Accounting Standards Board

Newsletter October 2022 Edition

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Message from the CEO - "The old Man in Rondavel"

I was asked to participate in a panel discussion at SAIGA's 2nd annual conference. The panel was asked how accounting, reporting and auditing makes a difference to the life of an old man living in a rondavel in rural South Africa. What a fantastic question!

Accounting, reporting and auditing provide relevant, reliable information to Parliament, Legislatures and Municipal Councils to hold government organisations, and their elected officials and employees, accountable. High quality financial statements, performance reports, and annual reports, accompanied by independent audit reports – are key to accountability. Members of Parliament, Legislatures and Municipal Councils are elected to represent citizens' and others' interest, especially the old man in the rondavel.

While the elected representatives of Parliament, Legislatures and Municipal Councils 'do their job' on behalf of citizens, it is increasingly important for citizens to have access to information to improve their lives, actively participate in their communities, and have relevant information when they exercise their right to vote.

One of the statements often made is that the financial statements (and related reports) are too complicated for the 'average' citizen to understand. If you read most financial statements, one of the first observations is the accounting and finance jargon used. This, combined with generic wording and the use of templates, makes the financial statements hard to understand and engage with. We often we see the financial statements replicating word for word what the Standards require, instead of saying how they were applied by the entity. The ability to change the financial statements and make the information more accessible is in the hands of every preparer and auditor.

We need to move away from viewing the preparation of the financial statements as a compliance exercise and think about what purpose financial statements serve. While it is true that the financial statements serve multiple users, simpler, more precise, entity specific information will be helpful to all users.

Financial statement preparation and auditing should start long before the legislated reporting and auditing deadlines. A key part of this preparation going forward should include how financial statements can provide more useful information and be used by more users. Being part of the change towards improved citizen engagement means applying professional judgement and being bold – as both preparers and auditors. If ever there was a purpose to drive reporting and auditing, let it be the Old Man in the Rondawel.

For more information about the discussions at the SAIGA conference, follow this link.

News from the ASB

The ASB held its Board meeting on 29 September 2022. At the meeting, the following pronouncements were approved:

- Amendments to GRAP 1 on *Presentation of Financial Statements* to better explain how going concern should be assessed and improve the disclosures in the financial statements.
- The GRAP Reporting Framework for financial years commencing on or after 1 April 2023.

The Board continued its deliberations on social benefits. The discussions focused on whether a distinction is needed between contributory and non-contributory benefits, and if a liability should be recognised at different points for contributory and non-contributory schemes.

The ASB's policy is to converge with IPSAS, where this is consistent with the ASB mandate and supports its strategy. Based on an analysis of IPSAS 40 on *Public Sector Combinations* and the Standards of GRAP on mergers and transfers of functions, the Board agreed to retain the Standards of GRAP. The substantive principles in IPSAS 40 and the Standards of GRAP are the same. Where differences were identified, amendments will be proposed to the Board in March 2023.

The meeting highlights are available here.

The Board continues its discussions on accounting for social benefits

Accounting for social benefits has been a topic of debate for decades, internationally and locally. After many years of consultation and deliberation, the International Public Sector Accounting Standards Board (IPSASB) issued IPSAS 42 on Social Benefits in 2019, to fill the long standing gap in their literature.

.The Accounting Standards Board (Board) has a strategy to converge with IPSAS, where appropriate for the local environment. Given the complexity of the matter, the Board waited for IPSAS 42 to be finalised so the appropriateness for the local environment could be assessed, before commencing the development of a Standard of GRAP on Social Benefits (the Standard) in 2021. Local stakeholders are no strangers to the issues and debates internationally, as many of them have taken part in the IPSASB's processes by participating in local roundtable discussions, workshops, drafting comment letters, etc. This has given the Board a good starting point for the local process.

Although accounting for social benefits may not impact many entities, it is core to the reporting of those entities who do provide them, and the financial statements of these entities have many users. Almost every citizen is affected by government's provision of social benefits at some point in their life, either as a contributor or a beneficiary. The provision of social benefits is also a high priority for government, as many of the benefits support the achievement of the National Development Plan 2030.

The Board therefore recognises the importance of developing a Standard that:

(a) results in information in financial statements that meets users' needs, including those who contribute to, and are beneficiaries of social benefits;
(b) is conceptually sound, i.e. aligned to the ASB's Conceptual Framework; and

(c) is implementable by entities reporting on social benefits, e.g. considers resource constraints of entities such as the information available and systems in place.

What has the Board considered to date?

The Board agreed early on that although IPSAS 42 will be used as a starting point, the Standard would depart in key areas from IPSAS 42 - such as the recognition point of a liability. In IPSAS 42, entities that do not voluntarily apply the insurance approach (which requires the application of IFRS 17 on Insurance Contracts), would recognise a liability only when a payment has been verified. Stakeholders locally did not agree with the limited information about the liability that this approach provides in the financial statements.

The current debates

As was the case internationally, the debate locally is focused on (a) when a liability should be recognised, and (b) whether this point should be the same for all social benefits, or whether different points should be prescribed for social benefits that differ in nature.

The Board agreed with stakeholders that it may be necessary to distinguish social benefits by nature, and their nature is represented by how the benefits are funded (contributions, or through other means such as annual appropriations). The distinction exists in statistical reporting, and arguably, users need different information about these benefits. Concerns around the distinction, however, include that it adds complexity to the Standard.

There seems to be consensus among the majority of stakeholders and the Board that the event that gives rise to a social benefit liability is the event related to the social risk for which the social benefit is provided has occurred. However, it is not necessary for the recognition point to be the same as the past event, and the Standard could prescribe a later recognition point based on a balance of considerations.

The range of views expressed to date include:

- There is no need to distinguish types of benefits and all social benefits should be recognised at the same point. Some are of the view that the benefits should be recognised when the past event occurs, while others believe a later recognition point would be more appropriate.
- Benefits should be distinguished by nature. Contributory social benefits should be recognised when the past event occurs, while non-contributory social benefits should be recognised at a later point when they are reliably measurable.

What is next?

The Board will continue its deliberations on the potential distinction and recognition points for social benefit liabilities in November 2022. Contact elizna@asb.co.za if you want to be part of the discussions.

Aligning local guidance on transfer of functions and mergers with IPSAS 40 on Public Sector Combinations

Most public sector entities applied GRAP 105 on *Transfer of Functions Between Entities Under Common Control*, GRAP 106 on *Transfer of Functions Between Not Entities Under Common Control* and GRAP 107 on *Mergers* (GRAP Standards) since April 2015 to account for transfers of functions and mergers.

The International Public Sector Accounting Standards Board issued IPSAS 40 on *Public Sector Combinations* in January 2017, and was effective for periods commencing on or after 1 January 2019. IPSAS 40 provides guidance on accounting for combinations, which are either amalgamations or acquisitions.

Aligning with IPSAS 40

As the GRAP Standards have been applied for a number of years, the Accounting Standards Board (Board) decided to assess if these Standards should be aligned with IPSAS 40. An analysis of differences between the GRAP Standards and IPSAS 40 was considered by the Board at is September 2022 Board meeting, and actions agreed to progress the project.

Retain local guidance and amend where relevant

Preparers are familiar with when they should apply a specific GRAP Standard, based on whether the transaction is a transfer of functions, a merger, and the existence of common control. Furthermore, to date, no substantive issues were raised by stakeholders on the implementation of these GRAP Standards.

This led the Board's to conclude that the local guidance on transfer of functions and mergers, i.e. GRAP 105, 106 and 107 should be retained.

To improve the GRAP Standards, and to align with the international thinking, authoritative guidance in IPSAS 40, will be incorporated into the GRAP Standards where this is relevant to the local environment.

In addition to considering the guidance from IPSAS 40, any amendments to IFRS 3 on *Business Combinations*, that became effective after IPSAS 40 was issued, will also be considered when revising the GRAP Standard.

Treatment of the excess in a transfer of functions

One of the most significant differences between the GRAP Standards and IPSAS 40 is the treatment of the excess, i.e., the difference between the assets acquired, the liabilities assumed, and the consideration paid.

IPSAS 40 requires the excess to be recognised and measured as goodwill. Goodwill is defined as "an asset representing the future economic benefits arising from other assets acquired in an acquisition, that are not individually identified and separately recognised".

In comparison, GRAP 106 requires the excess to be expensed. This follows the Board's decision during the development of the Standard in 2010 that any excess of the purchase consideration paid over the fair value of the assets acquired and liabilities assumed, is a premium that is paid by the acquirer to the previous owners. This excess is also likely to be paid for policy reasons.

In reviewing the principles on how the treat the excess in a transfer of functions, the Board concluded that its previous arguments remain relevant and appropriate. It was therefore agreed that the principle to recognise goodwill as in IPSAS 40, should not be introduced in the GRAP Standards.

When can stakeholders expect an Exposure Draft?

The Board intends to issue proposed amendments to the GRAP Standards as an Exposure Draft (ED) early in 2023.

If you are interested in the revisions to GRAP 105, 106 and 107, subscribe to the ASB's Newsletter to receive further updates, or follow us on social media for updates on this project, or contact Amanda Botha on amandab@asb.co.za.

Contact us
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