

# PUBLIC SECTOR | NEWSLETTER

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### UPCOMING DEADLINES:

#### 31 May:

Submission of PFMA annual financial statements for audit

#### 30 June:

Submission of Public Schools Audited Financial Statements

#### 30 June:

MFMA financial year end



**SAICA**  
THE SOUTH AFRICAN INSTITUTE  
OF CHARTERED ACCOUNTANTS

# ARTICLES

## “Small entities”: Should there be different GRAP requirements for them?

This article has been prepared by the Secretariat of the ASB.



**Stakeholders shared concerns with the Board about the ability of “small entities” to prepare financial statements in accordance with Standards of GRAP. The main reason for their concerns was that small entities have constrained human and financial resources.**

### What was the Board’s response?

To determine possible actions, it was necessary for the Board to obtain a clear understanding of the problem. The Board responded by researching the financial reporting environment of these entities in 2018/19 to determine what could be done. The research focussed on:

- (a) Identifying the characteristics that could be used to classify entities as “small”.  
Because no definition or description of “small entities” exists in Standards of GRAP, the Board needed to understand what makes an entity small.
- (b) The challenges and issues faced by “small entities” to prepare GRAP financial statements.  
While the Board decided not to introduce separate reporting requirements for “small” entities, they were of the view that the results of the research would be helpful to stakeholders. The results were published in a [Research Paper, which is available on the ASB’s website](#).

### What could a “small” entity be in the public sector?

As there is no definition of a “small” entity in the public sector in the Standards of GRAP the Board consulted stakeholders on what a “small” entity could be.

Stakeholders considered whether “small” entities should be identified based on specific characteristics or whether specific types of entities, e.g. certain types of municipalities or certain public entities could be considered “small”. Stakeholders were not in favour of classifying certain types of entities as “small”, because within each type, entities vary in size and the complexity of their operations differ.

On balance, stakeholders supported the use of a combination of characteristics, both qualitative and quantitative. Most notably, stakeholders were in favour of using the following characteristics:

- Value of revenue.
- Number of employees.
- Functions performed by the entity.
- Value of the budget.
- Value of expenditure.

The detailed information on the characteristics supported by stakeholders is included in the Research Paper, along with additional issues raised, such as who should perform the assessment, and whether this could change over time.

### What issues do small entities face in preparing financial statements?

As part of the research it was necessary for the Board to obtain a clear understanding of the issues that small entities face in preparing their financial statements using Standards of GRAP. The following challenges were identified.

A number of issues were identified that are outside the Board’s mandate

### Accounting challenges

These challenges often relate to areas where judgement is required. Small entities do not have the necessary skills to apply judgement, nor do they have the resources to acquire those skills. Areas were also identified where the requirements of the Standards of GRAP may be misunderstood and misapplied. The most prevalent areas are:

- (a) Accounting for non-current assets. The challenges include:
  - ▶ Determining fair value, which was raised as an on-going challenge and not only once-off.
  - ▶ Applying judgement to separate assets into components.
  - ▶ Applying judgement to determine useful lives and residual values of assets and adjusting for fully depreciated assets still in use.
- (b) Applying materiality.
- (c) Keeping up-to-date with changes in the reporting framework.
- (d) Standards of GRAP are complex and may be difficult to interpret, particularly for less skilled finance staff.
- (e) Accounting for, and disclosure of, financial instruments.

### Broader small entity environment

A number of issues impact on entities’ ability to prepare GRAP financial statements when they are small. These are not directly related to specific accounting issues. The key issues are set out below:

- (a) Human resource capacity and skills.
- (b) Budget constraints.
- (c) Lack of daily and monthly controls, including record keeping.
- (d) Overreliance on consultants.
- (e) Difficulty complying with legislation.

### What did the Board decide?

The Board considered a number of factors in deciding whether there should be different requirements for small entities. These factors included:

- The legislative environment, including the need for consistent financial norms and standards across the sector.
- The need for consistent reporting to prepare consolidated financial statements at various levels, including eventually for “RSA Inc”, i.e. the whole public sector.
- The need for consistent reporting to meet other reporting requirements, e.g. statistical reporting.
- The effectiveness of solutions to address the problem.
- Stakeholder views. Most stakeholders did not support a different reporting framework for small entities, for the following reasons:
  - ▶ Concerns were expressed by users about the information they need for small entities no longer being available in financial statements. This is particularly the case where there is a drive for consistent reporting across the sector. The information produced by entities is used by a number of users, and it is important that it is reported consistently and comprehensively.
  - ▶ Entities cannot get the basics right and adding another framework would not resolve the issues.

Based on these factors, the Board decided not to introduce reporting requirements or guidance for small entities. The Board instead identified other actions that would be more appropriate for the environment, including:

- A number of the Board’s projects and related guidance would assist entities with their accounting challenges. These are identified in the Research Paper. Most notably, the [Guideline on The Application of Materiality to Financial Statements](#) contains guidance that would be useful to address some of these challenges.
- Publishing the results of the research and the resources available in the Research Paper.

A number of issues were identified that are outside the Board’s mandate to address (inherent to small entities and their environment). These have been communicated to stakeholders that may be able to assist small entities.

### Disclaimer:

This article has been prepared by the Secretariat of the ASB for information purposes only. It has not been reviewed, approved otherwise acted on by the Board.



# ARTICLES

## Can decisions about materiality today affect future reporting periods?

This article has been prepared by the Secretariat of the ASB.

**The answer is no, unless an entity made an error in how it assesses and applies materiality.**

**Different views have been expressed about materiality decisions and their effect on future periods**

Historically, preparers, auditors and others have expressed different views in practice about whether decisions can affect future reporting periods or not. Some were of the view that entities should assess whether past decisions about materiality could become material cumulatively over time, while others were of the view that decisions about materiality are period specific. Given the diversity of views, the Board developed and issued a proposed Interpretation on The Effect of Past Decisions on Materiality (ED 185) for comment.

### What does ED 185 say about materiality decisions?

GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors is applied by entities when accounting policies are developed. Paragraph .07 indicates that “Standards of GRAP set out accounting policies that the ASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial”.

This means that entities develop and apply:

- “Accounting policies” based on the principles in the Standards of GRAP for items, transactions and other events (“items”) that are material. For example, recognising assets in accordance with the principles in GRAP 17 on Property, Plant and Equipment.
- “Alternative accounting treatments” for items that are immaterial. These alternative accounting treatments should not be inconsistent with the Conceptual Framework for General Purpose Financial Reporting. For example, expensing items that would otherwise meet the definition of an asset in GRAP 17 because they are immaterial quantitatively and qualitatively.

Accounting policies and alternative accounting treatments are applied based on an assessment of materiality during the reporting period and at the reporting date. As a result, the assessment of, and decisions about materiality are period-specific, and do not affect subsequent reporting periods, unless an entity made an error (discussed below).

Materiality is assessed based on all the relevant facts and the circumstances that exist at the time of the assessment. The effect of applying materiality is assessed for items (or groups of items) individually as well as collectively. Accounting policies and alternative

## applying alternative accounting treatments is not a departure from the Standards of GRAP

accounting treatments are applied consistently to similar items or groups of items.

If an entity applies an accounting policy for items that were previously immaterial, this is not a change in an accounting policy in terms of GRAP 3. As a result, no retrospective adjustments are made.

As GRAP 3 allows entities to apply the Standards of GRAP to material items only, applying alternative accounting treatments is not a departure from the Standards of GRAP, nor is it an error. ED 185 indicates that the following instances may give rise to errors in the application of materiality:

- (a) Immaterial items are omitted from the financial statements.
- (b) An inappropriate alternative accounting treatment is applied because of a failure to use, or misuse of, reliable information that was available or could reasonably have been expected to be used at the reporting date.
- (c) An alternative accounting treatment is applied to immaterial items to achieve a particular presentation or outcome in the financial statements.
- (d) An incorrect assessment of materiality is made resulting in material transactions being accounted for as immaterial transactions.

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# TECHNICAL UPDATES

## Compliance

Document	Details
<a href="#">Addendum 2 to MFMA Circular No. 88</a>	Addendum 2 provides an update to all municipalities on the preparation of statutory planning and reporting documents required for the 2021/22 MTREF.
<a href="#">Designated sectors circular no. 1 of 2020/2021</a>	The purpose of this Circular is to introduce amendments to Instruction Note Number 9 of 2016/2017, that designated steel power pylons, monopole pylons, steel substation structures, powerline hardware, steel lattice towers & masts and street lighting steel poles for 100% local procurement.
<a href="#">National Treasury Instruction No. 12 of 2020/2021</a>	National Treasury has issued Instruction no. 12 of 2020/2021 Departure from publication of bids and bids awards in the government tender bulletin.
<a href="#">National Policy Development Framework 2020</a>	The Cabinet has approved and published the National Policy Development Framework 2020 setting out clear principles for effective policy development implementation.
<a href="#">National Treasury Instruction No. 13 of 2020/2021</a>	Instruction No. 13 of 2020/2021: Month end closure procedures for 2021/2022 for departments prescribes month end closure procedures for Departments to meet the reporting requirements of s32 of the PFMA and for interim financial statements.
<a href="#">2020/21 Provincial budgets – Quarter 2</a>	National Treasury has published the second quarter for the 2020/21 Financial Provincial budgets and Expenditure reports.
<a href="#">Local Government Operating and Capital budgets for 2020/21 MTREF</a>	National treasury has published the operating and capital budgets of municipalities for 2020/21 MTREF as adopted by their councils.

## Financial Reporting

### [IFAC publishes training materials to support IPSAS implementation](#)

IFAC publishes user-friendly training materials to assist governments and government entities wishing to report in accordance with IPSAS.

### Final Pronouncement:

### [COVID-19 deferral of effective dates](#)

The IPSASB delays the effective dates of recently published Standards and Amendments to IPSAS by one year to January 1, 2023

## Calls for comments

Document	Institution	Deadline
<a href="#">ED 187 – Invitation to comment on the proposed IPSAS on Leases</a>	Accounting Standards Board	30 April 2021
<a href="#">Request for information, Concessionary Leases and Other arrangements similar to leases.</a>	International Public Sector Accounting Standards Board	17 May 2021
<a href="#">ED – 75 Invitation to comment on the proposal for new requirements for Lease Accounting aligned with IFRS 16 Leases</a>	International Public Sector Accounting Standards Board	17 May 2021





# TECHNICAL RESOURCES

## Useful Resources

Title	Developed by	Description	How to get it?
<b>Research Paper: Application of Standards of GRAP by small entities</b>	Accounting Standards Board	This document has been prepared by the ASB to establish what challenges the small entities face and to consider an appropriate response to assist these entities.	<a href="#">Click here to access</a>
<b>Frequently Asked Questions on the Standards of GRAP (updated March 2021)</b>	Accounting Standards Board	These Frequently Asked Questions have been prepared by the Secretariat of the ASB in consultation with the technical division of the Auditor-General of South Africa (AGSA) and the Office of the Accountant-General at National Treasury (OAG) to assist preparers of financial statements on Standards of GRAP.	<a href="#">Click here to access</a>
<b>AFROSAI-E Research paper</b>	AFROSAI-E	This document has been prepared and published by AFROSAI-E on integrating big data in the Public Sector.	<a href="#">Click here to access</a>
<b>GRAP Disclosure and Compliance checklist 2021</b>	National Treasury	This document has been prepared by the National Treasury to assist entities to comply with all applicable GRAP disclosure and compliance requirements	<a href="#">Click here to access</a>

# UPCOMING SEMINARS AND EVENTS



Seminar and Event name	Overview	Region	Date	Book
Complimentary 2021 TechTalk Series: SAICA Standards	In this Techtalk series, we discuss and analyse recent developments within the technical space (Tax, Public Sector, Corporate Reporting and Assurance) with guest panelists joining us to share their insights on specific matters.	Webcast	Thurs, 8 April 2021	<a href="#">Click here to book</a>
SAICA-AGSA 2019-20 PFMA Audit Outcome and COVID-19 Special Report 2 Session	This event will provide participants with an in-depth understanding of the 2019-20 PFMA audit outcomes and the AGSA's covid-19 special report 2.	Webcast	Wed, 14 April 2021	<a href="#">Click here to book</a>
2021 Modified Cash Standard seminar	This seminar will provide members and associates with an understanding of the key requirements relating to the Modified Cash Standard which is applicable to national and provincial departments.	Webcast	Thurs, 22 April 2021	<a href="#">Click here to book</a>



# FEATURE PROFILE

## Accounting Standards Board (ASB)



### About ASB

**The Constitution of the Republic of South Africa requires the National Treasury to implement uniform reporting requirements for entities in the public sector. Uniform reporting requirements ensure that consistent information is available for all levels of government so that Parliament, legislatures, councils, boards and other users can hold entities accountable for the resources they are entrusted, and to make decisions about entities' finances.**

The Accounting Standards Board (ASB) was established by the Public Finance Management Act to develop these uniform reporting requirements. The ASB develops accounting standards for departments, public entities, constitutional institutions, municipalities, Parliament and the provincial legislatures. All entities, besides departments, apply Standards of GRAP.

The ASB comprises 10 non-executive members with experience in public financial management, financial reporting, or academia. The Accountant General and the Auditor General are members of the Board, but do not have voting rights.

The ASB sets its Standards through a robust due process, which includes consultation with stakeholders at various stages in the process. Subject experts and experts in technical accounting and reporting advise the ASB during the development of pronouncements or as a sounding board on research findings. A broad-based public consultation process is undertaken for each pronouncement issued by the ASB. Comments received during this process are considered by the ASB before finalising its pronouncements.

To stay up to date on the ASB's activities, register for the Newsletter on the ASB's website, or follow them on LinkedIn, Twitter or Facebook.

More information on the Accounting Standards Board can be accessed on <https://www.asb.co.za/>

#### Reference:

Accounting Standards Board website

# SAICA'S PUBLIC SECTOR OFFERING

SAICA has a dedicated public sector division to support members in the public sector. Members receive support as follows:



## 1 Thought leadership

Members receive regular thought leadership articles on emerging issues in accounting, assurance, governance, risk management, technology and other developments that may affect the future of the profession.

## 2 Technical Update

Members receive regular updates on SAICA social media platforms and a monthly newsletter outlining recent developments in standards and legislation.

## 3 Technical Resources

Members have access to guides, handbooks, tools, templates, and other resources to support them in the public sector.

## 4 Technical Support

Members are able to log technical queries on the [SAICA Online Technical Query System](#) and receive guidance from SAICA staff.

## 5 Seminars and Events

Complimentary and discounted access to [SAICA seminars and events](#).

## 6 The division is also responsible for:

- Advocating, lobbying and influencing for fit-for-purpose legislation, standards, policies, processes and systems in the public sector.
- Public Finance Management Capacity building projects to support the professionalisation agenda in public finance management

### Meet the team



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