reform which are applicable from 1 January 2022.

Exposure Draft approved for issue

ED 81 on *Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements* was approved by the IPSASB. It will be finalised in the 1st quarter of 2022 and issued for comment for a four-month period.

ED 81 proposes changes to the definitions of assets and liabilities and includes additional guidance on their interpretation. Notably, guidance is proposed on the “Unit of Account” which will help the application of recognition and measurement of IPSAS.

Updates on projects

Retirement Benefit Plans

The IPSASB will approve an Exposure Draft on Retirement Benefit Plans at its February 2022 meeting. The purpose of the proposed IPSAS is to provide guidance on the reporting by retirement benefit plans. Although not a convergence project, the proposed IPSAS is based on IAS 26 on Accounting and Reporting by Retirement Benefit Plans.

Natural Resources

The IPSASB reviewed the draft Consultation Paper, and expects to finalise the Consultation Paper at its March 2022 meeting.

Revenue and Transfer Expenses

Debates on revenue recognition continue. The primary debate is identifying the circumstances under which an obligation exists in a binding arrangement and how this affects revenue recognition. The IPSASB agreed that requirements to incur eligible expenditure or undertake specified activities could give rise to obligations in a revenue transaction.

Measurement of Assets and Liabilities

The IPSASB reviewed the comments received on its proposed IPSAS on Measurement, changes to the Conceptual Framework and IPSAS 17 on Property, *Plant and Equipment*. While there was support for most of the proposals, there was limited support for the new public sector measurement basis proposed, i.e. “current operational value”. Debates on current operational value and other issues will continue.

Mid-period Work Plan Consultation

Based on comments received from stakeholders, the IPSASB tentatively agreed to add two major and four minor projects to its work plan for 2024 to 2026. These projects are as follows:

Major projects

- Presentation of financial statements
- Differential reporting

Minor projects

- Impairment of non-cash-generating assets
- Intangible assets
- Practice statement of materiality
- First-time adoption of IPSAS

Respondents highlighted the need for the IPSASB to consider sustainability reporting.

The ASB currently has two Exposure Drafts out for comment. Have your say by either joining one of our events, or by submitting comments to us on info@asb.co.za.

We'd appreciate your views on the following topics:

Topic	Comment deadline
ED 194 – Taking Stock ASB's Proposed Work Programme for 2024 to 2026	18 March 2022
ED 195 – Proposed Due Process Handbook	31 March 2022



Contact us

Telephone : 011 697 0660

E-mail : info@asb.co.za

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