

28 June 2024

The Chief Executive Officer (CEO)
Accounting Standards Board (ASB)
240 Madiba Street
Pretoria
0002

EXPOSURE DRAFT (ED) 208, AMENDMENTS TO THE DIRECTIVE ON DETERMINING THE GRAP REPORTING FRAMEWORK (DIRECTIVE 5)

1. The South African Institute of Chartered Accountants (SAICA) welcomes the opportunity to make submissions to the IPSASB on ED 208.
2. SAICA is South Africa's pre-eminent accountancy body and is widely recognised as one of the world's leading accounting institutes. The Institute provides a wide range of support services to more than 50 000 members who are chartered accountants [CAs(SA)], associate general accountants [AGAs(SA)] and accounting technicians [ATs(SA)] who hold positions as chief executive officers, managing directors, board members, entrepreneurs, chief financial officers, auditors, and leaders in their respective spheres of operation.
3. Our work in the public sector goes beyond member support and includes a significant focus on advocacy and capacity building to support and encourage an improvement in public finance management.
4. Members were consulted in responding to the ED through a Working Group comprised of members with experience and expertise in public sector. Our comments therefore are informed by individuals who have been implementing and auditing accrual accounting standards in the public sector.
5. SAICA notes the amendments to Directive 5 as they provide clarity on potential implications of pronouncements that are not yet effective, as well as those from other standard-setters on the GRAP Reporting Framework and will assist entities to better apply the GRAP Reporting Framework.
6. Our detailed comments on ED 208 are contained in **Annexure A: General Comments on Matters for Comment**.
7. We would also appreciate the opportunity to 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.

Kind regards,



Natasha Soopal
Executive: Ethics Standards and Public Sector



Odwa Benxa
Project Director: Public Sector

ANNEXURE A: Comments on General Matters for Comment

No.	Affected section and paragraph	Comment	Recommendation
1.	<p>Definitions</p> <p><u>.03A The following terms are used in this Directive with the meanings specified:</u></p> <p><u>A new Standard of GRAP is a Standard that provides new requirements for a transaction or event for which there was previously no requirements.</u></p> <p><u>An amendment to a Standard of GRAP amends existing requirements for a transaction or event.</u></p>	<p>SAICA agrees with the amendment to add the definitions of a “new Standard of GRAP” and an “amendment to a Standard of GRAP” to Directive 5 as this provides better clarity of the terms and concepts in the Directive.</p> <p>SAICA agrees with the definition of a “new Standard of GRAP”. However, there are instances where amendments to a Standard of GRAP are minor versus amendments that lead to substantial changes to an existing Standard of GRAP, for example the Revised Standard of GRAP 104. In these instances, it may be appropriate to consider differentiating between a minor and significant amendment to a Standard of GRAP and consider the implications thereof.</p>	<p>The ASB should consider distinguishing between minor and significant amendments to Standards of GRAP and include definitions of both terms in Directive 5.</p> <p>The ASB should further consider the implications of minor and significant changes to paragraph .12A of the proposed Directive 5 which states that <i>“amendments to Standards of GRAP shall not be used to develop accounting policies. Entities are only permitted to adopt the amendments once an effective date has been determined by the Minister of Finance (see paragraphs .09 and .11)”</i>.</p> <p>A possible implication for consideration by the ASB could be that minor amendments approved by the ASB could be implemented only once an effective date has been determined by the Minister of Finance due to their inconsequential nature while significant amendments approved by the ASB could be utilised to develop accounting policies prior to the effective date due to their significant impact on accounting for the affected transactions or events. In addition, no signification changes would be expected on the amendments between the date the amendments are approved by the Board and the effective date as the ASB has the sole mandate of setting standards as per section 89(a) of the Public Finance Management Act, 1999 (PFMA).</p>

No.	Affected section and paragraph	Comment	Recommendation
2.	<p>GRAP Reporting Framework</p> <p><u>.05A Entities applying Standards of GRAP shall not apply any standards and pronouncements issued by other standard setters that are not included in the appendices to develop accounting policies in accordance with GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.</u></p> <p>Hierarchy</p> <p>.08 Paragraph .11 states that, in the absence of a Standard of GRAP dealing with a particular transaction or event, the accrual based pronouncements of the following standard setters should be used, <u>to the extent permitted by this Directive</u>, in descending order, to develop an appropriate accounting policy.</p>	<p>GRAP 3.08 states that “<i>in the absence of a Standard of GRAP that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:</i></p> <p>a) <i>relevant to the economic decision-making needs of users;</i></p> <p>b) <i>reliable, in that the financial statements:</i></p> <p style="padding-left: 40px;">(i) <i>represent faithfully the financial position, financial performance and cash flows of the entity;</i></p> <p style="padding-left: 40px;">(ii) <i>reflect the economic substance of transactions, other events and conditions, and not merely the legal form;</i></p> <p style="padding-left: 40px;">(iii) <i>are neutral, i.e. free from bias; and</i></p> <p style="padding-left: 40px;">(iv) <i>are prudent; and</i></p> <p>c) <i>are complete in all material respects”</i></p> <p>GRAP 3.11 states that “<i>in making the judgement described in paragraph .08, management may also consider the most recent pronouncements of other standard-setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these do not conflict with the sources in paragraph .10. For example pronouncements of, in descending order, the International Public Sector Accounting Standards Board (including the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities), the International Accounting Standards Board (IASB®) (including the Conceptual Framework for Financial Reporting), the IFRS® Interpretations Committee or the former Standing Interpretations Committee of the IASB, and the Financial Reporting Standards Council.”</i></p> <p>The addition of the words ‘to the extent permitted by this Directive’ may have the negative consequence of being</p>	<p>1. The ASB should consider including in the Directive a paragraph that requires entities to consult with the ASB should there be no standard that specifically applies to the transaction or event. This may assist in ensuring that entities are able to apply GRAP 3.11 while also ensuring that GRAP 3.08 is appropriately applied. This may further assist in ensuring compliance with section 89(4) of the PFMA which states that <i>the standards set by the Board must promote transparency in and effective management of revenue, expenditure, assets and liabilities of the institutions to which these standards apply.</i></p>

No.	Affected section and paragraph	Comment	Recommendation
		<p>prescriptive to entities and lead to instances where entities are unable to account for specific transactions or events even though GRAP 3.11 would have normally allowed entities to develop accounting policies for those specific transactions or events. In addition, this may lead to the financial statements not meeting the qualitative characteristics of faithful representation and understandability due to the omission of information the entities are unable to include in the financial statements.</p> <p>SAICA has also noted that the list of standard setters included in paragraph .08 of the Directive excludes the IFRS® Interpretations Committee and the former Standing Interpretations Committee of the IASB which are both referred to in paragraph .11 of GRAP 3. This may lead to inconsistencies between the Directive and GRAP 3.</p>	<p>2. The ASB should consider listing the IFRS® Interpretations Committee and the former Standing Interpretations Committee of the IASB in paragraph .08 of the Directive to ensure that there is consistency between GRAP 3 and the Directive.</p>
3.	<p>Adoption of Standards of GRAP and Interpretation of the Standards of GRAP</p> <p>.09 <u>New and amended Standards of GRAP</u> for which the Minister of Finance has determined an effective date form part of the GRAP Reporting Framework.</p> <p>.10 <u>New and amended Interpretations of the Standards of GRAP</u> form part of the GRAP Reporting Framework based on the effective date specified in the Interpretation.</p> <p>.11 When an effective date has been determined, entities are permitted to adopt the Standards of GRAP and/or any related Interpretations of the</p>	<p>SAICA agrees with the amendments made to paragraphs .09 and .10 as these paragraphs clarify that both new and amended Standards of GRAP and Interpretations of the Standards of GRAP form part of the GRAP Reporting Framework.</p> <p>SAICA also agrees with the amendment to paragraph .11 of the Directive as it clarifies that piecemeal adoption of Standards of GRAP is not permitted.</p>	None.

No.	Affected section and paragraph	Comment	Recommendation
	<p>Standards of GRAP earlier than the date specified. <u>In the instance of new and amended Standards of GRAP, the entire Standard should be adopted early, as piecemeal adoption is not permitted.</u></p>		
4.	<p>Developing accounting policies</p> <p>.11A Entities are permitted to develop accounting policies when there is no Standard of GRAP that specifically applies to a transaction or event (see GRAP 3 paragraphs .08 to .11).</p> <p>.12 <u>New</u> Standards of GRAP that have been issued by the Board, but for which an effective date has not yet been determined by the Minister of Finance, may be applied in developing an appropriate accounting policy dealing with a particular transaction or event before applying paragraph .11 of GRAP 3. <u>New</u> Interpretations of the Standards of GRAP related to Standards that are not yet effective may also be applied in developing accounting policies.</p> <p><u>.12A Amendments to Standards of GRAP shall not be used to develop accounting policies. Entities are only permitted to adopt the amendments once an effective date has been determined by the Minister of Finance (see paragraphs .09 and .11).</u></p>	<p>SAICA notes the addition of paragraph .11A to the Directive. However, (and comments under part 2 above still standing), this paragraph appears to contradict paragraph .08 of the Directive as it excludes the words 'to the extent permitted by this Directive'.</p> <p>In terms of paragraph 8.5 of the ASB Due Process Handbook, the Board assesses whether possible amendments identified should be considered for inclusion in the Improvements to Standards of GRAP based on the following criteria:</p> <ol style="list-style-type: none"> a) The possible amendment would maintain the quality and enhance the relevance of Standards of GRAP by: <ol style="list-style-type: none"> i. clarifying unclear wording in existing Standards of GRAP, or providing guidance on an issue where none exists; ii. resolving inconsistencies or conflict between existing requirements in the Standards of GRAP; and/or iii. addressing an oversight or an unintended consequence of the requirements of existing Standards of GRAP. <p>SAICA notes the amendments to paragraph .12 and the addition of paragraph .12A to the Directive. However, it is unclear why amendments to Standards of GRAP cannot be used to develop accounting policies while new Standards of GRAP can be used to develop accounting policies. Based on paragraph 8.5(a)(i) above,</p>	<ol style="list-style-type: none"> 1. The ASB should consider adding the words 'to the extent permitted by this Directive' to paragraph .11A to ensure consistency within the Directive. 2. The ASB should consider permitting amendments to Standards of GRAP to be used to develop accounting policies prior to their effective date to ensure that the most relevant guidance is used by entities in preparing financial statements.

No.	Affected section and paragraph	Comment	Recommendation
		<p>amendments to Standards of GRAP serve the purpose of providing clarity to existing Standards of GRAP or providing guidance on an issue where none exists. It can therefore be reasonably expected that amendments should also be used to develop accounting policies prior to the effective date being determined by the Minister of Finance to ensure that the most appropriate and relevant wording and guidance is applied by entities on affected transactions and/or events. This will also encourage proactivity by prepares of financial statements.</p>	