SAICA/ASB GRAP UPDATE
SESSION 1
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

- GRAP Reporting Framework
- Overview of ASB activities
- Accounting for landfill sites
- Guideline on Application of Materiality to Financial Statements
- GRAP for small entities
GRAP Reporting Framework
2018/2019 to 2019/2020
GRAP Reporting Framework 2018/2019

Two pronouncements effective 1 April 2018:

- Improvements to the Standards of GRAP (2016)
- Amendments GRAP 21 & GRAP 26

Impairment of Assets
## GRAP Reporting Framework 2018/2019

### Improvements to the Standards of GRAP

- **Measuring cost of assets acquired in exchange for other assets**
  - cost of asset exchanged is measured at *fair value*
  - unless neither fair value of asset received or given up is reliably measured → cost is then measured at *carrying amount of asset given up*

- **Treatment of transaction costs** - assets acquired in non-exchange transaction
  - align with the principles in paragraph .12 GRAP 23
Improvements to the Standards of GRAP

• Revenue based depreciation & amortisation methods
  - method based on revenue generated by an activity
    not appropriate → not reflective of consumption of
    future economic benefits or service potential

• Restatement of asset’s carrying amount - revaluation model
  - either adjust (a) accumulated depreciation at date of
    revaluation to equal difference between gross
    carrying amount and carrying amount of asset or (b)
    eliminate accumulated depreciation against gross
    carrying amount of asset
## Improvements to the Standards of GRAP

- **Treatment of bearer plants**
  - GRAP 17 applies to bearer plant *but not the produce growing on the bearer plant* (GRAP 27)

- **Guidance on classification of military assets**
  - Inventory may include military assets → ammunition, missiles, rockets and bombs
  - Some meets definition in GRAP 17
## GRAP Reporting Framework 2018/2019

### Improvements to the Standards of GRAP

- **Acquisition of investment property**
  - clarify interrelationship between GRAP 105/106 and GRAP 16 when classifying investment property as owner-occupied

- **Contingent consideration in transfer of functions**
  - require contingent consideration classified as asset or liability to be measured at fair value at each reporting date

- **Deletion of appendixes included in GRAP Implementation Guidance**
## Amendments GRAP 21 & 26 Impairment of Assets

- Guidance on how to classify / designate assets as cash or non-cash generating
- Added definition for commercial return: “positive cash flows expected to be significantly higher than cost of asset”
- First apply GRAP 21 (assets most likely non-cash-generating)
- Prospective application
Standards of GRAP
Effective 1 April 2019
Effective Standards of GRAP – 1 April 2019

Trading entities, Parliament and Provincial Legislatures

• GRAP 18 Segment Reporting
• GRAP 105 Transfer of Functions Between Entities Under Common Control
• GRAP 106 Transfer of Functions Between Entities Not Under Common Control
• GRAP 107 Mergers
Effective Standards of GRAP – 1 April 2019

All entities other than trading entities

• **GRAP 20 Related Party Disclosures**
  – Disclosure of related party transactions and outstanding balances within an economic entity

• **GRAP 32 Service Concession Arrangements: Grantor**
  – Accounting of service concession asset and liability → financial liability model or grant of a right to the operator model
Effective Standards of GRAP – 1 April 2019

• **IGRAP 17** *Service Concession Arrangements Where Grantor Controls a Significant Residual Interest in an Asset*

• **GRAP 108** *Statutory Receivables*
  – Accounting for receivables arising from legislation, supporting regulations or similar means and requires settlement in cash or another financial asset
  – Recognition and measurement
GRAP 109 Accounting by Principals and Agents

Outlines principals to assess whether
(a) entity is a party to a principal-agent arrangement
(b) entity is the principal or agent in arrangement
(c) revenue, expenses, assets or liabilities should be recognised → no new recognition or measurement principles
• **IGRAP 18 Recognition and Derecognition of Land**
  
  – When to recognise and derecognise land based on control of land
  
  – Two criteria:
    
    a) legal title and/or
    
    b) right to direct and restrict/deny access of others
• **IGRAP 19 Liabilities to Pay Levies**
  – Recognition of liability to pay levy within scope of GRAP 19 whose timing and amount are uncertain
  – Levy = non-exchange transaction resulting in an outflow of resources embodying FEB or SP that is imposed by government on entities in accordance with legislation or similar means
Effective Standards of GRAP – 1 April 2019

- Guideline on Accounting for Housing Arrangements
  - Applicable to entities that participate in national housing programme – level 1, 2, non-accredited
  - Project manager → agent for department
  - Project developer → developer responsible for housing development (GRAP 11)
  - Accounting for land, infrastructure and other assets
Standards of GRAP
Effective 1 April 2020
Effective Standards of GRAP – 1 April 2020

- Municipalities, boards, commissions, companies, corporations, funds or entities under the ownership control of municipality

- GRAP 18 Segment Reporting
Effective Standards of GRAP – 1 April 2020

All entities other than trading entities

- **GRAP 110 Accounting for Living and Non-living Resources**
  - Accounting for living resources (living organisms)
  - Criterial to assess if living resource is controlled
  - Disclosure of non-living resources (land, minerals, oils and gas and other non-regenerative resources)
Interests in Other Entities

- GRAP 34 *Separate Financial Statements*
- GRAP 35 *Consolidated Financial Statements*
- GRAP 36 *Investments in Associates and Joint Ventures*
- GRAP 37 *Joint Arrangements*
- GRAP 38 *Disclosure of Interests in Other Entities*
Effective Standards of GRAP
– 1 April 2020

• IGRAP 20 *Accounting for Adjustments to Revenue*

  – adjustments to revenue recognised into legislation or similar means following completion of an internal review process or outcome of external appeal or objection

  – principles may be applied, by analogy adjustments to exchange or non-exchange revenue arising from contractual arrangements with similar fact patterns
Effective Standards of GRAP – 1 April 2020

• Amended IGRAP 1 Applying the Probability Test on Initial Recognition of Revenue

  – Other factors that impact inflow of FEB or SP eg early settlement discounts, rebates, reductions, or as a result of adjustments to revenue (IGRAP 20) should be considered on initial recognition of revenue

  – Past experience and current facts and circumstances existing on initial recognition
Overview of ASB activities
Recent projects

• Guideline on *Accounting for Landfill Sites*
• Guideline on *The Applicability of Materiality to Financial Statements*
• Amendments to GRAP 1 *Presentation of Financial Statements*
• Revised Standard of GRAP on *Financial Instruments*
Recent projects

- Transitional provisions for the Adoption of GRAPs by Community Education and Training Colleges (CET)
- Proposed Directive on *The Use of GRAPs by Public Entities that Apply IFRS Standards*
- Initial research on *The Application of Standards of GRAP by Small Entities*
Projects for next six months

• Improvements to Standards of GRAP (2019)
• Post-implementation Review GRAP 103 Heritage Assets
• Transitional provisions revised GRAP 104
• Review comment on ASB work programme consultation for 2021 to 2023
• Issues paper on Combined Financial Statements
Accounting for Landfill Sites
Objective of Guideline

- **Authority:** explain existing principles in the Standards to a specific transaction or arrangement – do not replace principles in GRAP

- **Objective:** provide guidance to entities that manage and operate landfill sites to address inconsistent accounting practices
  - improve comparability
  - provide necessary information to users
Scope of Guideline

• Accounting for landfill site (asset and land) and related landfill rehabilitation provision in so far as it applies to:
  – general waste and hazardous waste
• Applicable to entities required to comply Waste Act and Environmental Conservation Act and related regulations, norms and standards
• By analogy: other rehabilitation provisions, but mindful of specific legislation
Accounting for land in a landfill
Recognition of land in a landfill

- GRAP 17: land accounted for separately from buildings & other structures
  - thus account for land and landfill site asset separately
- Land is recognised when entity meets:
  - definition of asset and
  - recognition criteria
- Apply IGRAP 18 to assess control of land
  - legal ownership and/or
  - right to direct access to land and restrict/deny access
Classification of land in a landfill

- Land in landfill meets definition of property, plant and equipment (GRAP 17)
- Land **already owned** by entity
  - Already recognised as asset in its f/s
  - Reclassify to PPE using existing GRAPs when decision taken by management
- **Acquisition of new land**
  - Classified as PPE on acquisition
Measurement of land in a landfill

On initial recognition

- Existing land → reclassify to PPE
- Newly acquired → cost or fair value (non-exchange)

After initial recognition

- Cost model or revaluation model
- Depreciation
  - land has unlimited useful life and therefore NOT depreciated
  - Land will always exist and will be available for use
Impairment of land in a landfill

- Indicator of impairment → significant long-term change that will have an adverse effect in extent to which, or manner in which asset is used or expected to be used

  • Decision to use land for landfilling – impairment indication
  
  • Apply judgement to assess at what point this decision will result in reduction in land value (impairment)
  
  • Apply GRAP 21 to designate land as cash-generating or non-cash generating
  
  • Apply GRAP 21 or GRAP 26 at each reporting date
Change in use of land in a landfill

- When landfilling has stopped and end-use plan is endorsed
- Apply principles in GRAP when end-use plan is implemented to account for change in use if appropriate
  - inventory (GRAP 12)
  - investment property (GRAP 16)
  - heritage assets (GRAP 103)
Accounting for the landfill site asset
Recognition and classification of landfill site asset

- Recognise landfill site asset when meet definition & recognition

Enforceable right
Probable FEB / SP
Determine nature, type, volume, to whom, what price
Direct use
Cost / FV measured reliably
Measurement landfill site asset

- Initially measure at cost or FV (non-exchange)
- Costs during development and construction can either be capitalised or expensed
  - Apply existing accounting policies, based on GRAPs

**Also consider:**

<table>
<thead>
<tr>
<th>Probable that landfill site asset will generate FEB/ SP</th>
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<tbody>
<tr>
<td>Technically feasible that licence authority will approve</td>
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<tr>
<td>Ability to complete &amp; use asset for waste disposal</td>
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<tr>
<td>Adequate tech, financial and other resources</td>
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<tr>
<td>Expenditure and other costs can be reliably measured</td>
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</table>
Measurement landfill site asset

- **Elements of cost: GRAP 17**
  - a) Purchase price
  - b) Costs directly attributable
  - c) Initial estimate costs to dismantle & restore

- Assess for impairment during development
- Cease capitalisation of costs when in location & condition necessary to operate in manner intended by management
Measurement landfill site asset

Measurement after development or construction:

- apply cost or revaluation model
- subsequent costs only capitalised when (a) probable FEB/SP and (b) measured reliably
- monitoring and inspection incurred during operation -
  - do not result in improvement / enhancement of FEB/SP → therefore *expense*
  - But *capitalise* if improvement/enhancement to landfill asset
Depreciation of landfill site asset

• Each part with cost that is significant in relation to total cost depreciated separately → insignificant parts grouped together

• Useful life is period that landfill site is available for use → while in operation and while stores waste

• Residual value – determined based on amount obtainable from disposal or from using in another activity

• At each reporting date → assess of indication of change in useful life or residual value
Impairment of landfill site asset

Impairment

- Assess for impairment at each reporting date – GRAP 21 or GRAP 26
- Apply GRAP 21 to designate as cash/non-cash generating
Derecognition landfill site asset

Landfill site asset

• Derecognise when no FEB/SP expected
  – Apply judgement
  – Parts may generate FEB/SP while in operation or for a shorter period and during period that site stores waste

• Fully derecognised when site by end of post-closure monitoring and inspection period
Construction of assets for use in rehabilitation

• Certain assets need to be in place when final rehabilitation commences

• Initial estimate of landfill rehabilitation provision includes estimate of these costs
  – Part of obligation to dismantle and restoration

• When development or construction of these assets commence – apply GRAPs
Accounting for the landfill rehabilitation provision
Recognition of landfill rehabilitation provision

• Recognise liability when:
  – present obligation (legal or constructive) as a result of past event
  – probable outflow of FEB/SP
  – reliable estimate of obligation amount

• Obligation to
  – Dismantle and remove any constructed assets and to rehabilitate and restore the land and/or
  – Undertake rehabilitation to restore environmental damage to land
 Measurement of landfill rehabilitation provision

Cash flows

• Best estimate expenditure required to settle present obligation

• May include:

  a) Costs to dismantle, remove, restore
  b) Pre-closure planning & approval
  c) Final rehabilitation & closure
  d) Monitoring & inspection after closure

• Time value for money → if material

• Risks and uncertainties → either adjust discount rate or future cash flows
Measurement of landfill rehabilitation provision

Discount rate

Pre-tax

Reflect current market assessment of time value of money & risks specific to liability

Adjust for factors relevant to landfill site

Includes / excludes inflation, depending on cash flows

Alternatives, consistent with provision term:

- Government bond rate
- Corporate bond rate
Measurement of landfill rehabilitation provision

• Use of provision:
  – as expenditure incurred the provision reduced
  – when all or part of provision no longer needed → derecognise to statement of fin performance

• Change in estimate
  – IGRAP 2 applied
  – Cost model → adjusted against cost of asset
  – Revaluation model → adjusted against revaluation surplus or surplus/deficit

• Changes after closure → surplus/deficit
Other considerations
Other considerations

- Funding received to rehabilitate: apply GRAP 23
  - by entity itself: non-exchange revenue
  - to another party: service received in-kind

- Arrangement with other party to undertake waste disposal activities on its behalf
  - Assess if principal-agent arrangement
  - Account for arrangement based on nature and rights and obligations in arrangement
Other considerations

• Accounting for revenue generated from landfill site
  – Eg. Charging entrance fee, collection gases
  – Apply either GRAP 9 or GRAP 23

• Accounting for fines and penalties
  – Non-compliance → apply GRAP 19

• Accounting for licence fees (operate and close)
  – Assess if fee should be expensed or capitalised →
    costs incurred prior and after approval from licencing authority
Other considerations

- To align existing accounting policies with the principles in this Guideline
  - Apply principles in GRAP 3
  - Apply judgement to assess if:
    (a) change in accounting policy
    (b) change in accounting estimate
    (c) error
Included in GRAP Reporting Framework

• Board agreed for Guideline to be included in GRAP Reporting Framework
  – Address divergent and inconsistent practices
  – Based on principles in existing Standards of GRAP

• 1 April 2021
Guideline on Application of Materiality to Financial Statements
History of the project

Discussion Paper 9 issued for comment [2014]

Proposed Guideline issued for comment [Q2 2018]

Analysis of comments from respondents [Q4 2018]

Approval of the final Guideline [Q1 2019]
Development of ED

• Feedback from DP 9 indicated a need for guidance on the application of materiality by preparers.

• Board and OAG agreed that the guidance should be developed.

• Guidance aimed at assisting preparers when applying the concept of materiality.

• Guideline introduces a process that may followed by preparers based on DP 9.
Development of ED

- Board sought feedback on the proposals in ED 168.
- Deadline for comment 7 Dec 2018.
- Board analysed feedback received in March 2019.
- Guideline was approved for issue.
How will the Guideline affect the public sector?
How will the Guideline affect the public sector?

- Improve disclosure content
- Communicate only relevant information
- Reduce repetition
- Tailor disclosures focusing on material information
- Eliminate outdated and immaterial information
- Address challenges about complexity of GRAP
- Principles to guide how to apply GRAP properly
- Materiality is not only relevant to auditors
- Address challenges about complexity of GRAP
- Principles to guide how to apply GRAP properly
- Change preparers’ behaviour
- Increased debate of the role of materiality
- Reduce clutter in financial statements
- Improve quality and effectiveness of financial statements
- Improve disclosure content
- Communicate only relevant information
Overview of the Guideline
Overview of the Guideline

- Introduction (section 1)
- Definition and characteristics of materiality (section 2)
- Role of materiality in the financial statements (section 3)
- Identifying the users of financial statements and their information needs (section 4)
- Assessing whether information is material (section 5)
- Applying materiality in preparing the financial statements (section 6)
What is the authority and scope of the Guideline?
## Authority and scope

| **What is the authority of the Guideline?** | • Clarifies existing principles about materiality in the Conceptual Framework and Standards of GRAP.  
• It does not replace or amend any of the existing principles. |
|---|---|
| **What is the scope of the proposed Guideline?** | • Provides preparers guidance on the application of materiality to the preparation of financial statements.  
• Discusses materiality assessments and decisions about the recognition, measurement, presentation and disclosure of information in an entity’s financial statements.  
• May be applied, by analogy, to information included in general purpose financial reports (GPFRs). |
| **When should the Guideline be applied?** | • It is mandatory and applicable to all entities applying GRAP.  
• It can be applied immediately but its effective date is still to be determined. |
What is materiality?
## Definition and characteristics

### What is materiality?

“Information is material when it *could influence*, individually or collectively, the assessments of *accountability or decisions* of *users* made on the basis of the financial statements. Materiality depends on how the *nature, size or both*, of the information *could reasonably influence* those assessments and decisions.”

### Where is it defined?

- Defined in GRAP 1 and GRAP 3.
- Conceptual Framework describes it as entity-specific aspect of relevance.
- Therefore its application may result in different outcomes based on an entity’s circumstances.
What is the role of materiality in the financial statements?
### Role of materiality in the f/s

<table>
<thead>
<tr>
<th>When should materiality be considered?</th>
<th>A key consideration in deciding how to apply the Standards of GRAP when preparing the financial statements:</th>
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<tbody>
<tr>
<td></td>
<td>• Materiality influences whether information is required to be recognised, measured, presented and disclosed in accordance with the requirements in the Standards.</td>
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<tr>
<td></td>
<td>• Should be considered throughout the financial reporting cycle, and not only when the financial statements are prepared.</td>
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<table>
<thead>
<tr>
<th>Who should be involved in making judgements?</th>
<th>It is not an easy concept to apply it requires professional judgement. This area of accounting is a challenge for some preparers.</th>
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<tbody>
<tr>
<td></td>
<td>• Should be made by those who have understanding of how information could reasonably influence users.</td>
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<td>• For example, management and relevant governance structures.</td>
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This Guideline outlines a process that may be applied to determine materiality. It responds to the following key decisions required in determining materiality.

**How should entities determine materiality?**

- **Who are the users and what information do they need?**
  - Identify users

- **Identify the information that users need**

- **When does information, individually or collectively, affect the assessment of accountability and users’ decisions?**
  - Assess information based on nature and size

- **Develop qualitative considerations and quantitative thresholds**

- **How is materiality applied in preparing the financial statements?**
  - Developing accounting policies
  - Deciding what information to disclose
  - Deciding how to present information
  - Assessing omissions, misstatements and errors
<table>
<thead>
<tr>
<th><strong>Role of materiality in the f/s</strong></th>
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</table>
| **Should the judgements be disclosed in f/s?** | • Mixed views from respondents about including a disclosure requirement in GRAP 1.  
• Board agreed not to add a disclosure requirement in GRAP 1 but to encourage the disclosures.  
• Board will consider making this a requirement once practice has developed. |
| **What should be disclosed?** | • Entities are encouraged to provide information about overall management’s materiality considerations or judgements.  
• These disclosures do not include materiality thresholds. |
| **Why are the disclosures useful?** | • Disclosures enable users (i.e. decision makers) to understand key judgements made about materiality. |
Who are the users and what information do they need?

- Identify users
- Identify the information that users need

When does information, individually or collectively, affect the assessment of accountability and users’ decisions?

- Assess information based on nature and size
- Develop qualitative considerations and quantitative thresholds

How is materiality applied in preparing the financial statements?

- Developing accounting policies
- Deciding what information to disclose
- Deciding how to present information
- Assessing omissions, misstatements and errors

Key assessments and decisions about materiality
Who are the users?
Who are the users?

- Identify primary users based on:
  - resource providers and representatives → how and from whom entity receives funding
  - service recipients and representative → type of goods/services provided and its beneficiaries
  - nature of operations.

- Assume users have necessary knowledge to evaluate F/S
What information do users need?
What information do users need?

- Users need info to hold entities accountable for resources entrusted to them and to make decisions about:
  - Operating results.
  - Ability to meet obligations.
  - Ability to continue to provide goods/services in the future.
What information do users need?

• Identify users’ info needs based on those
  – Common to broad range of users, and not
  – Specific only to that user.

• F/S cannot provide all info needed by users but should aim to satisfy the common info needs

• common info needs =
  – Info needs of resource providers + info needs of service recipients
Who are the users and what information do they need?

Identify users

Identify the information that users need

When does information, individually or collectively, affect the assessment of accountability and users’ decisions?

Assess information based on nature and size

Develop qualitative considerations and quantitative thresholds

How is materiality applied in preparing the financial statements?

Developing accounting policies

Deciding what information to disclose

Deciding how to present information

Assessing omissions, misstatements and errors
When is information material?

• Users’ decisions could be influenced if **nature** or **size** or **both** is material
• Nature → qualitative aspects
• Size → quantitative aspects
• Consider both and in context of other available information.
When is information material?

**Nature:**

- Inherent characteristics, or circumstances in which an item is undertaken.

**Examples:**

- Legal or regulatory implications (e.g. breach of Act).
- Identification of parties with whom entity transacts (e.g.).
- Events occurring post reporting date (e.g. discovery of fraud).
- Commencement of a new activity (i.e. introduction of a new programme).
- Degree of estimation in valuations (i.e. complex financial instruments).
When is information material?

**Size:**

- Monetary value (Rand amount) of items that could influence users’ decisions.
- It could relate to
  - Class of transactions
  - Specific line item in F/S
  - Aggregation of specific line items in F/S
  - Overall assessment of F/S as a whole
How to assess whether information is material?

• Thresholds are developed to assess materiality of items when preparing F/S.

• Qualitative considerations
  – Identify certain criteria or characteristics
  – Used to decide if item is material based on its nature

• Quantitative thresholds
  – Apply a specific margin (%) to a specific basis (benchmark)
  – Used to decide if item is material based on its size
How to assess whether information is material?

Thresholds can be used to:

• Make decisions about the reporting of information (i.e. how to recognise, measure, present & disclose items).
• Provide margin of error or framework within which to assess misstatements and errors.
How to assess whether information is material?

- Consider both qualitative and quantitative factors when assessing whether an item is material.
- Insufficient to conclude an item is material based on quantitative assessment.
  - Should also assess the presence of qualitative factors.
Is info assessed as material individually or collectively?

- Assessments should be done both on an individual and collective basis
- If item is not material individually → continue to assess individually immaterial items in together
Key assessments and decisions about materiality

Who are the users and what information do they need?
- Identify users
- Identify the information that users need

When does information, individually or collectively, affect the assessment of accountability and users’ decisions?
- Assess information based on nature and size
- Develop qualitative considerations and quantitative thresholds

How is materiality applied in preparing the financial statements?
- Developing accounting policies
- Deciding what information to disclose
- Deciding how to present information
- Assessing omissions, misstatements and errors

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How is materiality applied in preparing F/S?

• Materiality is a key consideration in deciding how to apply the Standards of GRAP in preparing F/S.

• Qualitative considerations & quantitative thresholds developed guide preparers decisions in preparing F/S.
How is materiality applied in preparing F/S?

- Materiality considered in:
  - Developing accounting policies.
  - Deciding what information to disclose and how to present information.
  - Assessing the effect of omissions, errors & misstatements.
How should accounting policies be developed?
How should accounting policies be developed?

• Recognition, measurement, presentation and disclosure requirements of Standards of GRAP, apply to material items

• If item is immaterial:
  – Requirements of a particular Standard need not be adhered to, but
  – Item must still be recorded in F/S
  – Particular acc. policy is then developed without following requirements of Standard
How should accounting policies be developed?

• When particular acc. policy is developed without following requirements of Standard, for immaterial items:
  – Should ensure applying particular acc. policy has not material effect on F/S by considering
    • Individual or aggregate transactions, AND
    • cumulative effect of particular acc. policies on St. of FinPos, St. of Changes and notes.
  – Assessment based on the impact on current or future periods.
  – Assessment considers both qualitative and quantitative factors.
How should accounting policies be developed?

In developing accounting policies, this does not mean that an entity can:

(a) Depart from the requirements of the Standards for material items.

(b) Disclose, rather than recognise and measure material items.

(c) Depart from the requirements of the Standards for material items:
   - And develop its own accounting policies, or
   - Does so to achieve a particular presentation of an entity’s financial performance, position and cash flows.
How should accounting policies be developed

(d) Select an inappropriate accounting policy for a material item, and

- Disclose the inappropriate accounting policy and/or

- Provide disclosures about the accounting for the item in the notes to the financial statements.
What information should be disclosed in F/S and how should it be presented?
What should be disclosed and presented?

• When item is assessed as material, need to decide on:
  – **What** information should be presented and disclosed in F/S?
  – **Where** to present and disclose information in F/S?
  – **How** to organise that information in F/S?

• Judgement should be applied in making these decisions

• Each entity to tell its “own story” to users in the F/S
What should be presented and disclosed?

Selecting information

• Informed by requirements in the Standards where particular Standard applies
  – Consider whether info resulting from those presentation and disclosure requirements in the will be material?
  – If immaterial → need not present and/or disclose the information

• May provide additional information not specified by the Standards if
  – information is necessary for the users to understand the impact
Where to present and disclose information?

Location of information

- Informed by requirements in the Standards where particular Standard applies.
- CF refers to info for display and disclosure
  - Display in F/S: communicate comprehensive financial picture
  - Disclosure in notes: additional and supplementary information
- Materiality applies equally to information presented in F/S or disclosed in notes
How to present and disclose information?

Organisation of information

- Material information should be organised so that information is clearly and concisely communicated:
  - Emphasise material matters
  - Material information should not be obscured by immaterial information
  - Tailor information to tell entity’s own story
  - Avoid/minimise duplication
What should be disclosed?

Laws and regulations

• Where legislation requires disclosure, materiality considerations may not necessarily apply to those disclosures.

• Information provided cannot be less than what the Standards require, even if legislation permits otherwise.
What should be disclosed?

Publicly available information

• Users consider information from other sources and not just F/S e.g. annual report, media release

• Information in F/S is still assessed for materiality even if that information is publicly available from another source

• Entity still have an obligation to make material information available in F/S even if available from other sources
What should be disclosed?

Prior period information

• Materiality assessment in current year F/S include prior period information

• Should present prior period’s information for all amounts reported in current period, unless Standards require otherwise
What should be disclosed?

• If prior period information is assessed as material for current F/S → may provide more information than was provided previously
• Should provide prior period even if not previously provided if necessary to understand current F/S
• No need to reproduce prior period information in current F/S → can summarise and retain
Should immaterial info be presented/disclosed?

• Consider not presenting or disclosing immaterial information in the F/S
• This way immaterial information does not obscure relevant information
How to assess the effect of omissions, misstatements and errors?
How to assess omissions, misstatement & errors?

- Assess individually and collectively
  - If material $\rightarrow$ correct all
  - If immaterial $\rightarrow$ need to consider effect
- Assess if cumulative errors are material
  - Consider if entity’s circumstances have changed that led to different materiality assessment in current period or if it is further accumulation of error or cumulative error
  - Correct cumulative errors in current period if they have become material based on GRAP 3
How to assess omissions, misstatement & errors?

- Aggregation of individually immaterial misstatements/omissions:
  - Single immaterial misstatement or omission may not have an effect on a particular line item or F/S as a whole.
  - When considered with other immaterial misstatements or omissions, aggregation of these may mean the F/S are materially misstated.
How to assess omissions, misstatement & errors?

Should bear in mind the following in assessing the effect of **immaterial errors**:

• Inappropriate to leave uncorrected immaterial errors in order to achieve a particular presentation of an entity’s financial performance, financial position and cash flows.
Amendments to GRAP 1
Why the Board issued the amendments?

- Based on amendments made by IASB to IAS 1
- Narrow scope amendments deal with:
  - Materiality and aggregation (#1)
  - Information presented in the statements of financial position and financial performance (#2)
  - Structure (#3)
  - Disclosure of accounting policies (#4)
### Amendments to GRAP 1

| Materiality and aggregation | The amendments clarify that:  
|                           | - information should not be obscured by aggregating or by providing immaterial information;  
|                           | - materiality considerations apply to all parts of the financial statements; and  
|                           | - even when a Standard of GRAP requires a specific disclosure, materiality considerations apply. |

| Statement of financial position and statement of financial performance | The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements. |
## Amendments to GRAP 1

| Notes structure | The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1. |
|Disclosure of accounting policies | Remove guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful. |
Effective date & transitional provisions

• The Board proposes an effective date of 1 April 2020.
  – Date is subject to approval by the Accountant-General.
Questions and comments?
GRAP for small entities
Content

1. Background to project
2. Results of initial research
3. Board decisions and next steps
1. Background to project
Background to project

Position Paper
2011

ASB work programme consultation 2016

Research project commences 2018

Differential reporting should not be introduced, because of:
- Users’ information needs
- Whole-of-government financial statements

Concerns with small entities’ ability to comply with GRAP
- Resource constraints
- Inability to appoint competent staff

Explore if clarification could be provided on:
- Aspects of Standards need not apply/not apply fully
- Application of materiality

Concerns with small entities’ ability to comply with GRAP
- Resource constraints
- Inability to appoint competent staff

Explore if clarification could be provided on:
- Aspects of Standards need not apply/not apply fully
- Application of materiality
Background to project

- **Initial phase - research to:**
  - Understand challenges small entities may have to prepare AFS i.a.w. Standards of GRAP
  - Identify characteristics & types of small entities
  - Identify users’ information needs
  - Explore potential ways challenges could be addressed, considering current environment
2. Results of initial research
# Background to research

<table>
<thead>
<tr>
<th>Method</th>
<th>Attendees / Respondents</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Desktop research: local and international practice</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Targeted face-to-face engagements</td>
<td>Auditors, Users and other stakeholders</td>
<td>18 42</td>
</tr>
<tr>
<td>Presentation at Public Sector Accounting Forum</td>
<td>Preparers, Auditors, Consultants, Users and other stakeholders</td>
<td>6 5 8 8</td>
</tr>
<tr>
<td>Contact session and webcast</td>
<td>Preparers and consultants</td>
<td>120</td>
</tr>
<tr>
<td>Questionnaire and other feedback</td>
<td>Preparers, Users and other stakeholders</td>
<td>41 6</td>
</tr>
<tr>
<td>Roundtables</td>
<td>Preparers, Auditors, Consultants, Users and other stakeholders</td>
<td>7 7 1 5</td>
</tr>
</tbody>
</table>
Results of initial research

1. Challenges that small entities have to prepare AFS i.a.w. Standards of GRAP

2. Characteristics and types of entities that could potentially qualify as “small”
1. Challenges that small entities have to prepare AFS i.a.w. Standards of GRAP

- Accounting challenges
- Human Resources
- Budget
- Daily controls
- Use of consultants
- Broader compliance
- Existence of entities
1. Challenges that small entities have to prepare AFS i.a.w. Standards of GRAP

- Accounting challenges

- Measurement of non-current assets
- GRAP too technical
- Keeping up to date with changes
- Applying materiality
- Fully depreciated assets
- Year-end adjustments
- GRAP 104 incl. disclosure
- Judgments for non-current assets
- Other
2. Characteristics of entities that could potentially qualify as “small”

<table>
<thead>
<tr>
<th><strong>Nationally</strong></th>
<th></th>
</tr>
</thead>
</table>
| **Companies Act & Regulations** | **Public Interest score - reporting frameworks & audit requirements** | - Number of employees  
- R-value of turnover  
- R-value of 3rd party liabilities |
| **Financial Reporting Standards Council** | **Draft Reduced Disclosure Framework** | Wholly-owned subsidiaries consolidated in IFRS parent AFS |
| **Municipal upper limits of remuneration** | **Limits remuneration** | - Total municipal income  
- Total population  
- Total municipal equitable share |
| **National Small Business Act** | **Guidelines to promote small business** | - Number of employees  
- R-value of turnover  
- Gross asset value |
| **Other** | **SARS classifies entities for tax purposes; SARB classifies entities for completing SARB surveys** |  |
2. Characteristics of entities that could potentially qualify as “small” (cont.)

**Internationally**

<table>
<thead>
<tr>
<th>International Accounting Standards Board</th>
<th>IFRS for SMEs – simplifies IFRS requirements</th>
<th>Public accountability</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>• FRS for Small Entities</td>
<td>• Number of employees</td>
</tr>
<tr>
<td></td>
<td>• FRS applicable to Micro-entities Regime</td>
<td>• Amount of turnover</td>
</tr>
<tr>
<td></td>
<td>• Reduced Disclosure Framework</td>
<td>• Book value total assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Controlled entities included in publicly available consol. AFS</td>
</tr>
<tr>
<td>New Zealand</td>
<td>• Less complex framework</td>
<td>• Public accountability</td>
</tr>
<tr>
<td></td>
<td>• Reduced Disclosure Framework</td>
<td>• Amount of expenses</td>
</tr>
<tr>
<td>Australia</td>
<td>Reduced Disclosure Framework</td>
<td>Public accountability</td>
</tr>
</tbody>
</table>
2. Characteristics of entities that could potentially qualify as “small” (cont.)

- Combination, not just one
- Quantitative & qualitative
- Oversight body should classify instead of self-assessment
2. Characteristics of entities that could potentially qualify as “small” (cont.)

1. Value of Revenue
2. Number of employees
3. Functions
4. Value of Expenses / Budget
5. Value of Total assets
6. Wholly owned
7. Complexity
8. Other
2. Types of entities that could potentially qualify as “small”

- Classification of entities by type not well supported
  - Each type has range of size and complexity
  - Classification should focus on characteristics or criteria
3. Board decisions and next steps
Board decisions

March 2019 meeting:

• Considered results of initial research

• Decisions:
  – Actions from existing and upcoming projects to address challenges
    o Guidance from review of GRAP 16 and GRAP 17
    o Publication of Guideline on materiality
    o Guidance from amending GRAP 104
    o Post-implementation review of GRAP 103
  – Develop Research Paper
Next steps

April 2019: Feedback to stakeholders

Ongoing: Actions from existing / upcoming projects

September 2020: Research Paper
Stakeholder outreach and communication
Outreach activities

- Continuous promotion of GRAP by improving outreach to stakeholders (workshops, meetings, seminars, SAICA webinars)
- Stakeholders should liaise with ASB when requiring any engagements
- Newsletters & Meeting Highlights
- Handbook
Translation

- Standards translated into isiZulu, Sesotho and Afrikaans
- The official version is the English language version
- Available on website
Website

- Overview of changes made to reporting framework for 2019 onwards.
- Three set of Standards:
  - Those entities with a December year-end
  - The Standards applicable for the current year
  - The Standards applicable for the next financial year
- Please register on website if you want to be advised of changes:
  http://www.asb.co.za/GRAP/Subscribe-to-email-alerts
Submitting comments

Visit our website for more information on these Exposure Drafts

www.asb.co.za

Submit your comments to

info@asb.co.za
THANK YOU
Contact details

Tel: (011) 697-0660
Fax: (011) 697-0666
Email: info@asb.co.za
Website: www.asb.co.za