# Accounting Standards Board

Newsletter September 2023 Edition

A S B


## In this edition of the newsletter:

- Message from the CEO: Why government needs to account for its assets
- IGRAP 21 on The Effect of Past Decisions on Materiality
- Amendments to GRAP 25 on Employee Benefits
- GRAP Reporting Framework 2023/2024: What changed?

## Message from the CEO: Why government needs to account for its assets

Preparers often ask us why they need to include assets on municipal, public entity, and departmental statements of financial position. The most common argument for not including assets on the statement of financial position is that government assets have no value because they cannot be sold or pledged as collateral for debt. While this may be factually correct for some government assets, there are so many other reasons why information about assets on government's statement of financial position and elsewhere is important.

Governments (generally speaking) are not in the business of "making money". Applying a narrow view that assets are only held for their economic value is misplaced in the public sector. Assets are important for the value they provide to those who use and rely on government's services. Assets should be recognised on public sector entities' financial statements so that government is held accountable for the public funds used to acquire, maintain and operate assets, and informed decisions can be made about asset management. Lenders are interested in the revenue that can be generated by entities. If revenue generation is linked to particular assets, they are interested in how well assets are being maintained and otherwise operated.

While the full picture about assets and their management requires comprehensive information to be provided in the annual report, recognising assets in the financial statements provides relevant information about:

- The investment in new assets or the upgrade of existing assets, which is demonstrated by additions and work-in progress in the note disclosures.
- The utilisation and maintenance of assets through depreciation and impairment. Changes in useful lives could indicate that maintenance is insufficient to maintain the previously planned rate and period of use, while impairment indicates a decline in the asset's service potential or damage.
- The classification of assets as investment properties; property, plant and equipment; heritage assets; etc. indicates how assets are used by entities. It indicates whether value will be recognised by an asset's economic value or service potential.

There are other key decisions that could be made from the financial statements; these just illustrate a few examples.

While it is important to recognise assets on the statement of financial position, it is important to only recognise assets that are material. Materiality means considering whether the information about assets in the financial statements could affect users' decisions. As government's activities are focused on the provision of services, it is important to consider both quantitative and qualitative materiality.

Assets will no doubt be a key focus ahead of the 2024 National Elections. Citizens should demand information on assets so that the right questions can be asked about the key tools available to government to provide services. Equally, preparers have a responsibility to provide relevant, understandable information to citizens, lenders and others.

## IGRAP 21 on The Effect of Past Decisions on Materiality

IGRAP 21 on *The Effect of Past Decisions on Materiality* is effective for entities with year ends on 31 March 2024, 30 June 2024 and 31 December 2024. The Interpretation explains the nature of past materiality decisions and their potential effect on current and subsequent reporting periods.

Entities apply accounting policies  set out in the Standards of GRAP (i.e. principles on recognition, measurement, presentation and disclosure), except when the effect of applying them is immaterial. IGRAP 21 explains the implications of adopting accounting policies for material items based on the Standards of GRAP as well as applying alternative accounting treatments for immaterial items. Alternative accounting treatments are not based on the Standards of GRAP – an example is where an entity expenses immaterial items of property, plant and equipment.

The Interpretation applies to accounting policies and alternative accounting treatments related to the recognition and measurement of items. The presentation and disclosure of items are dealt with in GRAP 1 on *Presentation of Financial Statements.*

IGRAP 21 addresses the following two key issues:

### #1 Do past decisions about materiality affect future reporting periods?

Materiality is assessed using all relevant facts and circumstances at the time of its assessment. Quantitative materiality thresholds and qualitative materiality criteria are determined when setting materiality. Where there is information available about future events or transactions, materiality assessments should consider its impact. Materiality is assessed at a point in time based on available information. From this we can conclude that the assessment of, and decisions about, materiality are period-specific and do not affect subsequent reporting periods unless an error has occurred.

Where an entity changes the accounting of an item from an accounting treatment to a GRAP accounting policy because facts and circumstances relating to the item have changed, the change is not a change in accounting policy and therefore retrospective adjustments should not be made. Changes in accounting policy are where an entity changes from an accounting policy based on GRAP to another accounting policy based on GRAP. GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors* requires retrospective adjustments to financial statements where there is a change in accounting policy or where and a prior period error has occurred.

### #2 Is applying an alternative accounting treatment an error, or a departure from the Standards of GRAP?

GRAP 3 allows entities to not apply the accounting policies outlined in the Standards of GRAP when the effect of applying them is immaterial. This means that the application of materiality and alternative accounting treatments are not errors and are not departures from the Standards of GRAP. Alternative accounting treatments should be developed so that they are not inconsistent with the qualitative characteristics in the *Conceptual Framework for General Purpose Financial Reporting.*

An entity can essentially have two policies for an item:

- where the item is material, the entity's GRAP accounting policy is applied e.g. accounting for material items of property, plant and equipment in terms of GRAP 17 on *Property, Plant and Equipment*; and
- where the item is immaterial, the entity's internal policy on the item's alternative accounting treatment is applied e.g. expensing immaterial items of property, plant and equipment in the Statement of Financial Performance.

For more information on IGRAP 21, access the full Interpretation and the Fact Sheet here.

## Amendments to GRAP 25 on Employee Benefits

### Background: GRAP 25 became outdated

Changes were made to the international private and public sector accounting standards on employee benefits since GRAP 25 on *Employee Benefits* was originally issued. Stakeholders agreed that the Board should update the Standard as it became outdated. The Board used the opportunity to consider areas where local practices indicate that further guidance is required. Another outcome of the project was to update IGRAP 7 on *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction,* which is based on IFRIC 14 on *IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

### Key changes to GRAP 25

The key changes are summarised in the table below. More information on the changes is available on the ASB website here.

| Type of employee benefit | Description of benefit | Key changes to the principles |
|---|---|---|
| Short-term employee benefits | Benefits due wholly before twelve months after the end of the reporting period in which service was rendered. | No changes; guidance added. |
| Post-employment benefits: Defined contribution plans | Employer pays fixed contributions into separate fund and has no further obligations to pay contributions. | No changes; guidance added. |
| Post-employment benefits: Defined benefit plans | Plans other than defined contribution plans. | The obligation and related plan assets (if any) are combined in a new component, the “net defined benefit asset/liability”. |
| | | Three components for the statement of financial performance comprised as:<br>• Current service cost, past service cost (including curtailments), and settlement cost are combined and called “service cost”.<br>• Interest cost and expected return on plan assets are presented on a net basis as “net interest expense/revenue”.<br>• Actuarial gains and losses, return on plan assets and changes in the effect of the asset ceiling are grouped and called “remeasurements”. |
| | | Guidance is provided on:<br>• Actuarial assumptions, including the effect of employee and third-party contributions on service cost and remeasurements.<br>• Plan amendments, curtailments and settlements, clarifying when the effect of the asset ceiling is |

| | | |
|---|---|---|
| | | considered and the information to be used in determining current service cost and net interest.<br><br>A disclosure objective and guidance on achieving the objective are introduced. |
| Other long-term employee benefits | All employee benefits other than short-term, post-employment and termination benefits. | A disclosure objective and guidance on achieving the objective are introduced. |
| Termination benefits | Provided in exchange for termination of employment. | Guidance is provided on:<br>• distinguishing them from other employee benefits;<br>• when they should be recognised; and<br>• their measurement.<br>A disclosure objective and guidance on achieving the objective are introduced. |

**First time application of the changes**

These changes were effective 1 April 2023. The transitional provisions require that the changes are applied retrospectively (with a few exceptions). This means entities should apply the changes as if they were always applied, and would impact the presentation of the 2023/24 and the comparative information in the financial statements.

Ideally entities should have considered the impact of these changes in the previous period already to ensure they accumulate the necessary information to apply the changes retrospectively. It is however not too late to prepare for implementing these changes.

## GRAP Reporting Framework 2023/2024: What changed?

***Role and purpose of Directive 5***

Directive 5 on *Determining the Reporting Framework* prescribes the GRAP reporting framework for a particular reporting period. The Appendices of the Directive list the standards and pronouncements that are the GRAP Reporting Framework for a reporting period. The Appendices are updated each year.

Directives are authoritative, and entities must apply Directive 5 and the list of pronouncements in the applicable Appendix to prepare financial statements for a particular reporting period.

***What were the changes for the 2023/24 financial year?***

The Minister of Finance approved the following Standards of GRAP to become effective for financial periods commencing on or after 1 April 2023:

- GRAP 25 on *Employee benefits* (revised 2021), which replaces the previous GRAP 25. The related IGRAP 7 on *The Limit on a Defined Benefit Asset, Minimum Funding Requirements, and Their Interaction* is also replaced.
- Amendments to GRAP 1 on *Presentation of Financial Statements* as a result of the development of guidance on materiality.
- Improvements to Standards of GRAP, 2020.
- IGRAP 21 on *The Effect of Past Decisions on Materiality*.
- Guideline on *Accounting for Landfill Sites*.

Detailed articles on these pronouncements have been and will be published in the coming weeks.

***What about pronouncements and changes to pronouncements that are not yet effective?***

The Accounting Standards Board recently approved changes to pronouncements that are not yet effective. Their impact on the 2023/24 GRAP Reporting Framework is as follows:

| Pronouncement | Effective date | Impact on 2023/24 |
|---|---|---|
| GRAP 1 on *Presentation of Financial Statements* (Amendments on going concern) | The effective date is still to be determined by the Minister of Finance. | Entities may not adopt the amendments early as the effective date is subject to approval by the Minister of Finance. However, entities are encouraged to consider the impact of these amendments on their financial statements. |
| GRAP 104 *on Financial Instruments* (revised 2019) | 1 April 2025 | Entities may adopt the revised Standard before the effective date approved by the Minister of Finance. The transitional provisions require adoption of the revised Standard as a whole. Partial or incremental adoption is not permitted.<br><br>Entities that do not early adopt the Standard are encouraged to assess the impact of the revised Standard on their financial statements, and collate the necessary information in preparation for adoption. |
| GRAP 103 on *Heritage Assets* | The effective date is still to be determined by the Minister of Finance. | Entities may not adopt the amendments early as the effective date is subject to approval by the Minister of Finance. However, entities are encouraged to consider the impact of these amendments on their financial statements. |

***What about pronouncements of international standard-setters?***

The Appendices to Directive 5 include pronouncements issued by the IPSASB and IASB that entities should consider in preparing their financial statements for a particular reporting period. Pronouncements of other standard-setters are used to formulate accounting policies; they cannot be adopted by entities. Any IPSAS or IFRS Accounting Standards not included in the relevant Appendix to Directive 5 should not be considered by entities in formulating accounting policies.

Refer to a communication on the IPSAS and IFRS Standards that entities should not consider when formulating accounting policies here.

Access Directive 5 and the related documents on the ASB website here.

**Contact us**
E-mail : info@asb.co.za

*Copyright © 2023*
*Accounting Standards Board*

***Disclaimer***

*The Newsletter has been prepared by the Secretariat of the ASB for information purposes only. It has not been reviewed, approved or otherwise acted on by the Board.*