

18 March 2022

Ms. Jeanine Poggiolini

Technical Director
Accounting Standards Board (ASB)
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Dear Ms Poggiolini

**EXPOSURE DRAFT 194 ON “TAKING STOCK: ASB’S WORK PROGRAMME 2024-2026”
(ED 194)**

The South African Institute of Chartered Accountants (SAICA) welcomes the opportunity to make submissions to the ASB on ED 194.

SAICA is South Africa’s pre-eminent accountancy body which is widely recognised as one of the world’s leading accounting institutes. The Institute provides a wide range of support services to more than 52 000 members who are chartered accountants [CAs(SA)] and associates [AGAs(SA)] who hold positions as chief executive officers, managing directors, board members, business owners, chief financial officers, auditors, and leaders in their spheres of business operation.

Our work in the public sector goes beyond member support but also includes a significant focus on advocacy and capacity building to support and encourage an improvement in public finance management.

SAICA believes that regular reviews and amendments to accounting standards are key to ensure that accounting standards are fit for purpose and respond to the needs of users of financial statements.

For ease of reference, we include our responses as follows:

- (a) Annexure A – Questions on the ASB’s proposed work programme for 2024-2026
- (b) Annexure B - Questions on the ASB’s communication with stakeholders



We would also appreciate the opportunity engage further and we would be willing to discuss the comments, if required. Please do not hesitate to contact Odwa Benxa (odwab@saica.co.za) in this regard.

Regards,

A handwritten signature in black ink that reads "Soopal".

Natashia Soopal
Executive: Public Sector at SAICA

ANNEXURE A – Questions on the ASB’s proposed work programme for 2024-2026

No.	ASB Question	SAICA Comment
1.	<p>ASB’s strategic theme for 2024-2026</p> <p>The financial reporting landscape is changing at an ever-growing pace. As much as we need to adapt and look to the future, we need to take time to assess where we are, what we aim to achieve, and how we can do things better. The theme for our next work programme is “Taking stock”. This means taking on projects that enhance our existing Standards and improve their implementation, facilitates policy development, and enhances information available to government decision-makers.</p> <p>(a) Do you agree with this theme?</p> <p>If no, what do you think the ASB’s focus should be? For example, focus on developing new pronouncements to deal with issues, spend more time aligning with international Standards like IPSAS, etc.?</p>	<p>SAICA agrees with the theme.</p> <p>SAICA believes that many public sector institutions experiences challenges in implementing the Standards. A major challenge within many public sector institutions is the lack of skills. This is further confirmed by the amount paid to consultants to assist Chief Financial Officers in the preparation of financial statements. This challenge will take a long time to resolve, however it is important that we also identify other ways to support and improve financial management in the public sector whilst also trying to address the skills shortage in the public sector.</p> <p>We recommend that through the theme of “Taking Stock” that ASB identifies Standards where preparers experience challenges with the implementation and compliance of the Standards and consider the development of fact sheets, like the fact sheets on Directive 12 and materiality.</p> <p>It is understood that in some public sector institutions there may be only one qualified individual within the finance unit who may not have sufficient time to deal</p>



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		with complex Standards. The fact sheets act as a quick guide and are easy to follow which will make it easy for CFOs to understand and communicate to staff, as well as improve the implementation of Standards of GRAP.
2.	<p>Gaps in the ASB’s literature</p> <p>While we have issued a comprehensive suite of Standards of GRAP that deal with substantially all public sector transactions, some gaps remain. The two most significant gaps are the development of guidance on “social benefits” which are provided to individuals or households in cash or in-kind, and “transfer expenses” which are transfers between government entities or entities outside government. We have started work on social benefits in our current work programme. Given the complexity of the project it will continue into the 2024 to 2026 work programme.</p> <p>The IPSASB is still developing guidance on transfer expenses, and the ASB intends to base any Standard of GRAP on their guidance. The ASB proposes continuing work on social benefits and commencing work on transfer expenses. Do you agree with this proposal?</p>	<p>SAICA agrees with the proposal to continue work on social benefits and commencing work on transfer expenses.</p> <p>We recommend that the work on transfer expense commence once the IPSASB has finalised its guidance on transfer expenses.</p>
3.	<p>Gaps in the ASB’s literature</p> <p>As the application of the Standards of GRAP matures, there are always new transactions or arrangements that require accounting guidance.</p>	<p>Based on the queries logged by SAICA members in the public sector in the past 2 years, some entities are struggling with determining useful lives and residual values of assets. Applying judgement to</p>



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	<p>Identifying these as part of the work programme consultation is important. In the past, stakeholders have indicated the need for guidance on landfill sites, housing arrangements, and a range of other issues. These have been useful to:</p> <ul style="list-style-type: none"> • preparers in resolving complex application issues; • users because they ensure that consistent information is provided in the financial statements; and • the Board as identifying these types of issues adds relevance to the Board's work. <p>Are there any transactions or arrangements that require accounting guidance from the ASB?</p>	<p>determine useful lives and residual values of assets was also identified as one of the challenges experienced by smaller entities in the application of Standards of GRAP as per the Research Paper on the Application of GRAP by smaller entities issued by the ASB. The Research Paper listed materiality guidance, FAQs on <i>What is the treatment of fully depreciated assets still in use</i> and <i>Must an asset always have a residual value?</i> as possible solutions to assist entities to determine useful lives and residual values. However, SAICA recommends that a guide specifically addressing the determination of useful lives and residual values will provide better clarity to the preparers of financial statements.</p>
4.	<p>Convergence with international Standards</p> <p>The Standards of GRAP are based on IPSAS, and where relevant, IFRS Standards. It is important to identify new IPSAS or IFRS Standards that could be relevant to the local environment, as well as whether existing Standards of GRAP based on international equivalents need revision.</p> <p>There are several significant projects underway at the IPSASB, and it is important to “catch-up” with these initiatives. There is a detailed list in Table 2 of ED 194.</p> <p>The Board believes that there is merit in undertaking projects on:</p> <ul style="list-style-type: none"> • Measurement of assets and liabilities in the public sector. • Revisions to the Conceptual Framework, both on measurement and “next steps”. 	<p>SAICA agrees with the Board's proposal to align with international projects as this will ensure that Standards of GRAP are in line with international accounting standards.</p> <p>It is also recommended that Board embarks on more promotion on the alignment of Standards to GRAP to IFRS/IPSAS to alert the public of this. South Africans should be proud of the Standards of GRAP in the public sector and the processes that has been followed to ensure its quality and alignment to IPSAS/IFRS, however many individuals are still unaware of this and question the non-application of IPSAS in South Africa.</p> <p>SAICA further welcomes the opportunity to assist the Board with the promotion of Standards of GRAP.</p>



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	Do you agree with the Board's proposals on alignment with international projects? If not, please provide supporting rationale as well as other project proposals?	
5.	<p>Maintaining and enhancing Standards of GRAP</p> <p>As the Standards of GRAP are based on IPSAS or IFRS, there is always a level of "routine maintenance" that is required to ensure that minor, non-urgent changes made to international standards are applied.</p> <p>Apart from the amendments we would make as part of the "routine maintenance", are there any other amendments or enhancements needed to the Standards of GRAP? Please provide the name of the Standard, describe the issue, and how it could be resolved.</p>	None noted by SAICA.
6.	<p>Promoting the adoption of Standards of GRAP</p> <p>A key strategic objective of the ASB is to promote the adoption of GRAP by entities, and to facilitate the adoption of individual Standards once approved by the Minister of Finance for implementation.</p>	<p>SAICA agrees with the proposal to promote the adoption of Standards of GRAP by departments.</p> <p>Section 89 (1) (a) of the PFMA requires the ASB to set standards of generally recognized accounting</p>



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	<p>The Minister of Finance has not approved the Standards of GRAP for national and provincial departments. The ASB will, wherever possible, advocate for the adoption of Standards of GRAP by departments.</p> <p>In terms of facilitating the adoption of individual Standards, the ASB issues transitional provisions in Directives. As different entities have adopted Standards of GRAP, transitional provisions were issued in several Directives. In line with the strategic theme of “taking stock”, the ASB proposes consolidating these Directive into a single document.</p> <p>(a) Do you agree with the proposal to promote the adoption of Standards of GRAP by departments?</p>	<p>practice for public entities including departments. Paragraph (d) of the same section states that the ASB must also perform any other function incidental to advancing financial reporting in the public sector.</p> <p>The use of standards of generally recognised accounting practice would mean that departments would move to the accrual basis of accounting which has the following benefits for government¹:</p> <ul style="list-style-type: none">○ Financial Position Accrual accounting provides information on an entity’s financial position and current assets and liabilities, based on the balance sheet. Government needs this information to make decisions about the feasibility of financing the provided services; plan the future funding requirements of asset maintenance and replacement; plan the repayment of existing liabilities and, thus, manage their cash position and financing requirements. Accrual accounting highlights the impact of financing decisions on net assets/equity, leading entities to take a longer-term view when making financing decisions.○ Financial Performance

¹ Arguments for introducing accrual-based accounting for public sector – Munich Personal RePEc Archive



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		<p>Accrual accounting provides information on revenues and expenses, including the impact of transactions where cash has not yet been received/paid. Knowing revenues is essential for assessing the impact of taxation on the government's fiscal position and the need for borrowing in the long term. Knowing expenses is necessary to assess revenue requirements, the sustainability of existing programs, and the likely cost of proposed activities and services. The income statement helps governments to focus on management by results as well as management of resources, which become more useful because performance can be measured more reliably when full costs for a period are considered.</p> <ul style="list-style-type: none"><li data-bbox="1247 878 1444 902">○ Cash Flows <p>Moving to an accrual basis of accounting does not mean the abandonment of cash accounting, cash management being an integral element of accrual-based financial management framework. It is required the production of a full statement of cash flows to separately identify cash receipts and payments associated with operating, investing, and financing activities. Modern accrual-based systems have functionalities to support cash-based accounting and reporting. Accrual accounting provides comprehensive information on current</p>



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		<p>and certain projected cash flows, including those associated with accounts and receivables, leading to better cash management, and assisting in preparation of more accurate cash budgets.</p> <ul style="list-style-type: none"><li data-bbox="1241 480 1877 997">○ Reporting and Budgeting Any reform is considered successful only when it brings about changes in the behaviour of the people the reform is targeted toward. Accrual reporting objective is to provide understandable, relevant, reliable, and comparable information, useful to a wide range of users in making economic decisions. It incorporates non-cash information, such as revaluations, write-offs, consumption of assets through depreciation, pension liabilities. Financial reports must rely on the budget and show any differences between the actual results and the budget, as well as any changes during the term. <p>The use of accrual basis of accounting further allows for the following²:</p> <ul style="list-style-type: none"><li data-bbox="1241 1105 1877 1170">○ Greater transparency and accountability in government financial reporting.

² Adopted from International Federation of Accountants paper titled *The Importance of Accrual-based Financial Reporting in the Public Sector*



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		<ul style="list-style-type: none">○ Better decision-making that focuses on both the short and long-term impact of decision-making.○ Monitoring of government debt and liabilities for their true economic implications through the disclosure of all liabilities, including long-term obligations of government which may encourage government leaders to make decisions that focus on long-term sustainability and not driven by short-term political incentives.○ Provides greater transparency which is required by the public, banks, investors, and credit providers as generally expected from the private sector.○ Provides for comparability of financial information on a global basis to assist in resource allocation, monitoring and accountability.○ The preparation of public sector budgets and appropriations on the same basis. <p>In addition to the above, a consistent accounting basis would lead to a seamless consolidation where the financial position, performance and cash flows of the state can be better presented as departments and public entities would be on the same basis of accounting.</p>



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		<p>Significant delays in the move from Modified Cash Standards to the Standards of GRAP by departments have been noted. SAICA urges the ASB to consider other activities to promote the adoption of Standards of GRAP by departments which may include engagements with National Treasury to be more transparent on its plans to adopt Standards of GRAP for departments.</p> <p>Furthermore, the Board should share with the public its advocacy initiatives on the promotion of Standards of GRAP by departments as this will also portray the independence of the ASB, as well as being seen as advancing financial reporting in the public sector.</p>
	(b) Do you agree with the proposal to consolidate the Directives that deal with transitional provisions?	SAICA agrees with the proposal to consolidate the Directives that deal with transitional provisions into one document as this would assist with ease of reference and eliminate the risk of financial statement preparers missing certain transitional provision in preparing financial statements.
	(c) Are there any other activities that the ASB should undertake?	No other activities that the ASB should undertake have been identified by SAICA.
7.	Reviews of the Standards of GRAP	Given that Standard of GRAP 18 on <i>Segment Reporting</i> has recently become effective (reporting periods beginning on or after 1 April 2019 for



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	<p>To ensure that the Standards are effective and have been applied as intended, it is important to review their implementation. The Board undertakes the following reviews:</p> <p>Post-implementation reviews (PIR) – One PIR is undertaken every three-years. These reviews assess whether a Standard is achieving its intended objective. This requires extensive consultation with users of the financial statements, preparers and auditors.</p> <p>Desktop reviews – Two desktop reviews are undertaken every three years. These reviews assess the application of a Standard, compliance with its principles, and identifies emerging practices.</p> <p>Several reviews have already been undertaken. These are explained in ED 194.</p> <p>(a) On which Standard should the Board undertake a post-implementation review and why?</p>	<p>trading entities, Parliament and provincial legislatures and reporting periods beginning on or after 1 April 2020 for municipalities and boards, commissions, companies, corporations, funds or entities under the ownership control of a municipality) SAICA believes it would be beneficial for preparers for the Board to perform a PIR on this Standard to identify application and implementation issues that may require resolution by the Board.</p>
	<p>(b) On which Standards should the Board undertake its two desktop reviews and why?</p>	<p>Based on the challenges experienced by public sector entities and municipalities on property, plant and equipment as reflected in the Auditor General's Report of South Africa (AGSA), it is recommended that a desktop review be performed on GRAP 17.</p> <p>SAICA further recommends that discussions be held with the AGSA to determine where they have identified most challenges on disclosure in terms of Standards of GRAP to better assist the Board in identifying the most suitable desktop reviews.</p>
8.	<p>Emerging issues</p>	<p>SAICA comments on the emerging issues are detailed below:</p> <p><u>Climate related disclosures</u></p>



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	<p>Reporting in the public sector is a relatively new discipline with several emerging issues requiring discussion. The Board has identified the following emerging issues:</p> <p>Climate related disclosures – There has been an increased focus on the impact of the climate on entities’ financial statements, as well as the impact of entities on the environment more broadly. An International Sustainability Standards Board (ISSB) has just been established to issue international standards on climate related disclosures. Although the ISSB will focus on the private sector, this may be relevant for the public sector.</p> <p>Reporting frameworks - Stakeholders in both the public and private sectors routinely ask what reporting frameworks are applied by entities across the economy. It may be useful to compile a document explaining the reporting frameworks applied by public sector entities, education institutions (at all levels), traditional authorities, special purpose entities, companies, non-profit organisations, etc.</p> <p>Employee compensation - When updating GRAP 25 on <i>Employee Benefits</i>, some stakeholders identified the need for more detailed information on short term benefits paid to employees. They observed that the expenditure on salaries has received increased scrutiny given the downturn in the economy, and that more information may be helpful in making informed policy decisions.</p> <p>(a) Do you believe that any of these 3 projects are relevant for the public sector locally?</p>	<p>SAICA agrees with this emerging issue.</p> <p>In addition to the establishment of the ISSB referred to above, the European Commission has already adopted Directive 2014/95/EU: Non-Financial Reporting Directive which gives the rules on disclosure of non-financial and diversity information by certain large companies, which include companies designated by national authorities as public-interest entities. In certain European Union countries these so designated companies include state-owned entities. Furthermore, in April 2021, the European Commission adopted a proposal for Corporate Sustainability Reporting Directive which would, among other things, require the audit (assurance) of reported information and introduces more detailed reporting requirements, and a requirement to report according to mandatory EU sustainability reporting standards, with the first set of standards to be adopted by October 2022.</p> <p>The IPSASB has recently announced that the Board has accepted The World Bank’s invitation to lead a global consultation on developing a sustainability reporting framework for the public sector subject to Board approval at its upcoming meeting.</p> <p>In the South African context, it has been reported that Eskom is one of the largest emitters of sulfur dioxide (SO₂) in the world. This was shown by an</p>



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		<p data-bbox="1247 282 1787 347">October 2021 <i>Research from the Centre for Research on Energy and Clean Air (CREA)</i>.</p> <p data-bbox="1247 370 1871 688">It is clear from the above that globally, there is move towards sustainability reporting. South Africa is also a contributor to climate change as shown by emission from Eskom coal powered power stations for example. Therefore, it would be important for the ASB as the legislated Standards setter to be part of this conversation and move towards the development of climate related disclosure Standards.</p> <p data-bbox="1247 711 1535 743"><u>Reporting frameworks</u></p> <p data-bbox="1247 766 1871 1013">SAICA agrees with this emerging issue. SAICA members have indicated that there is confusion on which financial reporting framework should be applied by traditional authorities specifically around communal land, non-profit organisations and public schools. Therefore, this proposed document would assist to clear such confusion.</p> <p data-bbox="1247 1036 1570 1068"><u>Employee compensation</u></p> <p data-bbox="1247 1091 1871 1287">SAICA agrees with this emerging issue as disclosure on employee compensation will assist in better government policy decisions. In addition, National Treasury has recently raised the salary bill as a concern in the national budget and proposed a freeze on employee compensation increases.</p>



No.	ASB Question	SAICA Comment
		Enhanced disclosures will therefore assist in better employee compensation decision making.
	(b) Are there any other emerging issues the Board should consider?	There are no other emerging issues the Board should consider that SAICA has identified.
9.	General Is there any other feedback (negative and/or positive) you wish to provide the Board that is relevant to its standard-setting activities?	<ul style="list-style-type: none">• The ASB has various initiatives to promote the understanding and correct interpretation of Standards of GRAP. This includes the issuing of FAQs and GRAP update sessions that are held by the ASB. SAICA believes that the ASB should continue with these initiatives as they are beneficial to the preparers of financial statements.• According to the 2019/2020 AGSA Consolidated general report on the local government audit outcomes, 72% of municipalities submitted financial statements of a poor quality for auditing. These municipalities placed reliance on the external audit process to identify misstatements. One of the reasons for this could be that municipalities could not apply the Standards of GRAP properly when preparing the financial statements. Given that section 89(1)d states that the ASB must also perform any other function incidental to advancing financial reporting in the public sector, the ASB should consider additional support to assist municipalities, particularly the smaller municipalities, to properly interpret and apply the Standards of GRAP. This may include



No.	ASB Question	SAICA Comment
		road shows targeted at the smaller municipalities to promote new Standards and Interpretations.

Annexure B - Questions on the ASB's communication with stakeholders

No.	ASB Question	SAICA Comments
1.	<p>The Secretariat of the ASB started issuing Fact Sheets for certain projects. These include financial instruments (not yet effective), and IGRAP 21 on The Effect of Past Decisions on Materiality.</p> <p>(a) Do you find the Fact Sheet helpful?</p>	Yes, as SAICA believes that the Fact Sheets assist in clarifying key concepts in the Standards and give guidance on their application by preparers.



	<p>(b) Are there any existing pronouncements issued by the Board that could benefit from having a Fact Sheet?</p>	<p>SAICA recommends that the Board should consider developing a Fact Sheet for Standard of GRAP 18: <i>Segment Reporting</i> given that the Standard is relatively new and preparers would benefit from clarification of key concepts within the Standard.</p>
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