Accounting Standards Board

Newsletter April 2024 Edition

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Message from the CEO – Do we need sustainability reporting in the South African public sector?

It seems recent accounting dialogues centre on the need for sustainability reporting. In a time when our country's resources are heavily constrained, we need to focus our efforts on our existing commitment as government to build a sustainable system of public financial management. This means focusing on (a) improving the quality of financial statements and other reporting; and (b) implementing accrual accounting across the public sector.

Be better storytellers by improving what we already report

When it comes to reporting in the public sector, it is the IPSASB that will issue sustainability standards. These are still being developed. At present, it is unclear whether sustainability reporting in the public sector will be linked to the Sustainable Development Goals (SDGs), other goals, other metrics, or a combination of these.

Many governments' development plans are linked to the SDGs, and reports on their achievement of these goals are already provided. Sustainability reporting will likely require more detailed metrics on the achievement of, for example, certain climate goals. However, my sense is that there is already some information reported on what would be considered "sustainability reporting" – it may just not be labelled as such. It is critical that standard-setters examine how the information already reported by governments fits into the broader "sustainability reporting" landscape.

In the South African context, our National Development Plan is based on the SDGs, and as a result, all government entities performance information is designed with these metrics in mind. The General Reports from the Auditor-General frequently highlight that the reports on performance information could be improved. If accounting and reporting is like storytelling, then users of the financial statements should be able to link financial and performance plans to the actual financial results as well as the performance information. If the story is about building houses, an entity's annual performance plan should indicate how many houses should be built; the budget should indicate how much the houses should cost; the financial statements should indicate the actual cost of the houses built (e.g. through functional classification of expenses or the segment report); and the performance report should indicate how many houses were built. Preparers of these reports should make these linkages clearer and become better "storytellers". We need to improve what we already report, and not report more.

All government entities should apply accrual accounting

The Constitution requires the implementation of 'generally recognised accounting practice' alongside the need for uniform norms and standards. The Standards of GRAP issued by the ASB are based on international best practice, which includes accrual accounting. Standards of GRAP are applied by all entities in the public sector, except for national and provincial departments.

Accrual accounting provides a holistic view of an entity's (or government's) financial picture.

The financial statements report revenue and expenses when the transactions occur, and assets and liabilities are when an event creates rights or obligations. At present, departments use a modified cash basis of accounting which means that many transactions are only accounted for when cash is received or paid. Disclosures of some assets and liabilities are included in the notes to the financial statements. There are at least two SDGs that would benefit from accrual based information on assets, i.e. "Industry, infrastructure and communities" and "Sustainable cities and communities". Accrual building blocks are critical to sound sustainability reporting.

Stay focused on the basics

While it is hard to argue with the merits of sustainability reporting that aims to measure our impact on the environment, society and how well we govern these matters – financial resources and how they impact these areas are a key building block. Getting back to these basics is an important step in the journey to sustainability reporting and all it may entail.

How are you presenting statutory receivables in the financial statements?

Users of financial statements need information on statutory receivables to evaluate their significance on an entity's financial position and performance.

A statutory receivable is recognised when the related revenue or liability transaction is recognised. In addition to the disclosures in GRAP 108 on *Statutory Receivables*, requirements for the presentation of revenue and receivables from exchange and non-exchange transactions are outlined in the Standards of GRAP. These include GRAP 1 on *Presentation of Financial Statements*, GRAP 9 *on Revenue from Exchange Transactions* and GRAP 23 on *Revenue from Non-exchange Transactions (Taxes and Transfers).*

Receivables from exchange and non-exchange transactions are presented separately on the face of the statement of financial position. The carrying amount of statutory receivables is presented separately from that of contractual and other receivables in the notes to the financial statements.

Share your views by submitting written comment on ED 207, or by participating in roundtable and direct consultations.

What impairment indicators do you apply to assess if a statutory receivable is impaired?

Statutory receivables are assessed for impairment at each reporting date to determine if there is a loss, or if the likelihood of collecting the receivable is reduced. GRAP 108 on *Statutory Receivables* sets out how statutory receivables should be grouped and assessed for impairment.

Indicators of impairment are listed in GRAP 108. A debtor applying for debt counselling or decreases in the collectability of customers' debt in an area due to unemployment, are examples of such indicators.

The list of indicators in GRAP 108 is not exhaustive. An entity may consider other impairment indicators for statutory receivables

Share your views on GRAP 108 Impairment indicators

The Board, as part of the Post-implementation Review of GRAP 108 [ED 207] would like to understand if the GRAP 108 indicators are helpful, and if there are any other indicators that you consider. Please share your comment on this with the Board.

Are all the GRAP 108 disclosures on statutory receivables useful?

To understand the significance of statutory receivables on an entity's financial position and performance, information is needed about statutory receivables in the financial statements.

To make informed decisions and hold entities accountable, financial statements should explain the legislation, supporting regulations or similar means that gave rise to statutory receivables, for example a municipal council decision. Information on interest and other penalties that are levied on overdue and unpaid statutory receivables also improves decision-making.

To understand how decreases in the collection of statutory receivables impact an entity's service delivery objectives, users need information on the main events and circumstances that led to decreases. Information on the key indicators and assumptions applied by management along with the basis used to assess impairment should also be disclosed in the financial statements.

ED 207 requests views on the disclosures required by GRAP 108, and/or other information that could be useful on statutory receivables to inform decision-making.

How can you share your comment?

You can share your views by submitting written comment on ED 207, or by participating in roundtable and direct consultations. Please contact amandab@asb.co.za if you want to participate in these consultations.

Should different approaches be applied to impair contractual and statutory receivables?

GRAP 108 on *Statutory Receivables* requires an entity to consider at each reporting date, if a statutory receivable is impaired. A statutory receivable is impaired if there is evidence that the collection of the receivable has decreased due to a debtor being credit-impaired, for example when a debtor applied for debt counselling because of financial difficulty, or because the debtor is in default. The impairment loss is calculated by comparing the carrying amount of the receivable to the estimated future cash flows. The estimated cash flows are based on amounts that management expects to receive based on facts and circumstances at the reporting date following past defaults or impairment events.

The new GRAP 104 (2019) becomes effective on 1 April 2025, and applies a different impairment approach to that in GRAP 108. Under GRAP 104 (2019), a contractual receivable will be impaired if the credit risk of the receivable increased significantly since initial recognition. For this assessment, management considers all reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that is available without undue cost and effort. The cash flows are estimated by considering the contractual terms of the receivable through its expected life.

Share your views on applying different impairment models for receivables

The Board requests views from users and preparers as part of its Post-implementation Review on GRAP 108 [ED 207] on the different impairment models applied for contractual and statutory receivables.

Please respond to this request by submitting written comment on ED 207 to info@asb.co.za. You can also share your comment during roundtable or direct consultations. Contact amandab@asb.co.za if you want to be invited to these consultations.

Contact us
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