

# MUNICIPAL CFO FORUM

## UPDATE ON ASB ACTIVITIES

14 June 2018



Accounting Standards Board






# 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.***



# Content

- 
1. Changes to GRAP Reporting Framework 2017/2018 to 2019/2020
  2. Changes to Frequently Asked Questions (FAQs)
  3. Overview of current projects
  4. Current Exposure Drafts available for comment





# **1. Changes to GRAP Reporting Framework 2017/2018 to 2019/2020**





# Changes to GRAP Reporting Framework 2017/2018

**No changes** from 2016/2017 to 2017/2018  
GRAP Reporting Framework





# Changes to GRAP Reporting Framework 2018/2019

- Two pronouncements effective 1 April 2018:

- 1.Improvements to the Standards of GRAP

- 2.Amendments GRAP 21 & GRAP 26

- Impairment of Assets*



# GRAP Reporting Framework 2018/2019

## 1. Improvements to the Standards of GRAP

- Measuring cost of assets acquired in exchange for other assets
- Treatment of transaction costs - assets acquired in non-exchange transaction
- Revenue based depreciation & amortisation methods
- Restatement of asset's carrying amount - revaluation model
- Treatment of bearer plants
- Guidance on classification of military assets
- Acquisition of investment property
- Contingent consideration in transfer of functions



## GRAP Reporting Framework 2018/2019

### 2. 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



# Newly effective Standards of GRAP

Pronouncement	Effective date	Objective
GRAP 18 <i>Segment Reporting</i>	1 April 2020	<ul style="list-style-type: none"><li>• Principles for reporting financial information by segments</li></ul>
GRAP 20 <i>Related Party Disclosures</i>	1 April 2019	<ul style="list-style-type: none"><li>• Defines; &amp; sets disclosure requirements</li></ul>
GRAP 32 <i>Service Concession Arrangements</i>	1 April 2019	<ul style="list-style-type: none"><li>• Accounting by grantor &amp; operator</li></ul>
GRAP 108 <i>Statutory Receivables</i>	1 April 2019	<ul style="list-style-type: none"><li>• Defines; &amp; sets principles for subsequent measurement</li></ul>
GRAP 109 <i>Accounting by Principals &amp; Agents</i>	1 April 2019	<ul style="list-style-type: none"><li>• Defines; &amp; outlines what to recognise</li></ul>
GRAP 110 <i>Living and Non-living Resources</i>	1 April 2020	<ul style="list-style-type: none"><li>• Requirements to recognise &amp; measure living resources</li><li>• Disclose information on living &amp; non-living resources</li></ul>



# Changes to GRAP Reporting Framework 2019/2020



Three pronouncements effective 1 April 2019:

1. IGRAP 18 *Recognition and Derecognition of Land*
2. IGRAP 19 *Liabilities to Pay Levies*
3. Guideline on *Accounting for Arrangements Undertaken in terms of the National Housing Programme*



# GRAP Reporting Framework 2019/2020


## 1. IGRAP 18 *Recognition and Derecognition of Land*

- When to recognise and derecognise land
- Based on **control**, not only legal title
- Two criteria:
  - a) legal title, and / or
  - b) right to direct & restrict / deny access of others to land
- Right should be for indefinite period → demonstrate entity has substantive rights
  - ✓ direct use of land's FEB / SP to provide services
  - ✓ exchange, dispose of / transfer land
  - ✓ use land in any other way to generate FEB or SP



## GRAP Reporting Framework 2019/2020

### 2. IGRAP 19 *Liabilities to Pay Levies*

- 
- Interpretation of GRAP 19 → recognition of liability to pay levy (uncertain timing or amount)
  - Levy: non-exchange transaction that results in outflow of FEB / SP, imposed by government
  - Excludes: employment related payments, fines, fees to acquire or use assets / goods & services
  - Obligating event – activity that triggers payment of levy



# GRAP Reporting Framework 2019/2020

## 3. Guideline on *Accounting for Arrangements Undertaken to the National Housing Programme*

- Applicable to municipalities (level 1 & 2 accreditations & non-accredited)
- Identify roles: project manager / developer

*Project manager:* agent for dept for both beneficiaries & service providers

*Project developer:* responsible for housing development (GRAP 11) & agent for dept with beneficiaries

- Guidance on accounting for commission, accreditation, administration / transaction fee: GRAP 9 (or GRAP 11)
- Guidance on accounting for land
  - ✓ lose control of existing land when enter into arrangement with dept.
  - ✓ no arrangement with department: recognise land acquired through USDG/ donation when acquired
  - ✓ Account for other infrastructure if controlled

*Later of 1 April 2019 or when GRAP 109 becomes effective*




## **2. Changes to Frequently Asked Questions (FAQs)**





# Changes to Frequently Asked Questions

- 
- Updated FAQ document by:
    - Adding new FAQs
    - Amending existing FAQs
    - Other minor amendments
  - Latest issued June 2018
  - Available on ASB website





# New FAQs

## ■ FAQ 2.7 Use of valuer to determine FV

- • Standards allow use a valuer / another expert, including employee, if:
  - a) valuer is member of a valuation profession & holds recognised & relevant qualification; or
  - b) other expert has requisite competence to undertake appraisal i.a.w. requirements of Standards



# New FAQs (cont.)

## FAQ 3.5 Cash & Cash equivalents

- Consider (a) definition & (b) purpose for holding

Definition	Application
Short-term	<ul style="list-style-type: none"><li>Generally &lt;3months from investment date</li><li>GRAP 2 not definitive</li></ul>
Highly liquid	
Readily convertible	<ul style="list-style-type: none"><li>Convertible without undue notice / penalties</li><li>Amount known at time of investment</li></ul>
Known amount cash	
Insignificant risk of changes in value	<ul style="list-style-type: none"><li>So similar to cash, change in value insignificant</li><li>Consider e.g. cancellation clause, termination fee</li></ul>

- Disclose policy to classify cash & cash equivalents

# New FAQs (cont.)

## FAQ 6.4 Interaction of GRAP 32, 8 & 109

	<b>Service Concession Arrangements (GRAP 32)</b>	<b>Interest in Joint Ventures (GRAP 8)</b>	<b>Accounting by Principals &amp; Agents (GRAP 109)</b>
Parties	Operator & Grantor	Investor or Venturer	Principal & Agent
Arrangement's characteristics	Operator uses service concession asset to provide mandated function for grantor	2 / more parties jointly control i.t.o. binding arrangement	Agent undertakes transactions with 3 <sup>rd</sup> parties on behalf & for benefit of principal
Accounting treatment	<ul style="list-style-type: none"><li>• Asset recognised by party that controls and related obligations</li><li>• Each party recognises revenue, expenses per arrangement</li></ul>	<ul style="list-style-type: none"><li>• Investor: GRAP 104</li><li>• Venturer: i.t.o. arrangement - could be jointly controlled operation, asset, or entity</li></ul>	<ul style="list-style-type: none"><li>• Principal: revenue &amp; expenses from transactions 3rd parties</li><li>• Agent: portion revenue &amp; expenses to execute function</li><li>• Both: assets &amp; liabilities that meet definition &amp; recognition criteria</li></ul>




# New FAQs (cont.)

## FAQ 6.6 Renegotiated payment arrangements

a) New FL / amendment of original?

- Substantially different terms: extinguish original & recognise new

b) How measure new FL initially?

- @ FV (normally transaction price)
  - Not transaction price: estimate with valuation technique
  - Consider if concessionary loan
- 

# New FAQs (cont.)

## FAQ 7.3 Classifying asset not heritage

- Based on intended use; apply principles in Standards
- Asset decision tree

### PPE (GRAP 17)

- Use >1 period, &
- Asset / significant portion used:
  - (a) production/supply of goods/services;
  - (b) rental to others; or
  - (c) administrative purposes

### IP (GRAP 16)

- Earn rentals/
  - Hold asset / significant portion for capital appreciation/
  - Both
- Rather than PPE

### Inventory (GRAP 12)

- Hold for sale / distribution in ordinary course of operations, or
- Use in production process / rendering of services

### Intangible (GRAP 31)

- Capable of separated / divided from entity & sold, transferred, licensed, rented / exchanged; or
- Arises from binding arrangement regardless rights transferable / separable from entity



# New FAQs (cont.)

## FAQ 7.4 Classifying research specimens

- Heritage asset definition
- Before research, cannot conclude that
  - a) has cultural, environmental, historical, natural, scientific, technological or artistic significance; &
  - b) to be held indefinitely for benefit of present & future generations





# Amend existing FAQs

## FAQ 3.4 analysing expenses by nature / function

- Explains what nature and function mean

Nature	Function
By character; direct goods / services acquired / assets consumed	By programme, activity / purpose for which incurred

- Examples added illustrating inappropriate presentation:
  - Repairs & maintenance, grant expenses, contracted services, project expenses





# Amend existing FAQs (cont.)

## FAQ 4.3 Services received in-kind

- Align to GRAP 23 & clarify:
  - Recognise when:
    - significant to operations / service delivery objectives;
    - probable that FEB / SP will flow to entity; and
    - fair value of assets can be measured reliably
  - Disclose for recognised and unrecognised:
    - nature & type of major classes of goods/ services received in-kind





# Amend existing FAQs (cont.)

## FAQ 6.1 Free basic services

- Clarify expenses relating to free basic services not reclassified from nature to another line item such as “free basic services”





# Amend existing FAQs (cont.)

## FAQ 7.1 & 7.2 Classify asset as heritage

- Move from FAQ 2.9

7.1

Assets designated as heritage by legislation not necessarily classified as heritage in financial statements

Not only heritage assets designated as such in legislation classified as heritage in financial statements

7.2



# Amend existing FAQs (cont.)

- FAQ 7.5 Classify living resource as heritage

- Move from FAQ 2.6
- Heritage asset definition
- Held *indefinitely* for benefit of present & future generations NOT demonstrated in living animals & plants
  - have distinct lifecycles; cannot be held indefinitely





# **Amend existing FAQs (cont.)**

- **FAQ 7.6 Classifying statues, sculptures, monuments, similar structures & replicas as heritage assets**

- Move from FAQ 2.5
- Person / event commemorated, or object duplicated, may have significance
- Assess if statue, sculpture, monument, similar structure / replica also has





# Other minor amendments

- Updated section 1 *Reporting Framework and Related Issues* for:
  - Update for 2017/18 GRAP Reporting Framework
  - Clarify FAQ 1.3 status of Standards not in reporting framework & reflect approval by Minister of Finance
  - Delete FAQ 1.7; relevant info included in FAQ 1.3
  - Add disclosure requirements to (now) FAQ 1.7
- Footnote ref to new Conceptual Framework
- Move FAQ 7.1 to section 6 as FAQ 6.5; rename section 7 to Heritage Assets







# 3. Overview of other current projects






# Overview of current projects

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- 
1. Revision of GRAP 104 on *Financial Instruments*
  2. Interpretation on *Adjustments to Revenue*
    - Amendments to IGRAP 1
  3. Guideline on *Accounting for Landfill Sites*
  4. Guideline on *The Application of Materiality in the Preparation of Financial Statements*





# 1. Revision of GRAP 104

- 
- Revision of GRAP 104 to align with:
    - IFRS 9, and IAS 32, IFRS 7
  - Aligned where appropriate for local circumstances
  - Proposed Exposure Draft to be issued for comment



# High level changes

Area	Key changes
Scope	Now in: Financial guarantee contracts & some loan commitments
Initial measurement	<ul style="list-style-type: none"><li>• Concessionary investments</li><li>• Credit impaired concessionary loans</li></ul>
Classification of financial instruments	<ul style="list-style-type: none"><li>• FA: Based on (a) management model, and (b) characteristics of contractual cash flows</li><li>• FL: depends on instrument</li></ul>
Subsequent measurement	<ul style="list-style-type: none"><li>• Amortised cost, fair value, &amp; cost for some financial assets (<i>no change</i>)</li><li>• Incurred -&gt; expected credit loss impairment model</li><li>• Recognition of gains &amp; losses for own credit risk on designated financial liabilities</li></ul>

# High level changes (cont.)

Area	Key changes
Presentation	Guidance on offsetting financial assets & financial liabilities
Disclosure	<ul style="list-style-type: none"><li>• Changes in classification resulted in changes in disclosure</li><li>• New disclosures on credit risk management practices, evaluation of credit losses on financial performance &amp; position, &amp; credit risk exposure</li><li>• Offsetting financial assets &amp; financial liabilities</li></ul>




## 2. Interpretation on Adjustments to revenue

- Relates to revenue levied i.t.o. legislation
- Provides guidance on when adjustments:
  - corrections of errors
    - Did not follow legislated process, tariff, basis, etc. incorrectly applied
  - changes in estimates
    - New information available, changes in circumstances
- Proposed IGRAP for comment






# 3. Guideline on Accounting for landfill sites

- 
- Objective: provide guidance to address inconsistent accounting practices
  - Scope: General & hazardous waste
  - Accounting for:
    - Land in a landfill
    - Landfill site asset
    - Rehabilitation provision
  - Format guideline; Board's due process
  - ED 166





## 4. Guideline on Materiality

- 
- Guideline on *The Application of Materiality in the Preparation of Financial Statements*
  - Currently under development → July 2018 for comment
  - How to apply materiality in preparing financial statements, including case studies






## 4. Current Exposure Drafts





# Current Exposure Drafts




ED no	Title	Type of doc	Comment deadline (locally)
ED 161	Leases	IPSASB ED	15 June 2018
ED 162	Strategy and work plan	IPSASB ED	1 June 2018
ED 163	Improvements to IPSAS 2018	IPSASB ED	30 June 2018





# Current Exposure Drafts (cont.)




ED no	Title	Type of doc	Comment deadline (locally)
ED 164	Proposed Interpretation on <i>Accounting for Adjustments to Revenue</i>	Exposure Draft	31 August 2018
ED 165	Proposed amendments to IGRAP 1	Exposure Draft	31 August 2018





# Current Exposure Drafts (cont.)



ED no	Title	Type of doc	Comment deadline (locally)
ED 166	Proposed Guideline on <i>Accounting for Landfill Sites</i>	Exposure Draft	30 November 2018
ED 167	Proposed amendments to GRAP 104	Exposure Draft	7 December 2018






# **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
  - Social media
  - Handbook (order form available on website or on request)






# 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 Standards with effect from 1 April 2016
  - 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>



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# Submitting comments

Visit our website for more information  
on these Exposure Drafts

[www.asb.co.za](http://www.asb.co.za)

Submit your comments to  
[info@asb.co.za](mailto:info@asb.co.za)






**THANK YOU**



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