ANALYSIS AND RESPONSES TO WRITTEN COMMENT RECEIVED ON

EXPOSURE DRAFT ON SOCIAL BENEFITS

(ED 205)

RESPONSES TO THE WRITTEN COMMENT RECEIVED ON *EXPOSURE DRAFT ON SOCIAL BENEFITS* (ED 205)

The Accounting Standards Board (Board) approved an Exposure Draft requesting stakeholders to comment on the Exposure Draft on *Social Benefits* (ED 205) in July 2023. A Notice was published in the Government Gazette on 8 September 2023 (Notice 49280). The comment period closed on 28 March 2024.

The results of the formal comment process are summarised in this document. The comments received have been analysed based on the questions outlined in the Invitation to Comment published by the Board, along with any general comments noted by respondents.

An analysis of the stakeholders that submitted responses is included in the table on the next page.

In addition to the written comment received, the Exposure Draft was discussed with preparers, auditors, consultants and other interested parties by way of roundtable and other discussions.

The summary of verbal comment received on ED 205 is included in a separate analysis.

WRITTEN COMMENT RECEIVED ON *EXPOSURE DRAFT ON SOCIAL BENEFITS* (ED 205)

No.	Name/Organisation	Preparers	Users	Auditors	Other interested parties
1.	Ducharme Consulting (response to specific question)	X			
2.	Swartland Municipality (response to specific question)	X			
3.	Free State Department of Small Business Development, Tourism and Environmental Affairs (DESTEA)	X			
4.	Free State Provincial Treasury	X			X
5.	Free State Department of Education	X			
6.	Free State Department of Social Development	X			
7.	Free State Department of COGTA	X			
8.	Free State Department of Public Works and Infrastructure	X			
9.	Road Accident Fund	X			
10.	Office of the Accountant-General			X	X

SUMMARY AND ANALYSIS OF WRITTEN COMMENT RECEIVED ON THE EXPOSURE DRAFT ON *SOCIAL BENEFITS*

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
Question 1 **The ED proposes to define social benefits as cash and in-kind benefits in paragraph .07. The scope of the Standard is limited to cash benefits. The basis for conclusions paragraph BC3. explains the Board's considerations and reasons.** **Do you agree that the ED clearly explains the scope of the Standard? Please provide the reasons and details for your answer.**		
1.1	**Ducharme Consulting**	
1.1.1	No comment.	-
1.2	**Swartland Municipality**	
1.2.1	No comment.	-
1.3	**Free State Department of Small Business Development, Tourism and Environmental Affairs (DESTEA)**	
1.3.1	Went through the Standard and there are not further comments.	No action required.
1.4	**Free State Provincial Treasury**	
1.4.1	No *[Respondent indicated the "no" should be interpreted to mean there are no issues.]*	No action required.
1.5	**Free State Department of Education**	
1.5.1	Education does not have such social benefits therefore this ED does not apply to the Department and therefore we do not have any inputs	No action required.
1.6	**Free State Department of Social Development**	
1.6.1	The department agrees with the scope of the standard as it is clearly explained in terms of recognition.	No action required.
1.7	**Free State Department of COGTA**	
1.7.1	The Department of COGTA has no inputs.	-
1.8	**Free State Department of Public Works and Infrastructure**	
1.8.1	Yes	No action required.
1.9	**Road Accident Fund**	

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
1.9.1	The application of the proposed standard on the level of each social benefit and not at entity or scheme level is supported as this is consistent with the application of GRAP standards to transactions and account balances. In the commentary below, reference is made to the entity, scheme and benefit. All these references are made within the context that the proposed standard should be applied to individual benefits and must not be construed as implying that the standard should be applied at entity or scheme level.	No action required.
1.10	**Road Accident Fund**	
1.10.1	For the most part, the ED clearly explains the scope of the Standard. An area of uncertainty is what characteristics would a scheme possess that would result in the scheme being accounted for according to accounting policies developed using IFRS 4 and not the Social Benefit Standard or GRAP 19. The diagram in AG7 indicates an assessment of the nature of the scheme to determine the correct accounting standard is required if: 1) It does not mitigate a social risk; or 2) It does not address the needs of society as a whole. The ED does not provide guidance on the Insurance consideration, in that only 'pure insurance' contracts will fall within the scope of IFRS 4 (of IFRS 17). How GRAP 19 would apply to expenses not falling in the Social Benefits Standard or IFRS 4 as well as in-kind social benefits is not provided. The application of GRAP 19 would by default, be limited to the application of the recognition rules included in the social benefit standards. For example: Loss of earnings per AG 11 does not meet the definition of a social benefit, meaning they should fall into GRAP 19 if they are not 'pure insurance'. Where the scheme providing the loss of earnings benefit has all the characteristics of social assistance, the same limitation on available information exists on determining the liability at the event date. Thus, the recognition point per GRAP 19 (if the ED is consistent with the Conceptual Framework and other standards of GRAP) should be the same recognition point under the proposed social benefit standard, due to availability of information. The same applies to benefits in kind.	The flowchart in paragraph AG7. is clarified with note 1 that IFRS 17 on *Insurance Contracts* only applies to insurance contracts in the scope of IFRS 17, aligned to paragraphs .05(e) and AG3. The classification of a benefit as social security insurance or social assistance only applies to benefits that meet the definition of social benefits in this Standard. The characteristics and related guidance in this Standard were specifically developed for benefits in the scope of this Standard and may not be appropriate for or applicable to other benefits. The accounting requirements were also specifically developed for benefits with these characteristics and for the information that users would need about these benefits to hold entities accountable and make decisions. The same information may not be appropriate for benefits outside the scope of this Standard, e.g. benefits in the scope of GRAP 19 on *Provisions, Contingent Liabilities and Contingent Assets.* The guidance of GRAP 19 should be applied to account for transactions in the scope of GRAP 19. The Board will further consider guidance on in-kind benefits in a future project. As noted in paragraph BC3., the guidance needed for in-kind benefits likely differs to cash benefits.

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
1.10.2	The basis of exclusion of loss of earnings type of benefits from the definition of a social benefit is understood, but not supported. The reliance on how the value of the benefit is determined for the individual does not limit the fact that potential beneficiaries are not limited to a close group of people. The relationship between the beneficiaries and the scheme is not considered at all at the scoping and definition level. Par AG11 loss of earning benefits to insurance contracts or similar arrangements. This however cannot be concluded without considering the scheme as a whole and the relationship between the scheme and its beneficiaries. How the scheme is funded is pivotal to whether it can be deemed 'pure insurance'. This approach undermines the need for an insurance approach in the proposed standard and seeks to scope out expenditures which are clear to be social benefits due to the type of funding and the vast scope of individuals/households who may receive the benefit. A 'gap' is created which certain types of benefits will fall into as they are neither 'pure insurance' nor social benefits according to the application of the definition. <u>Recommendation</u> Consequential amendments to GRAP 19 should provide guidance on when and how GRAP 19 should be applied and when IFRS 4 for should applied. This will clarify how the accounting treatment in those standards compares or is similar to the accounting treatment in the social benefits standard. It is also recommended that the Board revisit the 'society as a whole' principle in the definition to consider the economic relationship between the beneficiary and the scheme and not just how the value of the benefit is determined. The factor determining if the 'society as a whole' requirement is met should be the scope of the individuals/households eligible to receive benefits and not how the extent of benefits receivable by eligible parties are determined. This approach will remove the 'gap' that social benefits will fall into where there is no guidance on accounting treatment in the accounting framework. There should be no 'gap' between schemes that are 'pure insurance' and schemes that are social benefits. This is consistent with the classification of schemes in the GSF.	Whether and, if so, how a benefit is funded has no impact on whether or not the benefit meets the definition of a social benefit. For benefits that meet the definition of social benefits in this Standard and are in the scope of the Standard, the way in which they are funded may, however, impact on the classification of the benefits as social security insurance or social assistance benefits. The flowchart in paragraph AG7. is clarified with note 1 that IFRS 17 only applies to insurance contracts in the scope of IFRS 17, aligned to paragraphs .05(e) and AG3. Paragraph AG12. explains how benefits that address the needs of certain sectors of society could still be seen as addressing the needs of society as a whole. There may be many existing descriptions and definitions of "social benefits" that are broader than the definition in this Standard. The Board purposefully set a narrow definition and scope for this Standard to ensure the requirements of the Standard could be developed with clear characteristics of benefits identified, so that information produced is relevant and useful to users. [See paragraph BC3.] Other Standards, such as GRAP 19, may provide better information about benefits that do not meet the characteristics of benefits in the scope of this Standard. For example, certain benefits are similar to legal claims against entities, which is accounted for in accordance with GRAP 19. [See paragraph AG7.]
1.11	**Office of the Accountant-General**	
1.11.1	The OAG agrees that the scope of the Standard is clearly explained and directs users to the Standard that is applicable to social benefits provided in kind. Setting out the scope exclusion	No action required.

<table>
<tr><th>NO.</th><th>COMMENT</th><th>PROJECT GROUP'S PROPOSED RESPONSE</th></tr>
<tr><td></td><td>of social benefits provided for in kind indicates upfront that the Standard only applies to cash benefits.</td><td></td></tr>
<tr><td colspan="3">Question 2
The ED proposes to distinguish social benefits as "social security insurance benefits" and "social assistance benefits" for recognition purposes. The ED defines these social benefits in paragraphs .07, and .09 to .13. The basis for conclusions paragraphs BC20. to BC29. explain the Board's considerations and reasons for the distinction.
(a) Do you agree with the Board's reasons to distinguish types of social benefits in the ED?
(b) If your answer to (a) is yes, do you agree with the way in which the ED distinguishes types of social benefits?
(c) Do you foresee any practical challenges with distinguishing types of social benefits?
Please provide the reasons and details for your answer.</td></tr>
<tr><td>2.1</td><td colspan="2">Ducharme Consulting</td></tr>
<tr><td>2.1.1</td><td>No comment.</td><td>-</td></tr>
<tr><td>2.2</td><td colspan="2">Swartland Municipality</td></tr>
<tr><td>2.2.1</td><td>No comment.</td><td>-</td></tr>
<tr><td>2.3</td><td colspan="2">Free State Department of Small Business Development, Tourism and Environmental Affairs (DESTEA)</td></tr>
<tr><td>2.3.1</td><td>Went through the Standard and there are not further comments.</td><td>No action required.</td></tr>
<tr><td>2.4</td><td colspan="2">Free State Provincial Treasury</td></tr>
<tr><td>2.4.1</td><td>(a) No
(b) No
(c) None
[Respondent indicated the "no" should be interpreted to mean there are no issues.]</td><td>No action required.</td></tr>
<tr><td>2.5</td><td colspan="2">Free State Department of Education</td></tr>
<tr><td>2.5.1</td><td>Education does not have such social benefits therefore this ED does not apply to the Department and therefore we do not have any inputs</td><td>No action required.</td></tr>
</table>

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
2.6	**Free State Department of Social Development**	
2.6.1	(a) Yes (b) Yes. The definition is clear, especially relating to categories as to when recognition must apply. (c) Not applicable at this moment.	No action required.
2.7	**Free State Department of COGTA**	
2.7.1	The Department of COGTA has no inputs.	-
2.8	**Free State Department of Public Works and Infrastructure**	
2.8.1	(a) Yes (b) No further comment. (c) Not really, illustration guidance has been provided.	No action required.
2.9	**Road Accident Fund**	
2.9.1	(a) The reasons documented in BC20(a) (Users need different information on different types of social benefits) and BC21 (Applying judgement) are agreed with. The reason provided in BC20(b) requires further explanation. It is unclear how the extent of a liability under IFRS 4 provided "more information" in the annual financial statements. Information disclosed under IFRS 4 created incorrect expectations for the users. Par 3.8 of the Conceptual framework states: Financial and non-financial information has confirmatory value if it confirms or changes past (or present) expectations. For example, information will be relevant for accountability and decision-making purposes if it confirms expectations about such matters as the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, the achievement of specified service delivery objectives, and compliance with relevant budgetary, legislative and other requirements. The expectations created under IFRS 4 were: • To have discharged their responsibilities for efficient and effective use of resources, management would have needed to manage insurance risk. Management was required	Paragraph BC20(b) is amended to reflect the information needs of users. Chapter 2 of the *Conceptual Framework for General Purpose Financial Reporting* explains users' needs and the reasons for reporting information for accountability purposes. Users are assumed to have reasonable knowledge of an entity's activities and environment and an ability to read financial statements, review and analyse the information. When users communicate that they need certain information for accountability and decision making purposes, it is assumed that they have the necessary understanding. The service government provides to citizens through social benefits is that government stands ready to respond to social risks and they do so for the period that the benefits are in place.

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
	by par 39(a) of IFRS 4 for to disclose its objectives, policies and processes for managing risks arising from insurance contracts. Par. 39(c) required information about insurance risk before and after mitigation by reinsurance. • No information was required on compliance with legislative and other requirements governing the scheme. Obligations on entities to provide services should not be regarded as risks. The outflow of economic benefits and service delivery is the objective of the entity and when service delivery is achieved, it is not a risk that has materialized. Risk for these entities is the non-achievement of service delivery and non-compliance with legislative requirements governing that specific scheme. Providing services or making payments which have not complied with the required legislative requirements amounts to irregular expenditure in the government sphere. The obligation on entities not to incur irregular expenditure is of equal weight on entities as their mandate to provide services or payments. Accounting for social insurance benefits under IFRS 4 ignores management's obligations under the PFMA and further conditions to service delivery specified in the enabling legislation of the entity. It also creates a mismatch between when the expenditure is recognized and when the service delivery is actually provided. Entities cannot be held accountable on management of resources if expenditure is recognized before a service delivery requirement materializes. Disclosures under IPSAS 42 regarding the eligibility criteria balanced the relevance of information to users as the correct expectation of when a service is deliverable was created in the Annual Financial Statements. The Board's concern for less information must not compromise the relevance of the information shown in the Annual Financial Statements. Par 3.27 of the Conceptual framework highlights that consistency must not be mistaken for comparability and must not compromise the faithful representation of a transaction or event. Before making this decision, the Board should consult with entities on whether information in their annual financial statements is creating the correct expectations to the users who hold them accountable and not merely apply consistency. Failure to do so compromises the comparability of the information presented by social benefit entities as they are compared to Insurance entities, which by nature, differ in objectives, operations and management.	In the accrual basis of accounting, an expense is recognised when an entity has a present obligation for an outflow of resources that meets the definition and recognition criteria of a liability, unless the outflow gives rise to the recognition of an asset or other item. An entity may need to estimate the items initially recognised and adjusts the liability (and related expense) until payment is made and the actual expense is reflected. This approach in the ED is similar to other Standards of GRAP. An expense is recognised when the liability is recognised. The payment of benefits is the settlement of the liability. Irregular expenditure arises when an entity has not complied with legislative requirements in transactions that have been processed and the same transaction has a financial implication, i.e. payment was made or a liability was recognised in the books (National Treasury Irregular Expenditure Framework). Irregular expenditure was also not raised as a concern by any other respondent, including the National Treasury. See comment 1.10.2 regarding the information to users by applying the appropriate Standards of GRAP.

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
	In the past, as an example, the Road Accident Fund is often accused of maladministration due to the extent of the liability that was recognized and its effect on going concern. How management actually ensured service delivery became irrelevant. The Board, with respect, should not fall foul of the same practice. The ED is the opportunity to enhance the Financial Reporting of Social Benefit entities and should not be restricted by past practices that were not ideal. <u>Recommendation</u> The Board's decision to differentiate between different types of social benefits is supported, however, more consideration should be given to faithful representation and relevance of the information to be reported by social benefit entities in the local environment.	
2.9.2	(b) The way in which the ED distinguishes between types of benefits is supported in principle, however, the concept of a 'contribution' is not clear in the standard. Preparers of financial statements may not understand that the contribution as contemplated, implies a link between the contribution and the benefit, creating a 'relationship' between the scheme and the beneficiaries. The ED is also unclear as to how the review in par 11(c) differs from a normal Going Concern review in GRAP 1. If nothing additional is required in this review, schemes may be classified as a Social Security Insurance Benefit based on their GRAP 1 assessment. The participation in actions to respond to the review in par 11(c) creates the impression that providing information to the process, or presenting the facts at the relevant engagements at government level is sufficient to classify the entity as a Social Security Insurance Benefit. The entity must have some level of influence over the actions and not merely participate in the process. Where the outcome of the actions is beyond the control of the entity, the strategic objective of management is vastly different from where an entity is able to influence the actions. The considerations of the Board set out in BC22 are supported with the exception of par BC22(c). The commentary on this position of the board is documented in (a) above. <u>Recommendation</u> It is proposed that a contribution be defined as an amount paid by or on behalf of beneficiaries to a scheme that enables the beneficiary to participate or receive benefits from the scheme.	Paragraphs .11 and AG17. to AG21. explain the characteristics of social security insurance benefits, including the relationship between the entity and contributor/beneficiary. There may be overlap between the assessment described in paragraph .11(c) and an entity's going concern assessment. Paragraph .11 explains that the characteristics indicate that social benefits are managed in a manner similar to insurance contracts, i.e. a social risk is transferred to the provider of the social benefits in return for contributions by, or on behalf of, the individuals and/or households who participate in activities that give rise to the social risk. Management applies judgement to assess all the characteristics holistically in this light. Refer to comment 2.9.1. Paragraph BC22(c). is amended. In accordance with the Due Process Handbook, existing accounting practices is a consideration when assessing whether convergence with an international standard is appropriate and was one of the Board's considerations. Paragraph BC22(a). refers to the

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
	This definition will place the characteristics of Social Security Insurance Benefits in more context. It is also proposed that the characteristic relating to the review of the financial performance and funding of the scheme be enhanced to distinguish between what is required in this standard that is different from the normal going concern assessment required by GRAP 1. Furthermore, it is proposed that the characteristics that the entity participates in actions to respond to the review needs to be enhanced to indicate that the entity must have a degree of influence over the outcome of the actions. Lastly it is proposed that the Board revisit the considerations relating to information previously included in the AFS in the current environment (par BC22(c). It is unclear as to why the Board seek to promote the current accounting practices formulated while no guidance existed in the Accounting Framework. The expectations of users are significantly misaligned to the strategic objectives of entities. These expectations must be corrected with the new standards to enable management to be held accountable according to their strategic objectives and not according to the perception created by current practices. The sensitivity of users to changes in the financial statements should not be a factor in determining whether a transaction or economic phenomenon is accounting is represented fairly. This limits the development of the accounting treatment to achieve a predetermined outcome, which is not free from bias.	information needs of users, which was the Board's primary basis for developing the requirements.
2.9.3	(c) The characteristics set out for Social Assistance Benefits creates confusion as entities that do not exhibit the characteristics of a Social Security Insurance Benefit may also not exhibit certain of the Social Assistance benefits. This will result in entities not knowing whether the benefits are Social Security Insurance or Social Assistance. The characteristics create a 'third category' of social benefits for which no guidance is provided. <u>Recommendation</u> It is recommended that the characteristics of Social Assistance benefits be removed as per the definitions of the proposed standards. If the characteristics of Social Security Insurance Benefits are not present, the benefits are then Social Assistance	No changes are proposed. Paragraph .12 states: "*An entity recognises all social benefits other than social security insurance benefits as social assistance benefits*". Paragraph .13 states that the characteristics of social assistance benefits may include the following... I.e. it is not necessary for a social assistance benefit to meet all the characteristics. Paragraph .13 also states the characteristics are not exhaustive. I.e. there may be other characteristics not included in the Standard.
2.10	**Office of the Accountant-General**	
2.10.1	(a) The OAG agrees that it is important to distinguish between the types of social benefits.	No action required.

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
	(b) The way the social benefits are distinguished will make it easy for users of financial statements to understand the nature and characteristics of the types of benefits being provided by the entity. (c) No, the distinction will assist both the preparers and the users of financial statements. Preparers – for information collection, processing and reporting. Users – for understandability of the information reported on social benefits in the AFS.	
Question 3 **The ED proposes in paragraph .16 that social security insurance benefits are recognised when the event related to the social risk for which the social benefit is provided occurs. The Board's considerations and reasons are included in the basis for conclusions paragraphs BC35. to BC38.** **Do you agree with the approach to recognise social security insurance benefits as proposed in the ED? Please provide the reasons and details for your answer.**		
3.1	**Ducharme Consulting**	
3.1.1	No comment.	-
3.2	**Swartland Municipality**	
3.2.1	No comment.	-
3.3	**Free State Department of Small Business Development, Tourism and Environmental Affairs (DESTEA)**	
3.3.1	Went through the Standard and there are not further comments.	No action required.
3.4	**Free State Provincial Treasury**	
3.4.1	Yes	No action required.
3.5	**Free State Department of Education**	
3.5.1	Education does not have such social benefits therefore this ED does not apply to the Department and therefore we do not have any inputs	No action required.
3.6	**Free State Department of Social Development**	
3.6.1	The department agrees with the scope of the standard as it is clearly explained in terms of recognition.	No action required. [The response is the same as for question 1.]

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
3.7	**Free State Department of COGTA**	
3.7.1	The Department of COGTA has no inputs.	-
3.8	**Free State Department of Public Works and Infrastructure**	
3.8.1	Yes	No action required.
3.9	**Road Accident Fund**	
3.9.1	The approach to recognize Social Security Insurance Benefits is not supported. Obligations placed on entities by legislation. The approach outlined in the ED to recognized social security insurance benefit liabilities selects one individual obligation placed on the entity by legislation and diminishes all other legislated obligations related to the payment of benefits. Legislated obligations cannot be ranked as more prominent than other legislated obligations. The approach put forward by the ASB ignores all other legislated obligations placed on entities. It is understood that other legislated eligibility criteria are regarded as rules of the scheme and are not to be considered in respect of the preferred recognition point. This however does not consider that multiple legislation sources place obligations on public entities to incur expenditure according to a legislated manner. The Public Finance Management Act places the obligation on public entities to incur expenditures in accordance with legislation governing the entity and the environment in which it operates. Expenditure incurred where legislation was not complied with is deemed Irregular Expenditure, which the PFMA tasks entities and accounting authorities to avoid. (The Board is requested to note that public entities reporting under GRAP recognize Irregular Expenditure when it is incurred and not when it is paid.) Just as the section of legislation considered to give rise to the obligation is deemed to be a unilateral obligation placed on the entity, the obligation to verify is also a unilateral obligation created by legislation. Both of these obligations are pivotal to whether or not the entity has an obligation to pay the benefits. The approach put forward will require entities to incur expenditure before the legislated eligibility criteria are met and before the entity has fulfilled its obligation to ensure those criteria are met. This approach affects the comparability of information presented in accordance with the GRAP Standard and information presented in accordance with National	The balance of comment received on the proposed recognition point is that the requirements are supported. The Board's rationale for the proposals, based on the *Conceptual Framework for General Purpose Financial Reporting*, is set out in the basis for conclusions. In the accrual basis of accounting, an expense is recognised when an entity has a present obligation for an outflow of resources that meets the definition and recognition criteria of a liability, unless the outflow gives rise to the recognition of an asset or other item. An entity may need to estimate the items initially recognised and adjusts the liability (and related expense) until payment is made and the actual expense is reflected. This approach in the ED is similar to other Standards of GRAP. Payments should only be made after due verification. Paragraph .16 requires that a liability for a social security insurance benefit is recognised when the event related to the social risk for which the social benefit is provided occurs. Paragraph .22 requires an entity to measure the liability at "the best estimate of the costs (i.e. the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability." Paragraph AG46. provides examples of estimates that may be required to measure a social benefit liability, including the

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
	Treasury's PFMA compliance reporting framework in the Annual Financial Statements and the Annual Report. The legislated requirement for entities to validate the eligibility of an individual resulting from the event related to the social risk is significant to the recognition criteria of a liability. There are a number of scenarios after the event has occurred that may force an entity not to provide the social benefit to the individual. If such circumstances exist, it cannot be concluded that the entity has no realistic alternative other than to settle the obligation. It cannot be concluded that a binding obligation on the entity exists when there is an equal obligation for the entity to ensure that only valid expenditures are incurred. The obligation to validate the eligibility of the individual cannot be considered a matter of measurement. Validation is a key component in determining if an obligation exists according to all legislated requirements. Legislated eligibility criteria are not decisions of management that do not affect the obligation of the entity. They are legislated conditions for the entity to incur liability. Any obligation created by legislation is not binding until the eligibility criteria are satisfied, particularly the requirement to submit an application for benefits. There is no outflow of economic benefits resulting from this obligation before the application is made by the individual. This is the earliest point where there is an indication that the entity may be liable for an outflow of economic benefits. Recognising a liability before this point does not result in the fair presentation of the economic reality of when an entity expects an outflow of resources. A practical example would be the UIF. This the operating model of the UIF is that contributions are received on behalf of individuals who are working, that will enable the individuals to claim benefits should their employment status change. It is our view that the UIF benefit would therefore be classified as Social Security Insurance. The UIF would need to recognize a liability for all unemployed persons in the country as the event related to the risk has occurred. Whether or not the individual was working, contributing to the scheme, reason for termination, period of unemployment would all be considered as a matter of measurement. The economic reality is an individual may only claim UIF if they contributed (directly or indirectly) to the scheme, their employment is terminated through no fault of their own, and the term of unemployment has not exceeded the allowable term in which they may receive the benefits. This accounting treatment clearly does not faithfully represent the obligations of the scheme.	amounts of social benefit payments that would be made for the events related to social risks that have occurred but have not yet been reported to the entity. These requirements mean an entity only recognises a liability for the outflows (payments) that the entity estimates it will make. The Board used the *Conceptual Framework for General Purpose Financial Reporting* to develop the ED. The recognition requirements were developed with reference to the two criteria in the Conceptual Framework: • the past event that gives rise to a present obligation occurs; and • the present obligation can be measured reliably and by considering the qualitative characteristics in the Conceptual Framework. In accordance with the Conceptual Framework, probability is not considered in the recognition of a liability. A liability may be recognised even when the probability of an outflow of resources is low. This approach differs from the approach in GRAP 19 where a low probability of an outflow results in the disclosure of a contingent liability instead of a recognised liability. This explanation is added to paragraph BC32. and paragraph BC36. is updated. Refer to comment 2.9.1 for users' needs and irregular expenditure. The ED was developed with a specific scope and distinguishes benefits by their nature (characteristics) so that the requirements ensure appropriate information is provided for each type of social benefit

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	In BC32, the board indicated that it noted that probability is not considered in the recognition of a liability. The board however did not adequately note that an outflow of benefits is required to settle the obligation as part of the definition of a liability. (Conceptual Framework par 5.15) The submission of the application places the obligation on the entity to assess the validity of the application, it does not create an outflow of economic benefits. The fulfilment of the legislated eligibility criteria creates the obligation for the entity to perform and thus has an outflow of eco-nomic benefits. Where the applicant has not yet demonstrated their eligibility to receive the benefit, it is likened to an executory contract in which neither party have performed. No accounting entry is required for such transactions. With respect, the consideration of the Board in BC36 is fundamentally flawed as the accounting treatment that is being formulated is trying to achieve a specific outcome and it is therefore not free from bias. The desired outcome of the Board is that the liabilities of entities should not reduce significantly from what was previously reported. The recognition point was therefore set to ensure that this objective was achieved. This approach did not consider what fair representation of the liabilities should look like. User's sensitivity to changes in the financial statements should not be considered when determining what faithful presentation is for an economic phenomenon. If the true economic reality differs from information previously presented in the Annual Financial Statements, the information must be corrected. It cannot be manipulated due to the sensitivity of the users. This will not result in relevant or useful information being presented. The predictive role of information helps to confirm or correct user's past expectations regarding the entity's ability to respond to changing circum-stances. Furthermore, prescribing what the obligating event is for social benefits creates a rule that entities must follow and does not allow entities to assess what the obligating event for their individual scheme is. This is in conflict with the Conceptual Framework. <u>Recommendation</u> It is suggested that the Board revisits the approach to the obligating event. Complete information can be achieved without prescribing what the obligating event is. Complete information also can take different forms, and recognizing the liability at the Board preferred earliest point is not the only manner in which complete information can be achieved.	to enable users to hold entities accountable based on their responsibilities.

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
	The conceptual framework also includes the concept of contingencies, where a possible obligation is identified, but the existence is confirmed at a later date. The disclosures required for con-tingent social benefit liabilities can include the obligation of the scheme to perform its mandate, what obligations are placed on the entity to ensure the supply of social benefits comply with the relevant legislation to entitle an individual to receive those benefits, as well as information on how the mandate is expected to realise into the supply of social benefits. The event that indicates that a possible obligation exists would be the point where a performance obligation is placed on the entity. This could range from when the contribution is received from the individual (such as UIF) to the decision of the individual to apply for the benefits. Where the payment of a contribution by or on behalf of an individual is made, and the entity is expected to perform because of the contribution made, a possible obligation arises. This obligation will only be confirmed when there is an outflow of economic benefits linked to the possible obligation. Unemployed citizens may choose not to claim from the UIF. It is the decision to claim that creates the expectation that an outflow of benefits will occur. For other entities, the application to receive benefits may be the point a possible obligation arises as without an application, there cannot be an outflow of resources. In both examples above, the possible obligation is only confirmed as an obligation to provide an outflow of benefits once the legislated eligibility criteria are met. Furthermore, consideration should also be given as to whether the social risk had a detrimental effect on the beneficiary. Where the event occurs, but there is no impact on the individual, the beneficiary may not be entitled to claim benefits. The occurrence of the event alone does not give rise to an obligation unless there is an impact as contemplated. This will result in information that is relevant to the individual scheme and will be useful to the users of the annual financial statements as decisions will be made knowing the correct context of the economic environment in which the entity operates, Disclosure requirements on estimated benefit payments can be required as well as number of applications received not yet assessed. This will provide useful information to users on how the entity is performing with regard to expected service delivery.	
3.10	**Office of the Accountant-General**	
3.10.1	The OAG agrees with the approach proposed to recognise social security insurance benefits. Estimation can be used to measure the liability for social security insurance benefits, but in	No action required.

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
	the instance where the data to measure the liability is not available or reliable, entities may experience challenges with the measurement criterion of the recognition of the liability.	
Question 4 **The ED proposes in paragraph .17 that social assistance benefits are recognised when an entity providing the social benefit receives an application from a potential beneficiary. The Board's considerations and reasons are included in the basis for conclusions paragraphs BC39. to BC45.** **Do you agree with the approach to recognise social assistance benefits as proposed in the ED? Please provide the reasons and details for your answer.**		
4.1	**Ducharme Consulting**	
4.1.1	On Social assistance benefits my view from a practical point would be, due to the lengthy process between the time a form is received to when it is reviewed and verified and processed onto the system before payments are commenced: 1. Its difficult to quantify the number of application forms received as they are manual forms (usually in large piles in a room till processed) 2. An estimate raised as a liability will overstate expenditure (possibly also causing unauthorised expenditure) until payments are commenced If any I would possibly raise a Contingent liability rather than a provision so that it does not overstate expenditure for the period prior to payments commencing	In considering the appropriate recognition point for social assistance benefits, paragraph BC40. explains that the Board did not consider it appropriate for a recognition point to depend on the effectiveness of an entity's own internal processes to verify and approve applications received. See comment 3.9.1. on the use of contingent liabilities.
4.2	**Swartland Municipality**	
4.2.1	No comment.	-
4.3	**Free State Department of Small Business Development, Tourism and Environmental Affairs (DESTEA)**	
4.3.1	Went through the Standard and there are not further comments.	No action required.
4.4	**Free State Provincial Treasury**	
4.4.1	Yes. When an application for a benefit is received.	No action required.
4.5	**Free State Department of Education**	
4.5.1	Education does not have such social benefits therefore this ED does not apply to the Department and therefore we do not have any inputs	No action required.
4.6	**Free State Department of Social Development**	

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
4.6.1	Yes we agree because the benefactor has the responsibility at the stage of receiving the application.	No action required.
4.7	**Free State Department of COGTA**	
4.7.1	The Department of COGTA has no inputs.	-
4.8	**Free State Department of Public Works and Infrastructure**	
4.8.1	Yes	No action required.
4.9	**Road Accident Fund**	
4.9.1	The proposed approach for recognition of Social Assistance Benefits Liabilities is not supported. Refer to the response under Question 3, as well as the below discussion. In BC40, the Board concluded that fulfilment of eligibility criteria as a recognition point results in limited information on the liability being provided. It is not clear from the ED how the information is limited, or whether this refers to the fact that the liability will be less than what was previously reported, thus not meeting the Board's objective. This however is discussed in detail in the response to question 3 above. Information can be provided on what applications have been received and how many have been assessed. This will provide valuable information on the efficiency of the entities' internal processes as it will assist with holding management accountable for how the entity is managed. It will also provide information on the ability of management to respond to changes in circumstances. Where an entity has not fulfilled their obligation to verify eligibility, the entity is not permitted to incur that expenditure. In BC42, it is stated that entities are responsible for compensating beneficiaries based on applications received for social benefits. This assumption is however not appropriate for all schemes of this nature. The mere application does not create an obligation that will result in an outflow of benefits. The obligation created is for the entity to assess whether the beneficiary is eligible to receive the social benefit. The compensation of beneficiaries is based on their eligibility and not the application. <u>Recommendation</u> Refer to the recommendation for Question 3.	No changes are proposed. Refer to comment 3.9.1. Paragraph BC40. notes information is limited because only information on applications that the entity verified to meet all eligibility criteria is provided and no information is provided on the entity's obligations related to applications received by the entity that are not yet verified. The explanation is added to paragraph BC40. As explained in paragraphs AG26. and BC31. the past event for all social benefits is the occurrence of the event related to the social risk for which the benefits are provided. As explained in paragraphs BC39. to BC45. the proposed recognition point resembles user needs and the point at which a reliable estimate can be made. The entity provides information about the best estimate of the outflows it expects to incur in settling the obligation at the reporting date.

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
4.10	**Office of the Accountant-General**	
4.10.1	The OAG agrees with the approach proposed to recognise social assistance benefits.	No action required.
Question 5 **The ED proposes that the satisfaction by beneficiaries of ongoing eligibility criteria, as required by a benefit's rules, to continue receiving a social benefit gives rise to a new liability when the eligibility criteria required to be met are substantive (see paragraph .21). The Board's considerations and reasons are included in the basis for conclusions paragraph BC46.** **Do you agree with the boundaries of social benefit liabilities as proposed in the ED? Please provide the reasons and details for your answer.**		
5.1	**Ducharme Consulting**	
5.1.1	No comment.	-
5.2	**Swartland Municipality**	
5.2.1	I have a minor point of contention concerning the eligibility criteria. .16 A liability for a social security insurance benefit is recognised when the event related to the social risk for which the social benefit is provided occurs. (See Appendix A paragraphs AG28. to AG29.) .17 A liability for a social assistance benefit is recognised when an entity providing the social benefit receives an application from a potential beneficiary. (See Appendix A paragraphs AG30. to AG32.) 21 When a social benefit is provided on a recurring basis, existing beneficiaries may be required by a benefit's rules to satisfy eligibility criteria at specified times to qualify to continue receiving a social benefit. The satisfaction by each beneficiary of the eligibility criteria required to continue receiving a social benefit gives rise to a new liability when the eligibility criteria are substantive. The Application Guidance discussed that the conditions must be met AG 30-33. AG 34 starts discussing detailed conditions. In those paragraphs, we use the word "shall". The words "shall" are correct in the context of the examples. There are no examples where the conditions are met on an ongoing basis without eligibility criteria being met at specified points in time.	The Standard does not prescribe any specific ongoing eligibility criteria nor does it require the re-verification of eligibility criteria. An entity assesses the benefit's rules to determine what the eligibility criteria are and whether they are substantive. This is explained in paragraphs .21, AG33. to AG39. and BC46A. The impact of substantive ongoing eligibility criteria is amended to measurement rather than recognition. It should be noted that the Standard only applies to cash social benefits. GRAP 19 applies to in-kind benefits, such as water and electricity to indigents.

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
	Some entities has the mandate to prescribe the eligibility criteria. I.e. it is a council, or MEC decision. It is a common misunderstanding that there will be an annual renewal process to ensure that beneficiaries still meet ongoing criteria as outlined in AG34 and AG 38 to mention a few reiterations of the presumption. We need to understand the demographics of the vulnerable groups. Our people do not have access to water, electricity or even transport. More than 30% of our citizens are illiterate. Any standard dealing with social benefits needs to be written with this in mind. I completely agree that from an accounting and auditing point of view we need to transact based on proven facts. However, we should not make reference to renewals of terms when those renewals are not practically possible. Instead, the entity needs to test the eligibility of social benefit benefactors against its own measures to evaluate the criteria.	
5.2.2	Today, we review our indigent register practically on an ongoing basis. Not through applications being submitted, but rather through advanced systems that allows us to identify exceptions to the criteria and predetermined appropriate steps to take based on those exceptions (e.g. a person has a radical increase in their credit rating based on an application for credit). We also receive notification of changes in the status of a person's social benefits on other schemes (e.g. SASSA is ended as the person is deceased). I gathered that discussions were held with actuaries that performed these complex computations. Their models included beneficiaries no longer meeting the requirements. Did we specifically ask if there are annual renewal application submitted as a norm? Given our experience, it is unlikely that the entire population of beneficiaries are able to comply with the annual renewal requirement. I'm not referring to an educated NSFAS student, but rather to the poor that need to collect their cash social grant from a post office as the person is unable to transact via a debit card. How I interpret the rules, based on my personal experience. A policy can either: 1. Require an annual application before the benefits will be made available (this is explained well in the ED). 2. Require an initial application and thereafter a disqualification due to a change the conditions (i.e. past event is no longer met) In my personal experience, it is very seldom that there will be an ongoing grant and an annual renewal. It is either a grant specific to a period in time (normally aligned to the financial period of the entity) with a new application for the new year or it is an ongoing grant whereby the conditions of the grant is monitored (either through controls or affirmation (ED calls this a re-	See comment 5.2.1. As apposed to the Standard prescribing verification of eligibility criteria, the preferred approach is for an entity to consider a benefit's rules and account for the social benefit liability accordingly. As part of measuring the liability, an entity estimates beneficiaries that will no longer be eligible to receive benefits. An explanation is added to paragraph AG35. This estimation is part of current practice to measure similar liabilities.

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
	application) of the original facts). The standard making reference to a new application being equated to a new liability is therefore correct. I fully comprehend the research put into the ED, but I also recognise that the executives and senior managers have a different view from the frontline staff. Even in the instance where the research reflects the facts on the frontline, we still have a gap in the ED whereby there are instances where the conditions are met on an ongoing basis by means of a rebuttable presumption par for certain checks and balances. I don't think the old man in a hut (using ASB's CEO's example) who relies on social relief for his kids is able to fill in a form, never mind doing so annually. If we write a standard where the man in the hut is the minority, rather than the majority, we will be repeating the mistakes of the past inadvertently. My suggestion in this regard is to expand on the ED to also include a section where the conditions of the social benefit is ongoing under a rebuttable presumptions that once the application is successful, these conditions remain met until such time as there are indicators that the conditions are no longer met. As such, each entity would be required to annually review applications for indicators that the conditions are no longer met. The example in AG 34 could be used to explain that the entity can review the conditions with reference to national databases or other reporting available to it at, or prior to, the reporting date. GRAP 14 would apply in this instance. Alternatively, examples should include those where the conditions are presumed to be met (e.g. the person will still be 60 years or older), but with specific controls in the example that allows the monitoring of b and c.	
5.3	**Free State Department of Small Business Development, Tourism and Environmental Affairs (DESTEA)**	
5.3.1	Went through the Standard and there are not further comments.	No action required.
5.4	**Free State Provincial Treasury**	
5.4.1	Yes. The past event that gives rise to a present obligation for an outflow of resources for a social benefit is the occurrence of the event related to the social risk for which the social benefit is provided.	No action required.
5.5	**Free State Department of Education**	
5.5.1	Education does not have such social benefits therefore this ED does not apply to the Department and therefore we do not have any inputs	No action required.
5.6	**Free State Department of Social Development**	

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
5.6.1	As much as we agree, it should be taken into consideration that, in some instances, the liability is not permanent but temporary due to certain conditions placed by the benefactor. E.g. temporary disability benefit.	Noted. The Standard requires an entity to assess the eligibility criteria that apply based on the benefit's rules. Further explanation is added to paragraph AG35.
5.7	**Free State Department of COGTA**	
5.7.1	The Department of COGTA has no inputs.	-
5.8	**Free State Department of Public Works and Infrastructure**	
5.8.1	Yes, as indicated in paragraph 21.	No action required.
5.9	**Road Accident Fund**	
5.9.1	The principle that social benefit liabilities must have boundaries is supported. Furthermore, it should also be noted that this appears to be inconsistent application of the ability of eligibility criteria to affect the obligation of the scheme. If a liability can be limited by an eligibility criterion, it is implicit that it affects whether the entity has an obligation or not. This should not be ignored at recognition. <u>Recommendation</u> Clarity should be provided that eligibility criteria are substantive when there is a process in the scheme to confirm eligibility at a later date for ongoing payments. The Board should consider consistent application of the ability of eligibility criteria to influence the obligation of the scheme.	The ED is amended to explain substantive ongoing eligibility criteria affect the measurement of the liability. See paragraphs AG33. to AG39., BC46. and BC46A. The guidance in the Standard is based on the benefit's rules. Each entity should consider each benefit's rules to assess whether ongoing eligibility criteria are substantive.
5.10	**Office of the Accountant-General**	
5.10.1	The OAG agrees with the proposal.	No action required.
Question 6 **The ED does not require an entity to provide a sensitivity analysis of the social benefit liability. The Board considered whether this information may be useful, particularly for social security insurance benefits, and concluded such a requirement would be unnecessary. The Board's considerations and reasons are included in the basis for conclusions paragraph BC55.** **Do you agree that a sensitivity analysis of social benefit liabilities should not be required? Please provide the reasons and details for your answer.**		
6.1	**Ducharme Consulting**	

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
6.1.1	No comment.	-
6.2	**Swartland Municipality**	
6.2.1	No comment.	-
6.3	**Free State Department of Small Business Development, Tourism and Environmental Affairs (DESTEA)**	
6.3.1	Went through the Standard and there are not further comments.	No action required.
6.4	**Free State Provincial Treasury**	
6.4.1	Yes	No action required.
6.5	**Free State Department of Education**	
6.5.1	Education does not have such social benefits therefore this ED does not apply to the Department and therefore we do not have any inputs	No action required.
6.6	**Free State Department of Social Development**	
6.6.1	No comment.	-
6.7	**Free State Department of COGTA**	
6.7.1	The Department of COGTA has no inputs.	-
6.8	**Free State Department of Public Works and Infrastructure**	
6.8.1	No comment.	-
6.9	**Road Accident Fund**	
6.9.1	The position of the Board is supported. The question however should be asked as to whether the high degree of uncertainty which renders a sensitivity analysis not be useful impacts the ability of the entity to reliably measure the related obligation. It is put forward that this is evidence that the level of uncertainty at the preferred recognition point of the board is too great and the obligation cannot be reliably measured at this point.	Paragraph BC55. is amended to explain the information about the expected effect of social benefits on the amount, timing and uncertainty of the entity's future cash flows that will be useful to users is required by paragraph .38. A sensitivity analysis would be unnecessarily onerous. Most respondents supported this view.
6.10	**Office of the Accountant-General**	
6.10.1	The OAG agrees that, given the nature of the liabilities, a sensitivity analysis is not necessary.	No action required.

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
Question 7 **The ED requires information on risks and uncertainties related to the measurement of a social benefit liability to be disclosed (see paragraph .38). An entity would apply only the requirements that are applicable to the entity's circumstances, and would consider the information needed to meet the disclosure objectives. This information is not required by IPSAS 42.** **Do you agree that information on risks and uncertainties is important for users to understand the measurement of the social benefit liability? Please provide the reasons and details for your answer.**		
7.1	**Ducharme Consulting**	
7.1.1	No comment.	-
7.2	**Swartland Municipality**	
7.2.1	No comment.	-
7.3	**Free State Department of Small Business Development, Tourism and Environmental Affairs (DESTEA)**	
7.3.1	Went through the Standard and there are not further comments.	No action required.
7.4	**Free State Provincial Treasury**	
7.4.1	Yes	No action required.
7.5	**Free State Department of Education**	
7.5.1	Education does not have such social benefits therefore this ED does not apply to the Department and therefore we do not have any inputs	No action required.
7.6	**Free State Department of Social Development**	
7.6.1	Agree since the users have an interest due to future interest.	No action required.
7.7	**Free State Department of COGTA**	
7.7.1	The Department of COGTA has no inputs.	-
7.8	**Free State Department of Public Works and Infrastructure**	
7.8.1	Yes, to enable the entity to present and disclose social benefit liabilities correctly taking into consideration the amount and extent of risks that arise from social benefit liabilities.	No action required.

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
7.9	**Road Accident Fund**	
7.9.1	The inclusion of this information is supported, however, not as being related to measurement, but recognition. The principle outlined in the response to question 3 would encompass the inclusion of similar information proposed for disclosure by the Board. Such information will be useful in understanding the entity and its environment as well as its ability to respond to changes therein.	See comment 3.9.1.
7.10	**Office of the Accountant-General**	
7.10.1	The OAG agrees with the disclosure information on risks and uncertainties related to the measurement of the social benefit liability – especially for social security insurance benefits. Including this information will be beneficial to users in that it will assist them in understanding the criteria applied by the entities in measuring such liabilities.	No action required.
Question 8 **The ED notes that an entity presents and discloses information for social security insurance benefits and social assistance benefits separately because the characteristics, uncertainties and risks of these benefits differ. The ED notes that an entity may present and disclose information on the social benefit liabilities explained in "presentation and disclosure" above separately.** **Do you agree that information on these social benefit liabilities may be presented and disclosed separately? Please provide the reasons and details for your answer.**		
8.1	**Ducharme Consulting**	
8.1.1	No comment.	-
8.2	**Swartland Municipality**	
8.2.1	No comment.	-
8.3	**Free State Department of Small Business Development, Tourism and Environmental Affairs (DESTEA)**	
8.3.1	Went through the Standard and there are not further comments.	No action required.
8.4	**Free State Provincial Treasury**	
8.4.1	Yes	No action required.

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
8.5	**Free State Department of Education**	
8.5.1	(a) Education does not have such social benefits therefore this ED does not apply to the Department and therefore we do not have any inputs	No action required.
8.6	**Free State Department of Social Development**	
8.6.1	Yes this will provide clarity and distinction is necessary.	No action required.
8.7	**Free State Department of COGTA**	
8.7.1	The Department of COGTA has no inputs.	-
8.8	**Free State Department of Public Works and Infrastructure**	
8.8.1	Yes, no further comment.	No action required.
8.9	**Road Accident Fund**	
8.9.1	The proposed separation of disclosures is supported.	No action required.
8.10	**Office of the Accountant-General**	
8.10.1	The OAG agrees with the proposal to present and disclose the two social benefits separately in the AFS because of their different nature and characteristics.	No action required.
Question 9 **(a) Are there any specific implementation issues that the Board should be aware of? If yes, please indicate what these issues are.** **(b) Are there any regulatory or other issues that exist in the South African environment that may affect the implementation of the proposed Standard of GRAP? If yes, please provide details of these regulatory or other issues that should be considered in finalising the proposed Standard of GRAP.**		
9.1	**Ducharme Consulting**	
9.1.1	No comment.	-
9.2	**Swartland Municipality**	
9.2.1	No comment.	-
9.3	**Free State Department of Small Business Development, Tourism and Environmental Affairs (DESTEA)**	
9.3.1	Went through the Standard and there are not further comments.	No action required.

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
9.4	**Free State Provincial Treasury**	
9.4.1	(a) Yes; not applicable (b) Yes; not applicable *[Respondent indicated the "yes" should be interpreted to mean there are no issues.]*	No action required.
9.5	**Free State Department of Education**	
9.5.1	Education does not have such social benefits therefore this ED does not apply to the Department and therefore we do not have any inputs	No action required.
9.6	**Free State Department of Social Development**	
9.6.1	(a) No comment. (b) Yes. The issue at hand currently is that some social benefits do not have any regulatory framework.	The Board's research identified that social benefits within the scope of the ED are provided based on legislation or similar means. The comment will be considered further during work on in-kind benefits.
9.7	**Free State Department of COGTA**	
9.7.1	The Department of COGTA has no inputs.	-
9.8	**Free State Department of Public Works and Infrastructure**	
9.8.1	(a) No (b) No	No action required.
9.9	**Road Accident Fund**	
9.9.1	(a) The implementation of the ED in its current form will create inconsistencies between the timing of recognizing Irregular Expenditure in Accordance with the PFMA compliance reporting framework and the timing of recognizing the social benefit expense. Furthermore, implementation in its current form will not correct user's previous expectations that were incorrectly created as a result of insurance accounting. (b) No further regulatory issues are identified other than what has already been discussed in previous questions.	See comment 2.9.1 and 3.9.1.

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
9.10	**Office of the Accountant-General**	
9.10.1	(a) The OAG does not anticipate implementation issues other than what has already been mentioned. (b) From the legislation/regulations that National Treasury is responsible for, there are no issues that we foresee that would impact the implementation of the proposed Standard of GRAP. Different regulatory requirements of the entities that will be impacted by the Standard will need to be considered for issues that may affect the implementation of the Standard.	No action required. Potential issues with the implementation of the Standard will be further considered in the next phase of the project when transitional provisions are developed.
Question 10 **(a) In your view, overall, does the application of the proposed Standard of GRAP result in financial statements that would be useful to users? Please explain your response.** **(b) In your view, what are the costs and benefits of the proposals relative to the current accounting for social benefits? In relation to quantitative financial and other resource costs, including the time involved to implement the proposals, the ASB is interested to understand the nature and estimated amounts of any expected incremental costs, or cost savings, of the proposals relative to existing accounting treatments.** **(c) Should the estimated cost of a proposed requirement exceed the benefit in your view, please provide information on whether the needs of users addressed by the proposed requirement could be satisfied by requiring the disclosure of alternative items of information that would be less costly to prepare.**		
10.1	**Ducharme Consulting**	
10.1.1	No comment.	-
10.2	**Swartland Municipality**	
10.2.1	No comment.	-
10.3	**Free State Department of Small Business Development, Tourism and Environmental Affairs (DESTEA)**	
10.3.1	Went through the Standard and there are not further comments.	No action required.
10.4	**Free State Provincial Treasury**	
10.4.1	(a) Yes; more clearer understanding of the disclosures. (b) None (c) No	No action required.
10.5	**Free State Department of Education**	

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
10.5.1	Education does not have such social benefits therefore this ED does not apply to the Department and therefore we do not have any inputs	No action required.
10.6	**Free State Department of Social Development**	
10.6.1	(a) Yes (b) No comment (c) No comment	No action required.
10.7	**Free State Department of COGTA**	
10.7.1	The Department of COGTA has no inputs.	-
10.8	**Free State Department of Public Works and Infrastructure**	
10.8.1	(a) To users that's applicable to them. (b) No comment. (c) No comment.	No action required.
10.9	**Road Accident Fund**	
10.9.1	(a) It is our position that the application of the proposed standard will not result in financial statements that will be useful to users. The resultant financial statements will be a representation of what the Board considers to be the economic reality and not the view of management charged to operate the entities according to its strategic objectives. The Basis for conclusion paragraphs often refer to outcomes predetermined by the Board to ensure consistency with accounting practices that existed before the standard was developed without considering the actual economic realities of the entities within the social benefit environment. Accounting practices under IFRS 4 were an interim solution the board provided as there was a lack of guidance in this area. Now that the Board is developing guidance, it should not restrict that guidance to the temporary solution it prescribed. Just because some social benefits share certain characteristics of the insurance industry, it is not justified to use insurance accounting as a basis for the guidance provided. User's expectations created by current accounting practices are incorrect and need to be rectified. The manner in which entities are held accountable must reflect the strategic	Refer to comment 3.9.1. On balance, respondents supported that the requirements would result in information that is needed by users.

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
	objective of the entity and information provided under the proposed standard will not clarify the operating environment of a social benefit entity clearly. b) Entities will be required to incur costs for the services of actuaries in order to value the liabilities with such a high degree of uncertainty. The usefulness of this information is limited as it has no value in relation to holding management accountable and can even be misleading when it comes to decision making. The cost of utilizing an actuary will only be justified if the resultant information is truly a representation of the economic reality of the scheme. No incremental costs are foreseen. c) All proposed information is documented under the responses above.	
10.10	**Office of the Accountant-General**	
10.10.1	(a) The OAG agrees that the proposed Standard would be useful to users as it will enable them to separately identify and analyse social benefits amounts as presented in the AFS by the affected entities. (b) The OAG will not be able to provide cost vs. benefit information. (c) While NT will not be applying the proposed Standard, the OAG is of the view that the benefits of applying the Standard by affected entities should exceed the cost as the entities should have the information to be able to report based on the requirements of the proposed Standard.	No action required.
General matters for comment **Comment on any other matter contained in this ED would also be welcomed. Comment is most helpful if reference is made to a specific paragraph or group of paragraphs.**		
11.1	**Ducharme Consulting**	
11.1.1	No comment.	-
11.2	**Swartland municipality**	
11.2.1	No comment.	-
11.3	**Free State Department of Small Business Development, Tourism and Environmental Affairs (DESTEA)**	
11.3.1	None	No action required.

NO.	COMMENT	PROJECT GROUP'S PROPOSED RESPONSE
11.4	**Free State Provincial Treasury**	
11.4.1	No comment.	-
11.5	**Free State Department of Education**	
11.5.1	Education does not have such social benefits therefore this ED does not apply to the Department and therefore we do not have any inputs	No action required.
11.6	**Free State Department of Social Development**	
11.6.1	No comment.	-
11.7	**Free State Department of COGTA**	
11.7.1	The Department of COGTA has no inputs.	-
11.8	**Free State Department of Public Works and Infrastructure**	
11.8.1	No comment.	-
11.9	**Road Accident Fund**	
11.9.1	The exclusion of benefits such as loss of earnings based on how the benefit is calculated (AG 11) is contradictory to the definition of social benefits which the proposed standard seeks to include in its scope. All social benefits are calculated according to the circumstances of the individual/household. This is the inherent purpose of eligibility criteria and scheme rules. The reasoning that Loss of Earnings is excluded from the scope and definition because they are more like insurance contracts is inconsistent with the requirement for a Social Security Insurance Benefits approach and will result in the exclusion of many benefits from different schemes. These benefits are not 'pure insurance contracts, and thus IFRS 4/IFRS17 cannot be used to develop accounting policies to fairly represent their economic reality in the Annual Financial Statements.	Paragraph AG11. is amended to provide further clarity and an example. The circumstances when IFRS 17 would apply are clarified in the scope.
11.9.2	The proposed standard seems to un-necessarily complicate the accounting treatment of social benefits. All social benefits will mitigate a risk that society faces, regardless of how they are calculated. The proposed standard should create an "either/or" guidance in accounting for such benefits. The application of IFRS 4/IFRS 17 is clear that there should be a contract between the entity and its beneficiaries. Where no such contract exists, the benefits should fall within the scope of social benefits as they represent a scheme of government to protect society where insurance against such risks is not affordable by the	The circumstances when IFRS 17 would apply are clarified in the scope.

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	general population. The exclusion of certain benefits from the scope of the standard does not consider their economic reality in that they will most likely always be underfunded, and management is not able to manage the schemes by adjusting premiums in relation to the risk it accepts.	
11.9.3	The significant departure from IPSAS 42 will result in the information included in the Annual Financial Statements of south African entities not being comparable to similar benefits in other countries where IPSAS 42 is applied. The convergence with international standards is intended to ensure South African public entities presenting information that is comparable with similar schemes internationally. The departure will always result in South African schemes having significantly larger liabilities than their international counterparts. Where the IPSASB has concluded that IPSAS 42 results in fair presentation in accordance with the conceptual framework, the South African environment should converge to ensure local schemes are comparable on an international level. Where local users' expectations of such entities differ from the international expectations, information in the Annual Financial Statements of South African entities must correct those expectations to align with the international practice. The concerns with IPSAS 42 from the local environment were considered by the IPSASB when commentary was provided, and the IPSASB concluded that the general approach in IPSAS 42 still achieves fair presentation. In the same manner that local entities may provide commentary into the local standard, but will need to accept the final standard issued, the ASB and local environment have provided commentary relating to IPSAS 42 and should converge with the final standard.	In accordance with the ASB's Due Process Handbook, converging with an international standard is not automatic. The Board assesses whether the international standard would meet the ASB's mandate and strategic objectives. The assessment is done in consultation with stakeholders. The basis of conclusions of this Standard explains why IPSAS 42 was not considered suitable for the local environment - both the insurance approach that requires the application of IFRS 17 and the general approach for the rest of the benefits in the scope of the Standard. As an international standard-setter, the IPSASB balances comment received on Exposure Drafts in finalising pronouncements. The basis for conclusions of IPSAS 42 notes the equal support for the alternative view and that as a result of the pragmatic manner in which IPSAS 42 was finalised, it is likely that a post-implementation review will be conducted (BC96, BC103, BC107). On balance, respondents to ED 205 supported the areas of departure from IPSAS 42.
11.9.4	The proposed standard places significant emphasis on the judgement of management in certain aspects, but simultaneously withholds that principle from the types of benefits excluded from the standard in AG11 as well as the recognition point. This creates rules that entities must apply regardless of the benefits' economic reality and the overall set of obligations of management to ensure benefits paid meet the eligibility criteria. Where judgement of management is exercised, this judgement should not be subjected to the application of rules. Disclosures can be enhanced to ensure management clearly presents their judgement decisions which will inform the users.	The assessment of the definitions and types of benefits requires judgement and should reflect the economic reality of the benefits (paragraphs .11 and AG18. is explicit about management's judgement and the Board's considerations are explained in paragraph BC21.). As a result of the specific scope of the Standard and characteristics of benefits, the Board developed the recognition requirements so that information produced

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		in the financial statements is relevant and useful to users. Paragraph .35 requires disclosure of management's judgement in assessing the definitions and is changed to include the definition of social benefits.
11.9.5	Lastly, the principle of contingencies has not been considered in the proposed standard. The recognition criteria in GRAP 19 still contains the requirement that an outflow of economic benefits must be probable (GRAP 19.21(b)). Due to the nature of a liability that is estimated, the probability of an outflow is considered at recognition. Where it is not probable, a contingent liability is recognized. This principle is omitted from the proposed standard which requires a similar level of estimation due to the significant uncertainty associated with the liabilities. The proposed standard should align with GRAP 19 is its recognition criteria, and probability should not be part of measurement.	The Board used the *Conceptual Framework for General Purpose Financial Reporting* to develop the ED. The recognition requirements were developed with reference to the two criteria in the Conceptual Framework: • the past event that gives rise to a present obligation occurs; and • the present obligation can be measured reliably and by considering the qualitative characteristics in the Conceptual Framework. In accordance with the Conceptual Framework, probability is not considered in the recognition of a liability. A liability may be recognised even when the probability of an outflow of resources is low. This approach differs from the approach in GRAP 19 where a low probability of an outflow results in the disclosure of a contingent liability instead of a recognised liability. The requirements of GRAP 19 applies to items in the scope of GRAP 19.
11.10	**Office of the Accountant-General**	
11.10.1	In kind social benefits: will there be alignment with the GFS definition for in kind social benefits?	The guidance in GFS 2014 paragraphs 6.99 and 6.100 to distinguish cash from in-kind social benefits is consistent with the guidance in this Standard paragraphs AG5. and AG6.
11.10.2	Appendix C: the diagram table is useful to assist in understanding the types of transactions that are social benefits.	No action required.

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11.10.3	The OAG believes the standard will be an opportunity for entities to improve their controls over social benefits.	No action required.