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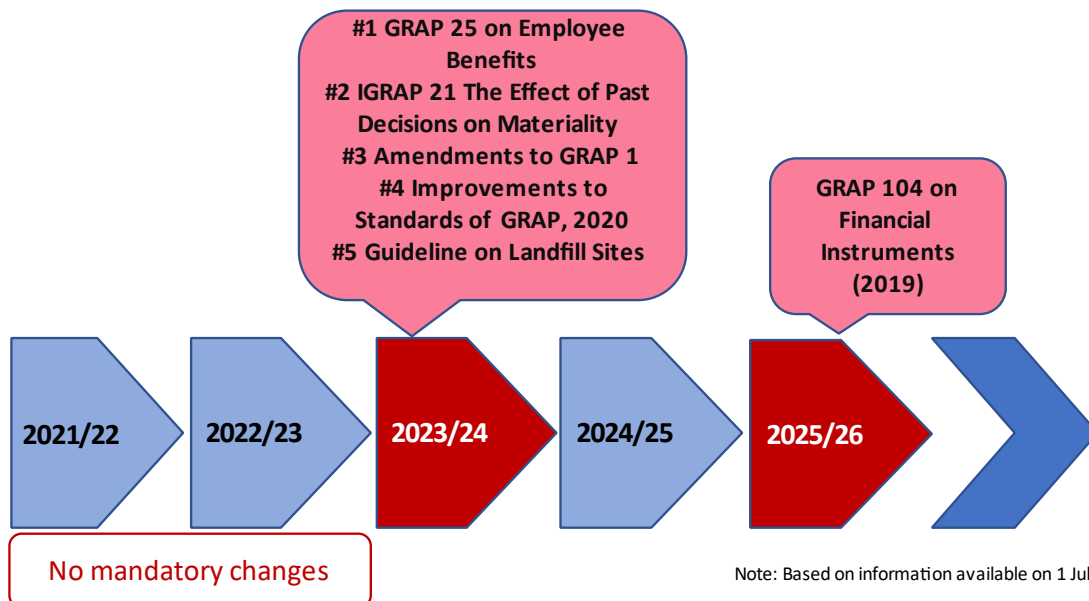
If you fail to plan, you are planning to fail

And this is oh so true when it comes to financial statement preparation. After just completing the PFMA reporting cycle, many of you may feel a bit of ‘reporting fatigue’ and be tempted to put off preparing for the next reporting cycle until next year.

There are a number of changes to the Standards of GRAP that will become effective on 1 April 2023. In this month’s Newsletters, we will identify the potential changes and what they mean in more detail. The diagram below shows the key milestones in the GRAP Reporting Framework based on pronouncements approved by the Minister of Finance or the ASB Board. Directive 5 on *Determining the GRAP Reporting Framework* will be updated by the Board in September 2022.



A five-year view



Note: Based on information available on 1 July 2022

It is clear from the diagram that there are two key milestones where changes will need to be adopted, i.e. 1 April 2023 and 1 April 2025. While it is important to start considering how the revised GRAP 104 on *Financial Instruments* will be implemented, the most immediate concerns are with the pronouncements that will be effective from 1 April 2023. These are as follows:

- GRAP 25 on *Employee Benefits*.
- IGRAP 7 on *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (2021).
- Improvements to the Standards of GRAP (2020).
- Amendments to GRAP 1 on *Presentation of Financial Statements* (2019).
- IGRAP 21 on *The Effect of Past Decisions on Materiality*.
- Guideline on *Accounting for Landfill Sites*.

When people think about implementing accounting standards, most just think about implementing the “end result” which is reflected in the financial statements. However, there are a number of steps required to get the end result. Implementing accounting standards involves 3 P’s – People, Policies, Processes. Using the changes to GRAP 25 as an example:

- People – Who needs to be involved in the change (e.g. finance manager, audit committee, internal audit); from whom do you need information (e.g. human resources department)?
- Policies – Do you know and understand the remuneration and other employee benefit policies; do you need to amend existing accounting policies with new requirements of GRAP 25?
- Processes – Do you need to make any changes to your internal processes or procedures so that the financial/accounting implications are understood (and vice versa)?

To effectively implement changes to the 3 P’s, entities need to plan, and start implementing their plan, in advance of the reporting period in which the amendments need to be adopted. Ideally, if the changes are effective from 1 April 2023, entities should know already by this date what their plan is, and how they plan to execute it.

There are a number of resources available on both the ASB’s and Office of the Accountant-General’s (OAG’s) website to assist, including FAQs, Fact Sheets (ASB) and the GRAP Accounting Guidelines (OAG).

GRAP Reporting Framework for 2023/24 – what will change?

Role and purpose of Directive 5

Directive 5 on *Determining the Reporting Framework* outlines 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.

The Board will consider the proposed Appendix to Directive 5 for 2023/24 at the September 2022 meeting for approval.

What will change for 2023/24?

There are a number of pronouncements, and changes to pronouncements, that become effective 1 April 2023. The effective dates have either been determined by the Minister of Finance or through past decisions of the Board. These pronouncements are listed below:

Pronouncement	Link to document
GRAP 25 on <i>Employee Benefits</i> (2021)	https://www.asb.co.za/grap-25-3/
IGRAP 7 on <i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> (2021)	https://www.asb.co.za/igrap-7-2/
Improvements to the Standards of GRAP (2020)	https://www.asb.co.za/wp-content/uploads/2022/04/Improvements-to-Stds-of-GRAP-2020.pdf
Amendments to GRAP 1 on <i>Presentation of Financial Statements</i> (2019)	https://www.asb.co.za/wp-content/uploads/2022/04/Amendments-to-GRAP-1.pdf
IGRAP 21 on <i>The Effect of Past Decisions on Materiality</i>	https://www.asb.co.za/igrap-21/
Guideline on <i>Accounting for Landfill Sites</i>	https://www.asb.co.za/wp-content/uploads/2022/04/Guideline-on-Acc-for-Landfill-Sites-1-April-2022.pdf

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

The impact of pronouncements that are not yet effective on the 2023/24 GRAP Reporting Framework is as follows:

Pronouncement	Effective date	Impact on 2023/24
GRAP 104 on <i>Financial Instruments</i> (revised 2019) [https://www.asb.co.za/grap-104-2/]	1 April 2025	The transitional provisions require adoption of the revised Standard taken as a whole. Partial or incremental adoption is not permitted.
GRAP 103 on <i>Heritage Assets</i> (2022) [https://www.asb.co.za/grap-103-2/]	The effective date must still be determined by the Minister of Finance	The pronouncement provides guidance on initial application of the revisions.
Guideline on <i>The Application of Materiality to Financial Statements</i> [https://www.asb.co.za/wp-content/uploads/2022/04/Guideline-on-Materiality-1-April-2022.pdf]	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 other standard-setters 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.

A communication on the IPSAS and IFRS Standards that entities should not consider when formulating accounting policies for 2023/24 will be issued with Directive 5.

Amendments to GRAP 1 to “cut clutter” in financial statements

During 2018, the ASB undertook a project, based on international developments at that time, to improve financial reporting disclosures, and reduce clutter in the financial statements.

This resulted in amendments to GRAP 1 on *Presentation of Financial Statements* to clarify the application of materiality to all parts of the financial statements. These amendments will become effective for periods commencing on or after 1 April 2023 but may be early adopted.

Clarifying materiality and aggregation

Materiality applies to all parts of the financial statements.

The amendments to GRAP 1 clarifies that entities should not reduce users’ understandability of the financial statements by obscuring material information with immaterial information, or by aggregating material items that have different natures or functions.

When a Standard of GRAP requires specific disclosures in the financial statements, an entity still applies materiality. This means that disclosures that are immaterial, should not be provided even if they are a minimum requirement of a Standard.

How should materiality be applied in presenting information in the statements of financial performance and position?

In presenting specific line items in the statements of financial performance and position, line items may be aggregated.

Guidance is included in GRAP 1 on how additional subtotals should be presented in the statements of financial performance and position. This amendment clarifies that subtotals must:

- comprise line items made up of amounts recognised and measured in accordance with Standards of GRAP;
- be presented and labelled in a manner that makes line items that constitute a sub-total, and must be clear and understandable;
- be consistent from period to period; and
- not be displayed with more prominence than the sub-totals and totals required in Standards of GRAP for the statement of financial position.

Flexibility on the structure of financial statements

GRAP 1 also clarifies that entities have flexibility as to the order in which they present the notes to the financial statements. An entity should consider understandability and comparability when deciding on an order.

Examples of possible ways of ordering the notes may include:

- giving prominence to the areas of an entity’s activities that it considers to be most relevant in understanding its financial performance and financial position. This may include grouping together information about particular operating activities;
 - grouping together information about items measured in the same way, such as assets measured at fair value; or
 - following the order of the line items in the statements of financial performance and position, such as

- (a) a statement of compliance with Standards of GRAP;
- (b) a summary of significant accounting policies applied;
- (c) supporting information for items presented on the face of the statements; and
- (d) other disclosures including contingent liabilities, unrecognised contractual commitments, and non-financial disclosures.

The amendments to GRAP 1 removed guidance and examples on the identification of significant policies that were perceived as being unhelpful

A copy of the amendments to GRAP 1 can be accessed on the ASB's website.

Guidance on accounting for landfill sites to be applied from 1 April 2023

Inconsistent accounting by entities involved in waste disposal activities resulted in the development of guidance by the Board. The *Guideline on Accounting for Landfill Sites* [<https://www.asb.co.za/guidelines>] will be included in the GRAP Reporting Framework for periods commencing on or after 1 April 2023.

From this date the Guideline should be considered by entities that are required to comply with the legislative requirements applicable to general and hazardous landfill sites. The Guideline can, by analogy, also be applied by entities that recognise other rehabilitation provisions. If applied, entities should be mindful of the specific legislation governing these provisions.

Accounting for land used in landfilling

The following principles are applicable in accounting for land used in landfilling:

- Land can only be recognised as an asset when the definition and recognition criteria are met. For the definition of an asset to be met, an entity needs to control the land.

The criteria in IGRAP 18 on *Recognition and Derecognition of Land* are applied to assess control. When an entity concludes that there is joint control of land, for example at a regional or central landfill site, the criteria in GRAP 37 on *Joint Arrangements* are applied to account for the land.

- Land is classified as property, plant and equipment in accordance with GRAP 17 on *Property, Plant and Equipment*. The land is accounted for separately from other landfill site assets.

If not currently classified as such, land controlled by an entity is reclassified as property, plant and equipment when it is used for landfilling. Land is assessed for impairment using GRAP 21 on *Impairment of Non-cash Generating Assets*, or GRAP 26 on *Impairment of Cash Generating Assets* following the reclassification.

When land is specifically acquired for landfilling, it is measured at cost on acquisition. If it is acquired in a non-exchange transaction, the land is measured at fair value in accordance with GRAP 23 on *Revenue from Non-exchange Transactions (Taxes and Transfers)*. If the land is acquired in a transfer of functions or merger, the principles in GRAP 105 on *Transfer of Functions Between Entities Under Common Control*, GRAP 106 on *Transfer of Functions Between Entities Not Under Common Control* or GRAP 107 on *Mergers* are applied to account for the land.

- After initial recognition, an entity either applies the cost model or the revaluation model to measure the land. As land has an unlimited useful life, it is not depreciated but only assessed for impairment at each reporting date.

- If the land no longer meets the definition of property, plant and equipment when the landfill operations cease, and the end-use plan is implemented, land is reclassified to account for the change in use. For example, land is reclassified to either inventory, investment property, or heritage assets.

Accounting for landfill site assets

As with the recognition of land, a landfill site asset (hereafter referred to as “the asset”) is recognised when the definition and recognition criteria are met. It is also classified as property, plant and equipment as the asset will be used during more than one reporting period, and will be used in the production or supply of goods and services.

On initial recognition, the asset is either measured at cost, or fair value if acquired in a non-exchange transaction. When acquired in a transfer of functions or merger, the principles in GRAP 105, GRAP 106, or GRAP 107 are applied.

Initial cost of the asset

The cost of the asset comprises the following three elements:

- (a) the purchase price – this include costs incurred to acquire, develop, and construct the asset and is the cash price equivalent of the assets acquired at recognition;
- (b) costs directly attributable to bringing the asset to its location and condition necessary for it to be capable of operating in the manner intended by management. This includes, for example, internal and external site labour costs, cost of materials required to develop and construct the asset, and depreciation costs of plant used for development and construction; and
- (c) an initial estimate of the costs to dismantle and remove the asset and restore the site on form which the landfill site is operated.

After initial recognition, the entity either measures the asset in accordance with the cost model or the revaluation model. The principles in GRAP 21 or GRAP 26 are applied at each reporting date to assess impairment.

Costs to develop and construct the asset

Costs incurred to develop and construct the asset before approval is received from the licencing authority to operate the landfill site, are expensed. This is because an entity is unlikely to demonstrate that the landfill site will generate future economic benefits or service potential prior to approval being granted.

Costs incurred to develop and construct the asset after approval is received from the licencing authority, are either expensed or capitalised. The decision to expense or capitalise costs is based on an entity’s existing accounting policies, and criteria, such as if:

- (i) it is probable that the asset will generate probable future economic benefits or service potential;
- (ii) it is technically feasible that approval will be obtained to operate the site; and
- (iii) the entity is able to complete the asset so that it is available for use.

Any costs incurred after development and construction can only be capitalised to the asset if the recognition criteria for an asset are satisfied. Day-to-day operating costs are recognised in surplus or deficit, as incurred.

Depreciation

Each part of the asset with a cost that is significant in relation to the total cost of the asset, is depreciated separately. Depreciation of the component commences when the asset is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of the landfill site asset ceases on the day that the asset is derecognised.

The useful life of the asset is the period that the site is available for use, i.e., while the site is in operation and stores waste. The useful life of the significant parts of the assets, and the individually insignificant parts, cannot exceed the useful life of the site.

At each reporting date, an entity needs to assess if there is any indication that:

- (i) its expectations about the site's useful life;
- (ii) the depreciation method; and
- (iii) the asset's residual value

have changed since the preceding reporting date, and account for these accordingly.

Change in the cost of the rehabilitation provision

Changes in the cost of the rehabilitation provision (that was included as an initial component of the asset), will affect the cost of the asset initially recognised.

When the cost model is applied to measure the landfill site asset, changes in the landfill rehabilitation provision are adjusted to the cost of asset. When the revaluation model is applied, changes in the landfill rehabilitation provision are adjusted either in the revaluation surplus in net assets or surplus or deficit.

After adjusting the cost of the asset, the depreciable amount of the asset is adjusted over its remaining useful life.

Other assets

Any assets that are used at the site to ensure its effective operation, for example, a guard house or recycling and material recovery facilities, are accounted for as separate assets. These assets are not part of the landfill site asset.

Accounting for the landfill rehabilitation provision

A landfill rehabilitation provision is recognised when the definition of a provision in GRAP 19 on *Provisions, Contingent Liabilities and Contingent Assets* is met. At larger landfill sites that operate on the basis of trenches or cells, the provision is recognised when the construction of the trench or cell commences. At smaller landfill sites, the provision is recognised when the entity commences with landfilling.

Cash flows included in the provision

The cash flows that are included in the provision represent the best estimate of the expenditure required to settle the present obligation at the reporting date. This estimate should reflect any future events that may affect the amount required to settle the provision, to the extent that there is sufficient, objective evidence that the future event will occur. Cash flows include expenditure relating to:

- costs to dismantle, remove, rehabilitate and/or restore the site, on an ongoing basis and on closure of the site;
- pre-closure planning and approval costs;
- final rehabilitation and closure costs; and
- post-monitoring and inspection costs to be undertaken after the closure of the site.

The provision is calculated as the present value of these expenses, considering the time value for money.

Discount rate

The discount rate applied to the cash flows is specifically associated with the risk of the liability and should be consistent with the term or period of the provision. A pre-tax rate is used that reflects current market assessments of the time value of money. The government bond rate, or the corporate bond rate may be considered to determine the discount rate.

Other relevant principles

Funding to rehabilitate the landfill site

An entity accounts for funding provided to it by the licencing authority or another party to rehabilitate a site as non-exchange revenue in accordance with GRAP 23.

Arrangements to undertake waste disposal activities

When an entity enters into an arrangement with another party to undertake waste disposal activities, its interest in the arrangement needs to be assessed. Where this interest constitutes:

- control – the principles in GRAP 35 on *Consolidated Financial Statements* are applied to prepare consolidated financial statements;
- significant influence – the principles in GRAP 36 on *Investments in Associates and Joint Ventures* are applied to the equity account for the investment in the associate; or
- joint control – the principles in GRAP 36 are applied to account for the interest in the jointly controlled operation, jointly controlled asset, or jointly controlled entity.

When the arrangement constitutes a service concession arrangement, the principles in GRAP 32 on *Service Concession Arrangements: Grantor* are applied to assess if a service concession asset, and a related liability need to be recognised.

An entity can also appoint a service provider to undertake waste disposal activities. Any payments made for the rendering of these services are accounted for as, and when the services are provided, or in accordance with the arrangement between the parties. The principles in GRAP 109 on *Accounting by Principals and Agents* may be considered to assess if a principal-agent arrangement exists.

Adoption of principles in the Guideline

When an entity has not accounted for the land, the assets and/or the landfill rehabilitation provision as outlined in the Guideline, the principles in GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors* are applied to align accounting policies and/or estimates with the principles in the Guideline.

Judgement is applied to assess if any changes required constitutes a change in an accounting policy, a change in an accounting estimate or a correction of an error.



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