EFFECT OF SUSTAINABILITY-RELATED MATTERS ON FINANCIAL STATEMENTS

ACCOUNTING STANDARDS BOARD

The effect of sustainability-related matters on financial statements

Sustainability relates to the maintenance and enhancement of environmental, social and economic resources, in order to meet the needs of current and future generations*. This has a direct impact on the functioning of a public sector entity, their operations and delivery of their mandate. For purposes of this document, sustainability-related matters refers to the events that have an impact on the sustainable development goals (SDGs) determined by the United Nations. This document provides a snapshot of the effect of sustainability-related matters on an entity's reporting in the financial statements. The document does not address all instances of sustainability-related matters - there could be other instances where sustainability-related matters are relevant when preparing financial statements. This document does not cover the SDG on Climate Action - guidance on this can be found in *The effect of climate-related matters on financial statements*. References to the Standards of GRAP in this document apply to the version of Standards applicable on 1 April 2024.

Entities should apply judgement when assessing whether the effect of sustainability-related matters are material to their financial statements. Items are material if they could, individually or collectively, influence the decisions or assessments users make on the financial statements. Entities are encouraged to apply the *Guideline on the Application of Materiality to Financial Statements* when setting materiality.

*As defined by UNESCO.

	UN Sustainable Development Goals																
	No poverty	**Zero hunger**	**Good health and well-being**	**Quality education**	**Gender equality**	**Clean water and sanitation**	**Affordable and clean energy**	**Decent work and economic growth**	**Industry, innovation and infrastructure**	**Reduced inequalities**	**Sustainable cities and communities**	**Responsible consumption and production**	**Life below water**	**Life on land**	**Peace, justice and strong institutions**	**Partnerships for the goals**
GRAP																	
GRAP 1 *Presentation of Financial Statements*	Additional disclosures - To achieve fair presentation in financial statements, entities should consider whether to provide additional disclosures when applying the Standards of GRAP are insufficient to enable users to understand the effect of sustainability-related matters on the entity's cash flows, its financial position and financial performance. Assumptions and estimates - Disclosure of assumptions about sustainability-related matters may be required when those matters create uncertainties that affect assumptions used to develop estimates. Significant judgements - Entities should provide disclosure that helps users understand the judgements that management makes in applying its accounting policies that have the most significant effect on the amounts recognised in the financial statements. Sustainability-related matters may impact the judgements made in the process of applying accounting policies. Going concern - Where sustainability-related matters create material uncertainties related to events or conditions that cast significant doubt upon an entity's ability to continue as a going concern, GRAP 1 requires disclosure of those uncertainties.																
GRAP 2 *Cash Flow Statements*	Where cash is restricted for use on the SDGs, entities should assess whether it is useful to provide disclosure per GRAP 2 on the restricted cash and cash equivalents.																
GRAP 3 *Accounting Policies, Changes in Accounting Estimates and Errors*	Sustainability-related measures, such as legislative requirements supporting SDGs, may cause changes in the estimates and assumptions applied by an entity in measuring its assets and liabilities. A change in estimate is accounted for prospectively.																
GRAP 4 *The Effect of Changes in Foreign Exchange Rates*																Entities may have foreign currency transactions in their international partnerships or international donor agreements entered into to undertake sustainability-related activities. Monetary assets are re-measured to their closing rate at each reporting date.
GRAP 5 *Borrowing Costs*	Borrowing costs may arise from loan agreements related to SDGs. Borrowing costs are expensed unless the entity chooses to capitalise it to the qualifying asset if the requirements in GRAP 5 on capitalisation are met.																
GRAP 9 *Revenue from Exchange Transactions*									Innovation that supports the SDGs can lead to efficient internal revenue processes that can increase the revenue-generating capacity of the entity.				Entities engaged in agricultural activity may experience adverse changes in the environment and ecosystem of their agricultural produce which could lead to fewer produce items available for sale.			
	Sustainable development may lead to opportunities for new revenue streams that contribute to the achievement of the SDGs.																
GRAP 10 *Financial Reporting in Hyperinflationary Economies*																	
GRAP 11 *Construction contracts*	Infrastructure contracts related to sustainable matters may fall within the scope of GRAP 11. A construction contract is a binding arrangement for the construction of an asset or a combination of assets that are interrelated or interdependent.																
GRAP 12 *Inventories*						High costs of clean energy and water can increase the cost of inventories. These may lead to a write-down of inventories in order to carry inventories at the lower of its cost or net realisable value/current replacement cost.						The market may be driven by sustainable development to consume and produce responsibly. This can mean that net realisable value/current replacement cost of inventories are lower than the cost of inventories.				
	The effect of high inequalties may cause entities to distribute goods at no charge or for a nominal charge. These inventories are carried at current replacement cost.																
GRAP 13 *Leases*																	
GRAP 14 *Events after the Reporting Date*	Events that affect the SDGs can occur after the reporting date. GRAP 14 requires entities to adjust the amounts in their financial statements for adjusting events and to provide disclosure of the nature and financial effect for non-adjusting events.																
GRAP 16 *Investment Property*																	

GRAP 17 *Property, Plant and Equipment*									Entities may receive assets from their customers as a result of sustainability-related developments, for instance to connect those customers to a network to provide them with a supply of goods and services such as electricity, gas or water. The requirements for the recognition of assets in GRAP 17 should be met in order to capitalise these items of property, plant and equipment.			Some entities are legislatively required to restore and rehabilitate the land they use for their activities. The rehabilitation is a sustainability-related matter that promotes responsible use of the land and its environment by the entity.				
	Entities may incur expenditure to change or adapt their activities or assets, to respond to sustainability-related matters. The requirements for the recognition of assets in GRAP 17 should be met in order to capitalise items of property, plant and equipment.															
GRAP 18 *Segment Reporting*	Sustainability-related events may impact an entity's segment reporting disclosure. Consideration should be given to whether the presentation of information in management's internal reporting on segments reflect any sustainability-related effects, and whether this is consistent with the information presented in the segment report in the financial statements.															
GRAP 19 *Provisions, Contingent Liabilities and Contingent Assets*	Restructuring provisions - Entities may incur liabilities to provide for the restructuring of their activities in to achieve sustainability-related targets. Onerous contracts - Sustainability-related changes may result in increased costs and unprofitable contracts for an entity. The provision reflects the lower of the costs of fulfilling the contract and any compensation or penalties from a failure to fulfil the contract. Rehabilitation provisions - Entities may have legal obligations to restore and rehabilitate the land and the environment they use for their activities. IGRAP 2 on *Changes in Existing Decommissioning, Restoration and Similar Liabilities* contains requirements for the recognition of the rehabilitation provision. The *Guideline on Accounting for Landfill Sites* assists entities that conduct waste disposal activities in accounting for the rehabilitation provision. Emergency response - Emergency relief may be required by entities to respond to events that have an adverse effect on people, animals or the environment. Levies - Entities may become liable to pay levies or taxes imposed by government to discourage non-sustainable activities or if they fail to meet certain sustainability-related targets. Commitments - Entities may make commitments/promises to undertake sustainability-related activities. This may result in provisions or contingent liabilities for the entity.															
GRAP 20 *Related Party Disclosures*								Entities may base managements' bonuses / incentives on the achievement of sustainability-related targets. GRAP 20 requires disclosure of managements' remuneration.								Related parties may work together on activities related to sustainability. GRAP 20 requires disclosure of related party relationships and transactions. An entity provides limited disclosure on related party transactions when it applies the exemption in GRAP 20.
GRAP 21 *Impairment of Non-Cash-Generating Assets*	Significant changes in the environment in which an entity operates with an adverse effect on the entity, is an indication of impairment. For instance, an asset becoming idle because of plans to restructure the activities of the entity to apply sustainability-related plans, can be an indicator of impairment for the non-cash generating asset.															
GRAP 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*														Entities may receive grants to address harmful environmental factors such as the Expanded Public Works Programme grants for the removal of invasive species.		
	Entities may receive funding from donors or others to undertake sustainability-related activities. The entity recognises revenue to the extent that the conditions of the funding are met.															
GRAP 24 *Presentation of Budget Information in Financial Statements*	Entities are required to present information that compares actual and budget information in the financial statements. Unexpected occurrences because of events related to sustainability resulting in budget adjustments or material variances between budget and actual amounts should be explained.															

GRAP 25 *Employee Benefits*					Policy or regulatory changes by government in their response to gender equality could drive entities to employ more staff of a certain gender. Employee costs and its related liability are recognised to the extent of the entity's obligations as determined in the employment contract.			Restructurings by entities to achieve sustainability targets may result in the recognition of termination benefits for employees.		Entities may offer benefits to employees who earn below certain threshold. These may take the form of short-term or long-term employee benefits.						
GRAP 26 *Impairment of Cash-Generating Assets*	Significant changes in the environment in which an entity operates with an adverse effect on the entity, is an indication of impairment. An indicator of impairment can be that the entity's asset has been discontinued to accomodate for a more sustainable version of it.															
GRAP 27 *Agriculture*	*	*	*							The effect of high inequalties may cause entities to distribute biological assets at no charge or for a nominal charge. Biological assets distributed are measured at its fair value less costs to sell until its disposal. *This is also applicable to other SDGs (indicated with an asterisk) in this line.*			Sustainability-related activities can either positively or negatively affect the biological asset or agricultural produce, thus giving rise to change in valuation of the asset at reporting date. Agricultural activity is often exposed to climatic, disease and other natural risks. If an event occurs that gives rise to a material item of revenue or expense, GRAP 27 requires disclosure of the nature and amount of that item. The effect of sustainability-related events should be reflected in the disclosure of an entity's financial statements where they relate to: -Restrictions (can be ethical) on the entity's use or capacity to sell biological assets. - Financial risk management strategies related to the agricultural activity of the entity.			
GRAP 31 *Intangible assets*									An entity may incur expenditure to change or adapt its activities, including research and development, to respond to sustainability-related matters. GRAP 31 includes requirements for the recognition of costs as assets. GRAP 31 also requires disclosure of the amount of research expenditure recognised as an expense.							
GRAP 32 *Service Concession Arrangements: Grantor*																Where the arrangement is to undertake sustainability-related activities, the service concession arrangement is a partnership to reach sustainability goals.
GRAP 34 *Separate Financial Statements*																
GRAP 35 *Consolidated Financial Statements*																Sustainability-related developments can change the activities of an entity which may to lead to acquisitions or disposals of interests in

GRAP 36 *Investments in associates and Joint Ventures*																other entities. For example, if a controlling entity no longer has the ability to direct the relevant activities of another entity because the entity restructured its activities to be environmentally friendly, the controlling entity may have lost control.
GRAP 37 *Joint Arrangements*																
GRAP 38 *Disclosure of Interests in other Entities*																
GRAP 100 *Discontinued Operations*	Sustainability-related developments can result in the disbanding of functions at entities, where the functions are not viable any longer.															
GRAP 103 *Heritage Assets*										Heritage assets include natural assets such as conservation areas and recreational parks. Entities usually have responsibilities for the preservation of these assets. Costs incurred to enhance or restore a heritage asset to preserve its indefinite useful life should be capitalised as part of the asset. *This is also applicable to other SDGs (indicated with an asterisk) in this line.*		*	*	Sustainability-related activities may lead to additional measures to preserve heritage assets. The preservation of these assets serve as a reminder of South Africa's history and strong institutions. Costs to preserve the asset should be distinguished from the costs to maintain the asset. Maintenance costs are expensed.	
GRAP 104 *Financial Instruments*	Contractual rights and obligations arising from sustainability-related activities can give rise to financial instruments for the entity. Examples are green bonds and loans with terms linked to the counterparty's achievement of sustainability-related targets. Sustainability-related developments may affect an entity's exposure to credit risk. An entity calculates impairment losses on its financial assets if there is objective evidence that a loss event has occurred for its counterparty. Entities are required in GRAP 104 to disclose information on credit risk, liquidity risk and market risk. Sustainability-related matters may affect an entity's expose to these risks. New revenue opportunities as indicated under GRAP 9 in this document can give rise to contractual receivables.															
GRAP 105 *Transfer of Functions between Entities under Common Control*																Sustainability-related developments could result in combinations of entities that can take the form of a transfer of function or merger to bring about synergies in the achievement of SDGs. Transfer of functions between entities under common control/not under common control and mergers requires different accounting treatments in these Standards.
GRAP 106 *Transfer of Functions between Entities not under Common Control*																
GRAP 107 *Mergers*																
GRAP 108 *Statutory Receivables*	Sustainability-related developments may affect an entity's exposure to credit risk. For example, regulatory changes by government in their response to climate change could negatively affect the counterparty's ability to pay resulting in impairment losses for the entity. Disclosure about how impairment losses have been identified and determined will be important to the users of the financial statements to understand the impact on the estimates used. New revenue opportunities as indicated under GRAP 9 in this document can give rise to statutory receivables.															
GRAP 109 *Accounting by Principals and Agents*																Entities may enter into principal-agent arrangements to undertake sustainability-related activities. The agent recognises only that portion of revenue and expenses it receives or incurs in executing the transactions on behalf of the principal.

GRAP 110 *Living and Non-Living Resources*						Water, gas and minerals are non-living resources while in their natural state. Sustainability-related activities may lead to additional measures to preserve non-living resources. GRAP 110 requires entities to explain the nature of its custodial responsibility, including the legislation that establishes the custodial responsibilities. This can include the entity's role and responsibility to manage and preserve the resources.						Living resources include animals and plants. The effect of sustainability-related events should be reflected in the disclosure of an entity's financial statements where they relate to restrictions (can be ethical) on the entity's use or capacity to sell living resources.		