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TO: MEMBERS OF THE TECHNICAL COMMITTEE

FROM: NABEELA IMAM SHAH

SUBJECT: DESKTOP REVIEW OF GRAP 18 ON *SEGMENT REPORTING*

DATE: 10 FEBRUARY 2026

FILE REF: ATTACHMENT 5(a)

BACKGROUND AND PURPOSE

1. The objective of this desktop review is to assess compliance with GRAP 18 on *Segment Reporting* and evaluate the practices applied by preparers in disclosing segment information in financial statements. The results of the review will be included in a Review Report to be issued by the Board and any other communication tools identified by the Board to convey learnings to stakeholders.

2. This memorandum includes a summary of the findings, its root causes and proposed actions in assessing compliance with GRAP 18. Proposed actions can include changes to the Standard, additional guidance, Frequently Asked Questions (FAQs), and/or other actions.

3. The memorandum also identifies reporting trends. These are not non-compliance findings, but rather common practices adopted by entities in applying the principles of GRAP 18.

4. The approved project brief that outlines the project objective and key issues is provided as attachment 5(b) for information purposes.

OBJECTIVE OF THIS MEMORANDUM

5. The objective of this memorandum is for the Technical Committee to consider the results of the review, and to recommend proposed actions to the Board.

APPROACH TO UNDERTAKING THE DESKTOP REVIEW

Scope of the review

6. The review considered the latest available audited financial statements and related annual reports, being the 2023/2024 reporting period. Where the 2023/2024 audited financial statements were not available, the 2022/2023 audited financial statements were considered.

7. Given the nature of the review, it was not possible to review compliance with the requirements where the information was not readily apparent or could not be derived from the financial statements.

8. The Secretariat also reviewed the following sources of information, to identify pervasive issues and other areas where corrective action may be required:

   - Queries responded to by the Secretariat.
   - Matters discussed at the Public Sector Accounting Forum.
   - Comment received from public consultations on Exposure Drafts.
   - Queries raised by stakeholders with the Office of the Accountant-General (OAG), Technical Audit Support unit of the Auditor-General of South Africa (AGSA), and SAICA.
   - AGSA's PFMA and MFMA General Reports 2023/24.

Sample selected

9. The desktop review included a representative selection of financial statements of entities in all spheres of government that apply Standards of GRAP.

10. The entities' financial statements in the sample were selected on a random basis. A sample equivalent of approximately 10% of all types of entities applying the Standards of GRAP was selected. This was the saturation point (i.e. reviewing more financial statements is unlikely to identify any new issues), and in line with the guidelines in the *Procedure Manual for Standard-Setting Activities*.

Key stakeholders consulted

11. Key stakeholders were consulted to provide context on the issues and their root causes. Stakeholder inputs were also considered in proposing actions to address the root causes, as highlighted in this memorandum. Stakeholders invited included representatives from:

   - All public sector entities applying the Standards of GRAP, such as public entities, local government, Parliament, legislatures, TVET and CET colleges.
   - Technical experts and consultants involved in financial statement preparation.
   - National Treasury, including the OAG, and provincial treasuries.
   - Auditors, including technical divisions of audit firms and representatives from the AGSA.
   - Representatives of professional bodies.

MATTERS FOR DISCUSSION

12. The instances of non-compliance with GRAP 18 and the issues identified in this memorandum represent pervasive issues. They do not represent non-compliance in any individual set of financial statements.

13. The Secretariat categorised the findings from the review into the following themes:

   (A) APPLICABILITY OF GRAP 18

   (B) DISCLOSURE OF GENERAL INFORMATION

(C) RECONCILIATIONS

(D) ENTITY-WIDE DISCLOSURES

(E) QUALITY ISSUES

(F) REPORTING TRENDS

14. The discussions below will form the basis of the Review Report. Overall, there is a lack of awareness regarding the issues below. Stakeholders are also unaware of the guidance available on GRAP 18.

15. An essential part of addressing this gap is effective communication, which will be delivered in the following ways:

    Review Report

    - The Review Report is the primary communication tool. This communication will be directed to relevant stakeholders and will specifically include the stakeholders responsible for governance of the entity (as they are responsible for the approval of financial statements), as well as the internal and external auditors who provide assurance on the quality and compliance of financial statements.

    Awareness of available guidance

    - To promote broad awareness of the guidance available on GRAP 18, the matters identified under "Proposed actions" below will be communicated through various ASB communication channels to assist stakeholders with application of the Standard.

(A) APPLICABILITY OF GRAP 18

Issue 1: Uncertainty in applying the definition of a segment

Applicable requirements

GRAP 18.05:

A segment is an activity of an entity:

(a) that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);

(b) whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and

(c) for which separate financial information is available.

Findings

16. Entities do not apply the definition of a segment to determine if a segment report should be disclosed. They misinterpret the Standard to require them to divide their entity into segments and to report on those in a segment report.

17. Entities are unaware that all parts of the definition [i.e. parts (a)-(c) under "Applicable requirements" above] must be met, and only apply certain parts of the definition to determine if they have a segment.

18. Entities are uncertain whether support and administrative units meet the definition of a segment. Specifically, uncertainty arises in assessing whether part (b) of the definition is

met in cases where management reviews information relating to the unit primarily to satisfy budget and reporting requirements. In these instances, while the information is regularly reviewed, it has limited relevance for decision-making. There are varying practices causing doubt amongst entities about whether they are applying the definition correctly.

Root cause

19. Entities do not understand how to apply the definition of a segment per GRAP 18.05.

Proposed action

20. Education material is available on "*Applicability of GRAP 18 Segment Reporting"* and is useful in assisting to resolve the issue.

(B) DISCLOSURE OF GENERAL INFORMATION

Issue 2: Disclosure of general information omitted or incomplete

Applicable requirements

GRAP 18.20:

An entity shall disclose the following general information:

(a) factors used to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in goods and/or services, geographical areas, regulatory environments, or a combination of factors);

(b) whether segments have been aggregated and the basis of the aggregation; and

(c) types of goods and/or services delivered by each segment.

Finding

21. Entities omitted some or all the disclosures required by GRAP 18.20.

Root cause

22. GRAP 18 is a Standard on disclosure and entities tend to neglect it because they prepare the disclosure close to their financial statement submission deadline. This results in inadequate or no review of segment reporting disclosures. Entities do not have controls in place when preparing financial statements to enable them to detect omissions or incomplete disclosures.

Proposed action

23. Education material can be developed to promote good public finance management practices for financial statement preparation. The material can identify financial reporting processes throughout the financial year and outline the principles and key decisions (such as the selection of accounting policies and the assessment of materiality) to consider in the preparation of quality financial statements.

(C) RECONCILIATIONS

Issue 3: Reconciliations of total segment amounts to entity amounts are incomplete or inaccurate

Applicable requirements

GRAP 18.27:

An entity shall provide reconciliations of all of the following:

(a) The total of the reportable segments' revenues to the entity's revenue.

(b) The total of the reportable segments' measures of surplus or deficit to the entity's surplus or deficit before discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (if applicable), the entity may reconcile the total of the segments' measures of surplus or deficit to the entity's surplus or deficit after those items.

(c) The total of the reportable segments' assets to the entity's assets if segment assets are reported in accordance with paragraph .21.

(d) The total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph .21.

(e) The total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

All material reconciling items shall be separately identified and described. For example, the amount of each material adjustment needed to reconcile reportable segment surplus or deficit to the entity's surplus or deficit arising from different accounting policies shall be separately identified and described.

Findings

24. Reconciliations of the totals of segment revenues, segment surplus/deficit, segment assets, segment liabilities and other material segment items to the corresponding entity amounts are not provided. In some cases, entities only reconcile certain line items.

25. There are no explanations for the large variances between segment amounts and entity amounts in the reconciliations, which could be material.

Root causes

26. Entities do not have controls in place to detect incomplete disclosure of reconciliations, resulting in:

    - Inadequate review of financial statements by the various role players responsible for the preparation and approval of financial statements, including those charged with governance.
    - When changes are made to the financial statements, entities (and their auditors) omit to reflect the consequential impacts of those changes in the reconciliation.

Proposed action

27. Refer to the proposal in paragraph 23 on the preparation of education material.

(D) ENTITY-WIDE DISCLOSURES

Issue 4: Disclosure of geographical areas are not provided

Applicable requirements

GRAP 18.31:

An entity shall disclose the geographical areas in which it operates that are relevant for decision-making purposes, including any foreign countries.

Finding

28. Entities do not provide disclosure of the geographical areas they operate in. This information is required to be disclosed by all entities, even those with a single reportable segment.

Root causes

29. Entities are unaware that the disclosure applies to all entities.

30. There is not a clear understanding of what constitutes a geographical area.

Proposed action

31. FAQ 4.13 on *"When should geographical information be provided as required by GRAP 18?"* is useful in addressing this issue. The FAQ can be expanded to explain what a geographical area means in the context of GRAP 18.

(E) QUALITY ISSUES

Issue 5: Duplication, errors and inconsistencies in reporting segment information hampered its understandability

Findings

32. Information between the accounting policies and the narrative information in the note disclosures is repeated.

33. Accounting policies do not convey how GRAP 18 is applied to the entity's specific circumstances. Boilerplate text and lists of disclosure requirements per GRAP 18 are included in the policies.

34. Incorrect line item descriptions and totals are provided in the segment reports.

35. There is inconsistent information in the segment report disclosure notes. This includes:

    - The number of segments and the aggregated segments disclosed in the narrative information are different to what is contained in the segment report.
    - The segment report discloses a measure of assets and liabilities for each reportable segment, while the narrative information indicates that information on assets and liabilities is not regularly reviewed by management and hence need not be provided.
    - In the reconciliations, the totals indicated for the entity amounts for revenues, segment surplus/deficit, segment assets and segment liabilities do not agree to the amounts presented on the face of the statements.

Root causes

36. Entities do not understand what information to disclose in their accounting policies.

37. Entities repeat information in the policy and notes, as they consider that many readers of the financial statements focus on the note disclosures and overlook the policies.

38. Entities use reporting templates that are generic and omit to adjust the policies and the narrative disclosures for their specific circumstances.

39. Entities do not have controls in place for the preparation of quality financial statements, resulting in:

    - Inadequate review of financial statements by the various role players responsible for the preparation and approval of financial statements, including those charged with governance.
    - When changes are made to the financial statements, entities (and their auditors) omit to reflect the consequential impacts of those changes in other areas of the financial statements.

Proposed actions

40. The following FAQs and education material are available to address the issue:

    - Recording on *"Improving the quality of financial statements"*.
    - FAQ 2.16 on *"When and how do entities develop accounting policies?"*
    - FAQ 4.2 on *"How does an entity decide which accounting policies should be included in its financial statements?"*
    - Recording on *"How to develop appropriate accounting policies and what information to disclose".*
    - Recording on *"Considerations when selecting appropriate accounting policies, and what the considerations are for entities to change accounting policies".*

41. Refer to the proposal in paragraph 23 on the preparation of education material.

(F) REPORTING TRENDS

Reporting trend 1: Location of geographical areas disclosure in the annual report

42. GRAP 18.30 requires disclosure of an entity's geographical areas in its financial statements, unless it is reported elsewhere in its financial report. Many entities disclose geographical areas in their annual report.

43. Stakeholders were consulted on whether they think that the disclosure in the annual report dilutes its importance. A majority of stakeholders preferred the information to be disclosed in the financial statements, or if disclosed in the annual report, that a reference be made in the financial statements to the annual report.

Proposed action

44. Given the nature of the disclosure, no amendments to the Standard to require a reference to the annual report where the geographical areas are disclosed are proposed. However, awareness will be raised through the Review Report.

Reporting trend 2: Disclosure about inability to provide information required by GRAP 18.32

45. GRAP 18.32 does not require an entity to provide disclosure of its external revenues, expenditure and some non-current assets attributed to its geographical areas, if the information is not available and the cost to develop it would be excessive.

46. Many entities indicate in their financial statements that they apply the exemption in GRAP 18.32. The reasons provided include:

- Entities do not have reliable separate financial information for decision making purposes to report geographical information.
- Entities are unable to report segment information as their financial system cannot produce the information and the cost of upgrading it is excessive.

Proposed action

47. No actions are proposed.

Reporting trend 3: Similar information as required in terms of s71 of the MFMA is disclosed in the segment report by municipalities

48. Municipalities are required to report on their municipal functions in terms of s71 of the MFMA. This "Schedule C" report must be in the National Treasury's prescribed format and is available on the GoMuni website. Many municipalities use the functions in the Schedule C report as their segments for purposes of GRAP 18.

49. Stakeholders have asked whether reporting the same information twice is necessary, and whether reporting can be streamlined.

Proposed action

50. FAQ 4.14 on *What is the interaction of legislated disclosure requirements and disclosure requirements in Standards of GRAP?* addresses the question raised.

ACTION REQUESTED

The Technical Committee is requested to:

(a) NOTE the issues and reporting trends identified during the review; and

(b) CONSIDER the proposed actions and RECOMMEND them to the Board.

NEXT STEPS

51. The results of the desktop review and proposed actions will be presented to the Board to determine whether they are appropriate and if any further action should be undertaken.

52. Based on the Board’s recommendations, a draft Review Report will be prepared for the Technical Committee’s consideration at the November 2026 meeting.