Accounting Standards Board

Newsletter April 2022 Edition

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GRAP Reporting Framework for 2021/22 - what changed?

Role and purpose of Directive 5

Directive 5 on *Determining the Reporting Framework* determines the GRAP reporting framework for a particular reporting period. The Appendices of the Directive list the standards and pronouncements that are the GRAP Reporting Framework for a reporting period. The Appendices are updated each year.

Directives are authoritative and entities have to apply Directive 5 and the list of pronouncements in the applicable Appendix to prepare financial statements for a particular reporting period.

What were the changes for 2021/22?

The following changes apply for 2021/22:

- The Minister of Finance approved a number of Standards of GRAP to become effective for trading entities on 1 April 2021. Trading entities now apply the same pronouncements as other entities.
- Directive 14 on *The Application of Standards of GRAP by Public Entities that Apply IFRS® Standards* became effective.

What about pronouncements, and changes to pronouncements that are not yet effective?

The Accounting Standards Board issued a number of pronouncements, and changes to pronouncements recently that are not yet effective. Their impact on the 2021/22 GRAP Reporting Framework is as follows:

Pronouncement	Effective date	Impact on 2021/22
GRAP 104 on *Financial Instruments* (revised 2019)	1 April 2025	The transitional provisions require adoption of the revised Standard taken as a whole. Partial or incremental adoption is not permitted.

GRAP 25 on *Employee Benefits* (2021)	The effective date is still to be determined by the Minister of Finance.	The transitional provisions require adoption of the revised Standard taken as a whole. Partial or incremental adoption is not permitted.
IGRAP 7 on *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (2021)	The interpretation becomes effective with the amendments to GRAP 25.	
Improvements to the Standards of GRAP (2020)	1 April 2023	The improvements may be early adopted per Standard.
Guideline on *Accounting for Landfill Sites*	The guideline should be applied from the effective date of the Improvements to the Standards of GRAP (2020), particularly the improvement to GRAP 17 on *Property, Plant and Equipment.*	
Amendments to GRAP 1 on *Presentation of Financial Statements* (2019)	1 April 2023	Earlier application is encouraged.
IGRAP 21 on *The Effect of Past Decisions on Materiality*	1 April 2023	Earlier application is encouraged.
Guideline on *The Application of Materiality to Financial Statements*	The guideline does not have an effective date.	Entities are encouraged to apply it.

What about pronouncements of international standard-setters?

The Appendices to Directive 5 include pronouncements issued by the IPSASB and IASB that should be considered by entities in preparing their financial statements for a particular reporting period. Pronouncements of other standard-setters can only be used to formulate accounting policies; they cannot be adopted by entities. Any IPSAS or IFRS Standards not included in the relevant Appendix to Directive 5 should not be considered by entities in formulating accounting policies.

Refer to a communication on the IPSAS and IFRS Standards that entities should not consider when formulating accounting policies: here

Access Directive 5 and the related documents on the ASB website here.

Addressing diversity in presenting information on going concern

The Standards of GRAP currently require disclosures of material uncertainties that may cast significant doubt upon an entity's ability to continue as a going concern (hereafter referred to as "material uncertainties"). But these disclosures are mostly lacking from financial statements.

Due to the current state of the economy, along with increases in funding requirements, going concern assessments are more important than ever. To address the lack of information presented in the financial statements on going concern and its assessment, the Accounting

Standards Board (the ASB) issued ED 198 on *Amendments to GRAP 1 on Presentation of Financial Statements.* ED 198, which proposes:

(a) explaining when preparing financial statements on a going concern basis is inappropriate; and

(b) additional disclosures that require management to explain its reasoning and judgements in assessing going concern.

Additional guidance proposed on the application of the going concern basis

Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation, or some modified form. From time to time, decisions are taken to liquidate or cease the operations of an entity, or to transfer or merge its functions. These decisions are governed by legislation or a decision by an appropriate authority, such as a municipal council, board, council or equivalent.

If a decision is taken to liquidate an entity, to cease its operations in its entirety, or when there is no realistic alternative but to do so, preparing financial statements on the going concern basis is inappropriate. This is because all the functions and operations of the entity will cease.

The going concern basis remains appropriate where a decision is taken to transfer some, or all of an entity's functions to another entity, or to merge one or more entities as the entity will continue to operate in a modified form.

Proposed disclosures on going concern and material uncertainties

GRAP 1 currently requires the disclosure of material uncertainties related to events or conditions that may cast significant doubt upon an entity's ability to continue as a going concern.

ED 198 proposes that the financial statements should provide information about the significant judgements and assumptions made by management when assessing going concern. To the extent that management is aware of any uncertainties, information should also be provided about:

- the events or conditions that give rise to these uncertainties;
- their possible effects; and
- management's plans to address the events or conditions that resulted in uncertainties, along with actions to mitigate the effect of these events or conditions.

These disclosures should be presented in the notes the financial statements. A cross reference can be included in the notes if information about management's plans to address uncertain events or conditions, and their actions to mitigate their effect, are included in another document that is published with the financial statements.

Addressing practical questions on going concern

The Secretariat of the ASB will issue two Fact Sheets to address practical questions relating to going and disclosing material uncertainties. The Fact Sheets will also provide guidance on considerations when the financial statements are prepared on a basis other than going concern.

Send us your comment on ED 198

ED 198 was issued by the ASB in April 2022 with comment closing on 15 July 2022. The ED can be accessed on https://www.asb.co.za/ed-198/, and comment can be submitted to the Secretariat of the ASB at info@asb.co.za

The Secretariat will also be hosting discussions during May 2022 to obtain comment and views from stakeholders on the proposals in the ED. If you are interested in joining these sessions, please contact amandab@asb.co.za.

How well are entities presenting the comparison of budget and actual information in financial statements?

To hold entities accountable for the resources allocated during a particular period, the Standard of GRAP on *Presentation of Budget Information in Financial Statements* (GRAP 24) requires a comparison between an entity's budget and actual information.

The Accounting Standards Board recently undertook a review of GRAP 24 with the objective to assess compliance with the requirements in the Standard, and to identify potential issues with the application of the Standard. The results of the review is published in a Review Report that is available on the ASB's website at https://www.asb.co.za/research-papers-and-position-papers/.

GRAP 24 is applied when budgets are publicly available

GRAP 24 is applied when an entity is required, or elects, to make its approved budget publicly available. This means that the entity's budget should be published for the public at large.

The review noted that, for municipalities, the concept of "publicly available" is not of concern as the Municipal Finance Management Act requires a municipality to publish, on its website, its annual and adjustment budget as approved by council.

For public entities, whether their budgets are made publicly available may not be as clear. Some public entities budgets may be published in the Estimates of National Expenditure (ENE). In these instances, it may be unclear whether GRAP 24 should be applied. Public entities should consider a range of factors to conclude if their budgets are publicly available. For example, whether their Annual Performance Plan includes their approved budget and is tabled in Parliament or a provincial legislature.

The Secretariat will develop a Fact Sheet that respond to questions on the application of GRAP 24, including what "publicly available budget" means for public entities. The OAG will also be requested to amend their GRAP 24 Accounting Guideline to include specific guidance and scenarios for entities to consider.

In what format should the comparison be presented?

The comparison of actual and budget amounts can either be presented as a separate additional financial statement - "the Statement of Comparison of Budget and Actual Information" (hereafter referred to as "the Statement of Comparison"), or by including an additional budget column in the financial statements. When the budget and financial statements are not prepared on the same basis of accounting (a comparable basis), the Statement of Comparison should be presented. An entity can select to either present an additional column or the Statement of Comparison when the comparable basis is the same.

Budget information is usually aggregated into broad classes, budget classifications, or budget headings based on an entity's specific activities and programmes. The comparison of budget and actual information should be presented to be consistent with these broad classes, classifications, or headings to enable the relevant authority responsible for the approval of the budget, to compare information at the relevant level of oversight.

Among others, the review noted that:

- the majority of entities presented the Statement of Comparison, even when the budget and financial statements were prepared on the same basis;
- some entities that included the Statement of Comparison and an Appropriation Statement, as required by the National Treasury, repeated the information; and
- for a number of entities, the classes, classifications or headings used in the Statement of Comparison were the same as those used to prepare the financial statements rather than those in the approved budget.

Entities should consider FAQ 3.7 to avoid the duplication of information in the financial statements. This FAQ clarifies that entities may present, in a single statement or a note, information that is required by GRAP 24. Any additional information can be presented separately as an annexure to the financial statements.

It is critical that the basis of preparation of the Statement of Comparison should be consistent with that used in the preparation of the approved budget. The Board agreed that guidance on the method, format and extent of the comparison should be provided in the Fact Sheet to ensure the correct application of GRAP 24.

Other matters to be addressed in the Fact Sheet

The review of GRAP 24 also highlighted a number of practical application matters which will be addressed in the Fact Sheet. These include:

- Material differences between actual and budget information – a number of entities did not provide explanations of material differences between budget and actual information, or provided vague explanations.
- Changes from approved to final budget – most entities that made changes to their approved budget following reallocations or changes in budget parameters, did not explain these changes in their financial statements.
- Presenting budget and actual amounts on a comparable basis – some entities used boilerplate disclosures to explain adjustments reflecting the same basis of accounting, classification system, period and entities to those included in the approved budget. This resulted in inconsistent information being disclosed about the budgetary basis and the classification system as the budget, with what was presented in the comparison.

  The review also noted that note disclosures were not always tailored to the entity’s specific circumstances. To inform decision making about the allocation of resources, and to provide information to users on how the budget allocations were actually spent, entities need to tailor the information presented in their financial statements to their specific circumstances.

The review highlighted that more time should be devoted to the preparation of the comparison between budget and actual information to ensure that only relevant information is presented. There should be greater focus on holding management accountable for the preparation of high-quality financial statements that will improve accountability and inform decision-making.

Update on social benefit

The Accounting Standards Board is developing a Standard of GRAP on *Social Benefits*. Refer to previous articles on *Social Benefits – what are they?* [Part 1 and Part 2] where we shared the Board's preliminary thinking on the definition of social benefits for the local environment. The Board continued to explore the guidance that may be needed by entities to analyse the benefits that would meet the definition.

How should we account for social benefits?

The Board agreed that IPSAS 42 on *Social Benefits* will be used as a starting point in the development of a Standard of GRAP. However, the Board has identified the need to depart in certain key areas.

The Board discussed and agreed preliminary conclusions in the following areas:

Area	Preliminary decision	Reasoning
Definitions and scope	Social benefits will include in-kind benefits. This phase of the project will continue to develop guidance for cash benefits only.	Stakeholders prefer a holistic approach to accounting for social benefits. The dissimilar nature of cash and in-kind benefits requires that in-kind benefits are dealt with separately. Guidance on in-kind benefits will be considered after the IPSASB finalised their transfer expenses project.
	The definition of a social risk will be amended to refer to events or circumstances that relate to the characteristics of individuals and households *directly*.	It is difficult in practice to distinguish social benefits arising from social risks, from benefits that arise from other risks. Emphasising the direct relationship needed between the individual/household and the risk the benefit aims to address will help entities to make the distinction.
	Explanatory guidance is needed to interpret the application of the concept of "address the needs of society as a whole".	The concept is necessary to distinguish social benefits from insurance. This is particularly important in the local environment for benefits provided through a similar individualised process to insurance.
	Whether benefits paid to individuals and households are social benefits is assessed at a benefit level.	Some entities and schemes provide a mix of benefits that are social benefits and other benefits. The assessment could come to an incorrect conclusion if it is made at an entity or scheme level.
Types of benefits	Guidance will distinguish the accounting treatment for contributory and non-contributory benefits: • Contributory benefits are funded directly or indirectly by contributions from the same individuals or households who may become beneficiaries of the benefits. • Non-contributory benefits are funded by annual government appropriations on a "pay-as-	The nature of benefits in the environment differs. Stakeholders suggested differentiating benefits for accounting purposes will ensure relevant information is provided to users.

Area	Preliminary decision	Reasoning
	you-go” basis. There is no relationship between the funding of the benefit and the benefits paid.	
Different accounting for different types of benefits	While a limited liability may be appropriate for non-contributory benefits based on claims that an entity has verified, an earlier recognition point is appropriate for contributory benefits. This recognition point could be as early as when the incident that the benefit intends to compensate for occurs.	The nature of contributory benefits is that beneficiaries contribute over a period of time to qualify for benefits when a certain event occurs in the future. The contributions intend to compensate an entity for the risk it accepts by providing the benefits, being that an incident occurs that gives rise to benefits. When the incident occurs, the entity has no realistic alternative but to settle the obligation.

What is next?

The Secretariat will present a second issues paper to the Board in June 2022. The issues paper will focus on presentation and disclosure requirements.

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