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Message from the CEO – Is the public sector ready for the sustainability reporting?

Sustainability reporting – the new “it” phrase. But what does it mean, and is the public sector ready for it?

Sustainability reporting is not a new phenomenon. Investors and others recognised long ago that entities’ value cannot be fully measured by financial metrics alone. There is also an increasing awareness among the investor community that entities have an impact on various aspects of society – both positive and negative. It is for this reason that “sustainability reporting” emerged to focus on how entities affect the environment and society, and how these issues are governed.

National and international organisations have – for many years - published guidance on sustainability reporting or aspects of it. The result was a fragmented approach to reporting with disparate reporting between entities and jurisdictions. Investors want comparable information about entities – whether financial or other information.

At the time of COP26 and the UN summit on climate change in November 2021, the IFRS Foundation announced that it established the International Sustainability Standards Board (ISSB). The IFRS Foundation, through the ISSB, aims to provide global financial markets with high-quality disclosures on climate and other sustainability issues. The ISSB recently issued two proposed International Sustainability Standards for comment.

As the public sector is a significant player in the global financial markets, a significant employer, and a significant consumer of goods and services, questions have been raised about if, or how, sustainability reporting should be applied by the public sector. The International Public Sector Accounting Standards Board (IPSASB) issued a [Consultation Paper](#) on whether it should fulfill this role for the public sector, and if yes, where it should focus its efforts. As the ASB aligns its work closely to the IPSASB, this is an important development requiring discussion locally.

As we start this debate locally, I have several questions that I believe are worth discussion. Let me start by saying that I don’t think there is anyone who would disagree that sustainability should be more prevalent in making decisions – whether as business or the public sector. I am also at pains to say that of course having the right information is important to inform these decisions. But...whatever sustainability reporting could entail, it should not duplicate what is already available; it should enhance cohesion of information already reported; provide

information where gaps are identified but most importantly, sustainability reporting should not be reporting for reporting sake.

It is no secret that there is a severe shortage of professional accountants and reporting specialists in the public sector. Before there is any debate on the merits of sustainability reporting, this is an important constraint to acknowledge. However, doing what is right from a reporting perspective should not be constrained by this and other practical limitations. Whether or not sustainability reporting is appropriate for the public sector should be judged on its merits from an information perspective.

So, my questions....

#1 - When we think about sustainability, sustainability for who?

The private sector will initially focus on how sustainability impacts investors' decisions about entities. So the focus is on the entity, rather than on how the entity impacts sustainability on a global level. As the public sector invests in other entities, and raises capital and debt funding through investment in its own securities, this "entity" focus is relevant. However, it will only be relevant to a small number of entities as most government organisations do not have investment or debt raising mandates.

A far more important focus, particularly at a macro-economic level, is how the government affects sustainability on a broader level through its various activities. As examples, 80% of South Africa's electricity production relies on coal powered stations, power producers do not adhere to environmental protection laws, many landfill sites are unlicensed, and government policy decisions about exploration for mineral resources whether on land or sea could have detrimental effects on the environment.

#2 - What does sustainability look like for a government?

As the South African government, we subscribe to the United National Sustainable Development Goals. There are seventeen sustainability goals, and climate is just one of them. The initial focus in the private sector will be on climate related issues. Consideration will only be given to other issues at a later stage.

As a developing economy, there are – at least in my opinion - more important goals such as no poverty, zero hunger, good health and well-being, quality education, and a range of other sustainability goals that take priority given the tangible impact these could have on the lives of people today.

If these goals are important to me as a citizen, they should be important to government. Sustainability reporting and all it entails should focus on the goals that matter most, not the ones that are "easy" wins from a reporting perspective because of work done elsewhere.

#3 - How much information on sustainability do we already provide?

Governments' reporting responsibilities extend far beyond financial statements. While the financial statements are important, it is at least the same, or more important, to understand what governments did with the resources provided to them, i.e. what services did they provide, what infrastructure did they build, etc. This is provided in performance information. In South Africa (and many other jurisdictions) this accompanies the financial statements.

The overall targets set out in government's scorecard for South Africa by the Presidency are aligned with the UNSDGs. It seems that some of this information may already be available. It may be matter of (a) understanding how it links with the budget, financial statements, other resources available to government, and (b) improving how it is reported.

There are already documents, like the IPSASB's Recommended Practice Guideline on *Reporting Service Performance* that explain how to report performance information to users of financial information. It is important that we should not duplicate what already exists – it should merely be enhanced.

#4 – Can reporting drive change on its own?

There is a misconception – at least from a climate perspective – that reporting will substantively turn the tide on climate change. Reporting merely communicates the actions taken by people and organisations on the various policies, initiatives, to achieve sustainability goals etc. To make a change, appropriate action must be taken based on credible, relevant information.

Do you have questions? Do you have views you want to share?

We will host a series of roundtable discussions to talk through the IPSASB's Consultation Paper on *Advancing Public Sector Sustainability Reporting* hosted by the ASB. We encourage you to join our discussions and share your views on this important area. Contact Ms Nabeela Imam-Shah for more information on nabeelai@asb.co.za.

News from the ASB

The ASB Board met on 30 June 2022. The outcomes of their deliberations were as follows:

- The final amendments to GRAP 103 on Heritage Assets were approved. A submission will be made to the Minister of Finance on the proposed effective date.
- The final Due Process Handbook was approved for publication.

The Board discussed the results of the first phase of the post-implementation review of GRAP 109 on *Accounting by Principals and Agents*. The results of phase I will be used to identify the key areas that the Board will consult on in Phase II.

The development of a Standard of GRAP on Social Benefits continues. An Exposure Draft will be discussed by the Board in September 2022.

The meeting highlights can be accessed [here](#).

The ASB approves changes to GRAP 103 on Heritage Assets

ED 195 on *Proposed Amendments to the Standard of GRAP on Heritage Assets* proposed amendments to GRAP 103. The objective of the amendments is to better explain what heritage assets are, provide more guidance on their measurement, and require additional disclosures to better inform decision making.

At its meeting held in June 2022, the ASB approved the final amendments to GRAP 103. A recommendation will be made to the Minister of Finance to determine an effective date for the revised GRAP 103.

How is GRAP 103 amended?

Definition of a heritage asset

To better align with the relevant heritage resource legislation, the definition of a heritage asset is amended to focus on assets that have “cultural significance”. “Cultural significance” means that an item has “aesthetic, architectural, historical, scientific, social, spiritual, linguistic or technological value or significance”. The revised definition remains broad enough to allow for the recognition of heritage assets that are not designated as a heritage resource in legislation.

The characteristics often displayed by a heritage asset, and the range of assets that could be regarded as a heritage asset, are also aligned with the relevant legislation. Additional guidance clarifies that items of significance to a particular community or cultural group in South Africa can also meet the definition of a heritage asset, even if the item has an international origin.

Classification of dual purpose heritage assets

Even though some heritage assets can have cultural significance while being used in delivering services, GRAP 103 now requires that all heritage assets be accounted for using GRAP 103.

A consequence of this amendment is that a heritage asset will no longer be depreciated. Instead, a heritage asset should be tested for impairment when an impairment indicator has been triggered.

Measurement of heritage assets

The amendments to GRAP 103 includes additional guidance on measurement of heritage assets, to explain:

- (a) a heritage asset need not be recognised in the financial statements if the variability in the range of reasonable fair value estimates is significant, and/or the probabilities of the various estimates cannot be reasonably assessed. Instead, information about the heritage asset can be disclosed, if material; and
- (b) that an entity may use peer data to determine a heritage asset's fair value, i.e., consider the value of a comparable heritage asset, held by another entity that has similar characteristics, and are held under similar circumstances.

Protective rights

GRAP 103 emphasises that a protective right, resulting from an ethical, legal and/or statutory obligation, should not prohibit an entity from determining a reliable value for a heritage asset.

The revised GRAP 103 introduces new disclosures that require an entity to (a) present information on heritage assets on which external protective rights are imposed; and (b) explain the circumstances permitting the entity to dispose a heritage asset that is subject to an external protective right. These disclosures are required for all heritage assets controlled by the entity, irrespective of whether the heritage asset is recognised.

Re-assessing if a value becomes available after initial recognition

An entity may hold a heritage asset that does not meet the recognition criteria on initial recognition. The revised GRAP 103 introduces a principle that requires an entity to assess at each reporting date if a reliable value becomes available subsequently. If one of the following indicators are triggered, this may mean that a value can be determined, and the entity should recognise the heritage asset:

- changes in the condition of the heritage asset, for example when the heritage asset is restored into a useable condition, and the restored heritage asset can be compared to similar heritage assets sold in a market;
- information about the fair value of a heritage asset becomes available using new valuation techniques; or
- changes in the market's demand for a specific heritage asset because of new technology that becomes available to authenticate the asset.

This GRAP 103 amendment also introduces a requirement for the entity to disclose (a) the events or circumstances resulting in a reliable value becoming available after initial recognition; (b) a description of the heritage asset; and (c) the value at which the heritage asset is subsequently recognised.

Disclosure of heritage assets borrowed from, or on loan to, other entities

A new disclosure for heritage assets borrowed from, or on loan to other entities is introduced. When any of an entity's heritage assets are borrowed, or on loan at the reporting date, a description of such heritage assets should be provided. Details should also be presented of the entity that borrowed the heritage assets, or to which the heritage asset is on loan, along with the period of the arrangement.

Deletion of encouraged disclosures

The revised GRAP 103 no longer includes encouraged disclosures. Stakeholders shared with the Board that there is insufficient information to support these disclosures, and the insufficiency of the disclosures often resulted in unnecessary audit queries and conclusions.

Transitional provisions and guidance

GRAP 103 requires the retrospective application of amendments relating to the definition of a heritage asset, the classification of dual purpose heritage assets and the deletion of the encouraged disclosures. All other amendments are applied prospectively from the effective date of the revised GRAP 103.

Transitional guidance explains that, when a dual purpose heritage asset is reclassified following the amendments to GRAP 103, any previously recognised depreciation is adjusted against accumulated surplus or deficit. The heritage asset is reclassified at its cost on initial recognition.

The transitional guidance also explains that the resulting difference for a heritage asset that is recognised when a value becomes available after initial recognition, is recognised in surplus or deficit.

Accounting by principals and agents – do you know what is required?

Based on stakeholder feedback, a post-implementation review (PIR) of GRAP 109 on *Accounting by Principals and Agents* was added to the Board’s work programme. A PIR assesses whether the Standard is meeting its intended objectives, and identifies application and other issues related to the implementation of the Standard. Due to the comprehensive nature of a PIR, it is undertaken in stages. For GRAP 109, the steps and timeline are as follows:



What issues are we aware of to date?

The Secretariat’s initial work to understand the issues with GRAP 109 identified the following key issues:

Area	Issue	Example
Awareness of GRAP 109	Some entities are unaware that GRAP 109 became effective 1 April 2019, and have not applied it.	Financial statements refer to the effective date of GRAP 109 as “not yet determined by the Minister of Finance”, “1 April 2021”, or “not yet effective”.
Identification of principal-agent arrangements	Entities have difficulty distinguishing principal-agent arrangements from other arrangements, and are unsure of the Standards to apply when an arrangement is not a principal-agent arrangement.	Fulfilling an agency function is a type of service provided to another party (the principal), and may be difficult to distinguish from arrangements where the entity is simply providing a service to another party.
	It can be difficult to identify the capacity in which an entity is engaged in an arrangement, particularly when it is unclear what	Uncertainty exists for: <ul style="list-style-type: none">• functions assigned by provincial government to municipalities and “unfunded mandates” such as library

Area	Issue	Example
	functions have been assigned to the entity.	<p>services and health clinics that municipalities perform for provincial governments;</p> <ul style="list-style-type: none"> control relationships where the mandate and functions of the entities are linked; and legislation that indicates entities undertake transactions for the benefit of the National Revenue Fund or provincial Revenue Fund.
	There is a misconception that the classification of expenditure drives the decision on whether an arrangement is a principal-agent arrangement.	When an entity classifies a transaction with another party as a transfer payment, it is not seen as a principal-agent arrangement.
	Terminology used in arrangements is confused with the accounting principles and entities incorrectly base assessments on the legal form of the arrangement, instead of the economic substance.	The terms “implementing agent”, “agent”, “principal” and “principal-agent arrangement” are used in arrangements. These terms do not necessarily have the same meaning as the terms in GRAP 109.
	The <i>transaction</i> that the agent undertakes with third parties on behalf of the principal has been misinterpreted to refer to financial transactions only.	An agent negotiating a contract on behalf of the principal, and municipalities representing the provincial housing department in relation to housing beneficiaries are examples of principal-agent arrangements where there are no financial transactions with third parties.
	There are certain functions in the environment known to give rise to principal-agent arrangements. However, not all entities have identified these arrangements as principal-agent arrangements.	Municipalities manage the issuing of motor vehicle licences and administration of traffic fines on behalf of the relevant provincial department of transport.
Disclosure of principal-agent arrangements	Entities with principal-agent arrangements do not comply with the disclosure requirements of GRAP 109, or only provide boilerplate information. This means no information about the entity’s specific arrangement is provided.	<p>The following non-compliance was identified:</p> <ul style="list-style-type: none"> no accounting policy or note disclosure; only boilerplate information in an accounting policy and no note disclosure; or an accounting policy and note disclosure, but no information on the significant terms and conditions of the arrangement, whether any changes occurred during the period, an explanation of the purpose of the relationship and any significant risks and benefits of the relationship, and for entities acting as a principal, information on the resource or cost implications if the arrangement is terminated.

How will these issues be considered?

The issues identified to date will be the starting point for in-depth stakeholder consultation in the next phase of the PIR. An *Invitation to Participate in the Post-implementation Review of GRAP 109* will be considered by the Board in December 2022 and will be published early 2023.

Get involved...

If you can relate to these issues, or have further issues to share, contact the Secretariat to get involved in the next phase of the PIR: info@asb.co.za.



Contact us

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