

18 July 2022

Ms Jeanine Poggiolini

Chief Executive Officer
Accounting Standards Board (ASB)
PO Box 7001
Halfway House
1685

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Dear Ms Poggiolini

EXPOSURE DRAFT ON PROPOSED AMENDMENTS TO THE STANDARD OF GRAP ON PRESENTATION OF FINANCIAL STATEMENTS (GRAP 1) (ED 198)

The South African Institute of Chartered Accountants (SAICA) welcomes the opportunity to make submissions to the ASB on ED 198.

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 – Proposed amendments to Standard of GRAP 1

Members have been consulted in responding to this exposure draft and therefore the comments reflected in the annexure considers the view of the membership.

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 'M Segal'.

Milton Segal
Executive Director: Standards

A handwritten signature in black ink that reads 'Natasha Soopal'.

Natasha Soopal
Executive: Ethics Standards and Public Sector

Annexure A – Proposed amendments to Standard of GRAP 1

No.	ASB Question	SAICA Comment
1.	<p>Going concern</p> <p>Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation or some modified form, for example a transfer of functions to another entity or a merger, and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the reporting date. (Also refer to the Standard of GRAP on <i>Events After the Reporting Date</i> (GRAP 14) for guidance on assessing going concern).</p>	<p>SAICA acknowledges that the inclusion of the transfer of functions to another entity as an example will minimise the uncertainty around the use of the going concern basis where functions are transferred to another entity. However, the ASB should consider the following:</p> <ul style="list-style-type: none"> • If the functions of an entity are wholly transferred to another, or there is a merger, the one entity ceases to exist and cannot render services in its capacity. It may therefore be inappropriate to use the going concern basis to prepare financial statements of an entity that will cease to exist. • A transfer of functions will involve the transfer of resources, assets and liabilities and responsibilities from the transferring entity to the acquiring entity. A transfer of the whole entity (significant functions within the entity) may result in the entity not continuing to prepare its financial statements on a going concern basis as it would cease to exist. The extent of the transfer should therefore be evaluated in deciding whether the going concern basis is still appropriate. • The timing of a decision taken to transfer and the actual implementation date needs to be



No.	ASB Question	SAICA Comment
		<p>considered since it may affect the two entities where their financial year ends are different.</p> <ul style="list-style-type: none"> • The probability of the merger or the transfer of functions between entities should be considered as this may impact the going concern disclosures at year end. • This is further confirmed by paragraph 14 of GRAP 14, Events after the Reporting Date “The determination of whether the going concern assumption is appropriate needs to be considered by each entity. However, the assessment of going concern is likely to be of more relevance for individual entities than for a government as a whole. <u>For example, an individual entity may not be a going concern because the government of which it forms part has decided to transfer all its activities to another entity.</u> However, this restructuring has no impact upon the assessment of going concern for the government itself.”
2.	<p>Going concern</p> <p><u>.28A The establishment, liquidation and/or cessation of an entity, and a transfer of function is governed by legislation or similar means. A decision may be taken to liquidate an entity, to cease or scale back its operations, to transfer some of its functions to another entity, or to merge one or more entities. Under each of these scenarios, the operational existence of all, or part of the entity, may cease.</u></p>	<p>SAICA agrees with the amendment as it provides clear guidance and certainty. It further minimises the risk of misinterpretation and inconsistent application of the going concern principle in these scenarios.</p>
3.	<p>Liquidation and cessation of an entity</p>	<p>SAICA agrees with the amendment as the intention is to liquidate the entity and to cease its operation</p>



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	<u>28B If the intention is to liquidate the entity, to cease its operations in its entirety, or when there is no realistic alternative but to do so following the passing of legislation or a decision by the appropriate authority, the going concern basis is inappropriate. An entity will need to prepare its financial statements on a basis other than the going concern as all the functions and operations of the entity will be ceased.</u>	which will therefore mean that the entity will cease to exist in the future.
4.	<u>Transfer of functions and mergers</u> <u>.28C The going concern basis remains appropriate where a decision is taken to transfer some, or all of an entity's functions to another entity, or to merge one or more entities. The entity will continue to operate in a modified form even if the functions or operations will no longer be provided by the entity itself. The transferor or combining entity applies the Standards of GRAP on <i>Transfer of Functions Under Common Control, Transfer of Functions Not Under Common Control and Mergers</i>).</u>	<p>It is acknowledged that the paragraph provides guidance on the appropriateness of the going concern basis and that the functions transferred will be performed by another entity. However, SAICA recommends that the ASB considers the following:</p> <ul style="list-style-type: none">• If the functions of an entity are wholly transferred to another, or there is a merger resulting in one entity ceasing to exist and cannot render services in its capacity, it may be inappropriate to use the going concern basis to prepare financial statements of the entity that will cease to exist as this may be misleading to the users of the financial statements since the entity that used to render their services will no longer exist despite the services being transferred to a new entity.• Mergers should be treated differently to a transfer of functions. In a transfer of functions, the entity will continue to operate in a modified form even if the functions or operations will no longer be provided by the entity itself. The extent of the transfer is the determining factor to what extent the operations continue or cease. It may therefore be appropriate for the ASB to issue further guidance in this regard.



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		<ul style="list-style-type: none">• The impact of contingencies that exist at the time of the transfer of functions and or merger must be carefully considered.• It may also be appropriated for the Standard to require full and detailed disclosure of the transfer/merger to enable a user to have a full appreciation of the published financial statements.
5.	<p><u>Disclosure on going concern</u></p> <p><u>.134A Paragraph .27 requires disclosure of material uncertainties related to events or conditions that may cast significant doubt upon an entity's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate an entity shall disclose the following in the notes to the financial statements:</u></p> <p><u>(a) significant judgements and assumptions made as part of management's assessment of whether the going concern assumption is appropriate;</u></p> <p><u>(b) the fact that there is one or more uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;</u></p>	<p>SAICA agrees with the amendment due to the following:</p> <ul style="list-style-type: none">• The disclosure will provide useful information to the users of financial statements in relation to the considerations that were made in determining the going concern basis and any potential uncertainties that exist as well as management's plans to address the uncertainties.• There will be more consistency in the disclosure of going concern.• The disclosure allows for more transparency on the financial sustainability of public entities which will inform better decision-making by users, including the government in general.



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	<p><u><i>(c) information about the principal events or conditions that give rise to these uncertainties;</i></u></p> <p><u><i>(d) the possible effects that the events or conditions resulting in uncertainties may have on current and future reporting periods; and</i></u></p> <p><u><i>(e) information about management's plans to address the events or conditions that resulted in uncertainties, and their actions to mitigate the effect of the events or conditions.</i></u></p>	<p>SAICA further recommends that where public entities are dependent on additional funding from government, disclosure should include the timing of the application, the amounts involved and the probability of approval or ratification by the Finance Minister, where necessary.</p>
6.	<p><u>Disclosure on going concern</u></p> <p><u>.134B If the information required in paragraph .134A(e) is published with the financial statements, a cross reference to those documents can be included in the notes to the financial statements.</u></p>	<p>SAICA agrees that the cross reference should be included in the financial statements as this will minimise the duplication of information in the financial statements and improve their usefulness. However, the current wording in the Standard appears to suggest that the inclusion of the information required by paragraph .134(A)(e) is optional which may contradict the requirements of paragraph .134(A)(e). SAICA recommends that the wording of paragraph .134(A)(e) includes an option to disclose the information either in the notes or elsewhere in the financial statements.</p>

