

# **CIGFARO Public Sector Finance Seminar 5 July 2023**





# Disclaimer

***The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.***



# Overview of today's session

1. GRAP reporting landscape - 2022 and beyond
2. Considerations for preparing and reviewing financial statements

# GRAP REPORTING LANDSCAPE – 2022 AND BEYOND



ACCOUNTING STANDARDS BOARD



# An overview

- #1 GRAP 25 on *Employee Benefits* (and IGRAP 7)
- #2 IGRAP 21 *The Effect of Past Decisions on Materiality*
- #3 Amendments to GRAP 1
- #4 Improvements to Standards of GRAP, 2020
- #5 Guideline on Landfill Sites

GRAP 104 on  
*Financial Instruments*  
(2019)

2022/23

2023/24

2024/25

2025/26

No mandatory  
changes

Note: Based on information available on 30  
September 2022

# Effective dates of changes

Topic	Effective date	Adoption arrangements
Amendments to GRAP 1 on <i>Presentation of Financial Statements</i> [Materiality related changes]	1 April 2023	Early adopt amendments
IGRAP 21 on <i>The Effect of Past Decisions on Materiality</i>	1 April 2023	Early adopt amendment
Improvements to Standards of GRAP (2021)	1 April 2023	Early adopt amendments (per Standard)
Guideline on Accounting for Landfill Sites	Effective date of Improvements, particularly improvement to GRAP 17 on <i>Property, Plant and Equipment</i>	
GRAP 25 on <i>Employee Benefits</i> (and IGRAP 7)	1 April 2023	Early adoption of <u>entire Standard</u> permitted

# Effective dates of changes

Topic	Effective date	Adoption arrangements
GRAP 103 on <i>Heritage Assets</i>	To be determined	May not early adopt – Minister must still determine effective date
GRAP 1 on <i>Presentation of Financial Statements</i> [Changes related to going concern]	To be determined	May not early adopt – Minister must still determine effective date
GRAP 104 on <i>Financial Instruments</i>	1 April 2025	Early adoption of <u>entire Standard</u> permitted

# IFRS not to be applied

Topic	IPSAS	ASB process
Fair Value Measurement (IFRS 13)	IPSAS 46 on <i>Measurement</i>	2024-2026 work programme
Regulatory Deferral Accounts (IFRS 14)	No equivalent	Following IASB project
Revenue from Contracts with Customers (IFRS 15)	IPSAS 47 on <i>Revenue</i>	After 2026
Leases (IFRS 16)	IPSAS 43 on <i>Leases</i>	Wait for Phase II to be completed (after 2026)
Insurance (IFRS 17)	No equivalent	Assessing impact locally



# IPSAS not to be applied

Topic	ASB process
Employee Benefits [IPSAS 39]	Apply GRAP 25 on <i>Employee Benefits</i>
Public Sector Combinations [IPSAS 40]	Apply GRAP 105, 106 and 107 on transfers of functions and mergers
Financial instruments [IPSAS 28-30 and 41]	Apply GRAP 104 on <i>Financial Instruments</i>
Social benefits [IPSAS 42]	Retain current accounting policies. Project underway to develop Standard of GRAP on social benefits.
Amendments to IPSAS 19 for collective and individual services	Retain current accounting policies. ASB will assess accounting with reference to IPSAS 48 on <i>Transfer Expenses</i> as well.
Non-current Assets Held for Sale and Discontinued Operations [IPSAS 44]	Apply GRAP 100 <i>Discontinued Operations</i> and GRAP 1 <i>Presentation of Financial Statements</i> (disclosure requirements)



# CONSIDERATIONS FOR PREPARING AND REVIEWING FINANCIAL STATEMENTS





# How are financial statements prepared and who is responsible?

- Prepared by **management** of the entity.
- Specific principles used to prepare the information:
  - Standards of GRAP
  - Legislation
  - Guidance, directives etc. from National Treasury.



# How are financial statements prepared and who is responsible?

- Oversight exercised by **audit committee, finance committee, Council, PAC.**
  - Council approves the financial statements.
- Financial statements are **audited** by the **AGSA.**
  - AGSA will express an opinion on whether the financial statements “fairly present” the financial affairs of the entity.

# Specific considerations when preparing financial statements



# Specific considerations when preparing financial statements

- Disclose judgements, assumptions, estimates and uncertainties
- Review and amend accounting policies
- Review and amend estimates
- Disclose effect of Standards not yet effective
- Apply materiality



# Disclose judgements, assumptions, estimates and uncertainties

- Transactions, events, facts and circumstances may differ + so may the judgements that are applied. The answers of two accountants may not be exactly the same.
- Important to explain to users the judgements that are applied.





# Disclose judgements, assumptions, estimates and uncertainties

Areas of judgement in:

- Application of accounting policies.
- Measurement of assets and liabilities.





# Disclose judgements, assumptions, estimates and uncertainties

What to disclose?

- Key assumptions concerning the future.
- Key sources of estimation uncertainty
  - Where there is a significant risk of material adjustment to assets and liabilities in the next reporting period as a result of uncertainty in valuation at this reporting date.





# Review and amend accounting policies

- The Standards describe the broad principles used to prepare financial statements.
- Users should have an understanding of these principles, but more importantly how they are applied.
- It is important to tailor accounting policies to your circumstances.



# Review and amend accounting policies

This is **not** a good accounting policy....

*Property, plant and equipment are tangible non-current assets that are used in the production or supply of goods or services, rental to others, or for administrative purposes and are expected to be used during more than one reporting period. The cost of an item of property, plant and equipment is recognised as an asset when it is probable that the future economic benefits or service potential will flow to the entity and the cost or fair value can be measured reliably. Classes of property, plant and equipment are measured subsequently using the cost or the revaluation model.*



# Review and amend accounting policies

The accounting policy should:

- Explain what items are PPE.
- Whether cost or fair value is applied initially.
- Classes of PPE and subsequent measurement model.
- On what basis are assets revalued + frequency.



# Review and amend accounting policies

Some basic questions to ask...

- Are there policies for material transactions and events?
- Do the policies deal with transactions and events that occur at your entity?
- Do the policies simply repeat the principles in the Standards?
- Do the policies explain how the principles in the Standards have been applied? ...



# Review and amend estimates

- Standards require a period review of accounting estimates.
- Reminder to review useful lives of PPE assets using indicators in GRAP 17.
- Review fully depreciated assets still in use + assess whether any potential changes are material. Adjustments could be changes in estimates or errors.



# Disclose effect of Standards not yet effective

- Financial statements enable users to make decisions using predictive information.
- Future changes in accounting policies could affect these decisions.
- Need to disclose information about Standards that are not yet effective + their potential impact.
  - E.g. information on recognition of new or different items, changes in values of items, etc.
  - Review Directive 5 for list.
  - Only those Standards that are relevant to the entity



# Apply materiality

- The Standards of GRAP only apply to material items.
- Applies to recognition, measurement, presentation and disclosure.
- Applying materiality  $\neq$  leave out of the financial statements!
  - It means alternative accounting treatment





# Apply materiality

- Identify users.
  - Identify their information needs.
  - Identify what is material → set thresholds (quantitative) and criteria (qualitative).
- 
- ❖ Discuss with management, **oversight structures** and auditors.

# Examples of applying materiality

Applying materiality to...	What it means...
Recognition	<ul style="list-style-type: none"> <li>• Expensing low-value assets.</li> <li>• Capitalising servitudes as part of the cost of an asset rather than recognition as an intangible asset.</li> </ul>
Measurement	<ul style="list-style-type: none"> <li>• Expensing transaction costs when measuring financial instruments.</li> <li>• Using contractual interest rate instead of effective interest rate when transaction costs immaterial (assume market related).</li> </ul>

# Examples of applying materiality

Applying materiality to...	What it means...
Presentation	Not separately presenting a line item that is immaterial on the statement of financial performance or position, even if required by GRAP 1.
Disclosure	Not providing detailed credit risk disclosures if an entity only has a bank account and immaterial receivables.

# Specific considerations when reviewing financial statements



# Materiality

- Quality of the financial statements needs to be improved – address users needs
- Apply materiality to avoid clutter, unnecessary information, focus on providing most relevant information to users.
- ASB Guideline on materiality explains principle + process to follow.

# Disclosure

- Avoid using templates or standardised wording → modify accounting policies, disclosures to tell entity's story.
- Don't use “mandatory” disclosures in the Standards as a checklist → understand the purpose of the disclosure and it relevant to entity.



# Stay informed





# Stay informed

- All information can be accessed on our website [www.asb.co.za](http://www.asb.co.za).
- FAQs
- Follow the ASB on LinkedIn, Facebook, Twitter, YouTube
- Subscribe to our Newsletter via our website.
- GRAP Updates (for PFMA and MFMA entities) on YouTube.



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