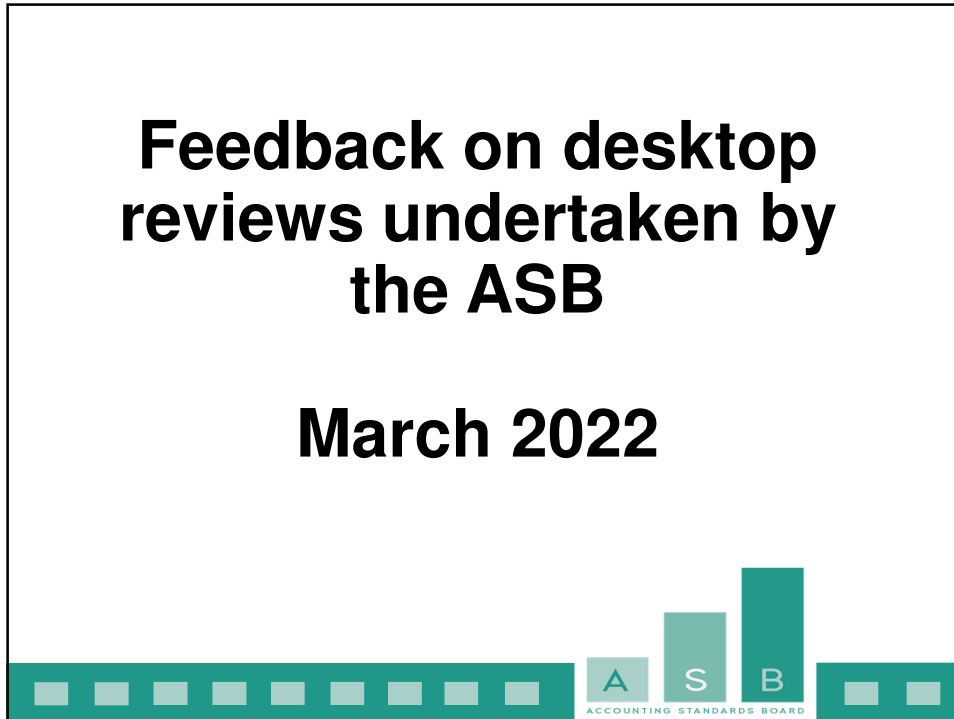


Feedback on desktop reviews undertaken by the ASB

March 2022



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Agenda

Feedback from desktop review

- GRAP 2 on *Cash Flow Statements*
- GRAP 24 on *Presentation of Budget Information in Financial Statements*
- Reporting Framework for 30 June 2022 and beyond

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Results from the review on GRAP 2 *Cash Flow Statements*




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Importance of CFS

- Inform users about actual cash received and spending of funds
- Valuable in predicting future cash requirements
- Assess ability to generate future cash flows
- Allow for comparison with budget when prepared on cash basis of accounting
- Assist management in making decisions about changes in future funding


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Desktop review

- Review considered pervasive issues from most recent published and audited financial statements
- Objective:
 - ✓ assess compliance with GRAP 2
 - ✓ identify emerging practices in way info is presented in cash flow statement
 - ✓ understand why entities present info in specific way
 - ✓ determine any actions needed

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Desktop review

- Exclusions from review:
 - ✓ compliance with GRAP 2 where info was not apparent from financial statements
 - ✓ accuracy of numbers presented
 - ✓ application of non-authoritative guidance – GRAP Accounting Guideline
 - ✓ legislative disclosure requirements
- Results of review discussed with stakeholders to understand root causes and other challenges

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General observations

Application challenges with GRAP 2:

- not enough importance placed on preparation of CFS
- uncertainties about items that require adjustment
- incorrect application of GRAP 2 principles
- too much reliance is placed on software programs
- application of materiality when preparing the CFS
- lack of understanding entity's operations

Behaviour change needed and better time allocation

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General observations

Actions proposed by stakeholders:

- More application guidance on preparation of CFS
- Detailed illustrative example
- Template of working document
- GRAP 2 checklist
- Workshop on preparation of CFS
- Appropriate internal management systems
- Re-instate GRAP 2 illustrative example

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General observations

Actions agreed by Board:

- Share comment with OAG to expand guidance in GRAP 2 Accounting Guideline
- Not to re-instate illustrative example in GRAP 2 as it will result in duplication of similar guidance
- Expand some principles in Materiality Guideline

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Reconciliation of surplus/ (deficit) to net cash flows

Observations from the review:

- Not adjusting for non-cash items or items that need separate presentation on face of CFS
- Not presenting items as movements in working capital
- Incorrect presentation of provisions
- Incorrectly presenting items on a net basis
- Adjusting items in recon that are not presented in f/s
- Incorrect adjustments for cash payments

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Reconciliation of surplus/ (deficit) to net cash flows

Observations from the review (continue):

- Incorrect presentation of movements in receivables
- No distinction between non-cash items and movements in working capital in reconciliation
- Reconciliation did not commence with surplus/(deficit) as per statement of financial performance
- Errors in presenting interest received and finance costs

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Reconciliation of surplus/ (deficit) to net cash flows

Reasons for root causes due to a lack of:

- general observations
- adequate processes to identify non-cash items or other adjustments needed in preparing CFS

As these are implementation and application matters Board agreed to share comment with OAG

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Operating activities

Observations from the review:

- Not presenting cash dividends received and paid separately on face of CFS
- Incorrectly including finance costs as part of repayment of finance lease liability rather than to present it separately on face of CFS
- Not disclosing tax on surplus separately on face of CFS
- Emerging practices:
 - Different classification for cash receipts and cash payments on face of CFS
 - Presentation of movements in VAT receivable/payable

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Operating activities

Reasons for different classification of cash receipts and cash payments:


- application of judgement based on user's needs
- cash receipts are classified based on the nature of revenue
- requirements of other types of reports

Reasons for treatment of VAT are:

- different VAT bases applied
- uncertainties about treatment of VAT in CFS

Board action - recommend to OAG need for guidance on treatment of VAT

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Investing activities

Observations from the review:

- Not disclosing proceeds on sale separate on face of CFS
- Revenue from insurance claims to cover loss/damage to asset not reflected as investing activity
- Amounts for investing activities in CFS differ from amounts in financial statements

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Investing activities

Reasons for differences in amounts reflected as acquisitions in CFS and notes are:

- CFS excludes assets acquired or transferred in non-cash transactions
- Retention payments are excluded from CFS

Need for guidance on treatment of insurance revenue -
Board action to recommend to OAG need for guidance on treatment of insurance revenue

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Financing activities

Observations from the review:

- Increases or decreases in long term borrowings are financing activities but increases and decreases in short term borrowings incorrectly presented as movements in working capital
- Finance costs on finance lease liabilities not presented separately on face of CFS
- Emerging practice – treatment of consumer deposits

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Financing activities


Reasons for observations on financing activities:

- Incorrect interpretation on treatment of movement in short term borrowings and loans
- Classification in other types of reports impact presentation of consumer deposits

Board actions:

- Recommend to OAG need for guidance on consumer deposits to consistent treatment from one year to next
- FAQ on treatment of consumer deposits

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Cash and cash equivalents

Observations from the review:

- No accounting policy for cash or cash equivalents and/or generic policies
- Classification of investments with a maturity of three months or more as cash and cash equivalents

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Cash and cash equivalents


Reasons for observations on cash and cash equivalents :

- No accounting policy as information in notes provides sufficient information to users
- Cash and cash equivalents not material
- Rigid application of three month reference in GRAP 2 to conclude if investment meets definition of cash equivalent

Board actions:

- Clarify Materiality Guideline to explain that accounting policy not required for items that are immaterial
- Recommend to OAG need for guidance on three-month explanation in definition of cash equivalent

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Other GRAP 2 disclosures

Observations from the review:

- Only a few entities include disclosures on significant cash and cash equivalent balances that are held by the entity, but not available for use
- None of the entities included disclosures:
 - (a) on undrawn borrowing facilities or
 - (b) cash flows arising from the operating, investing and financing activities of each reportable segment

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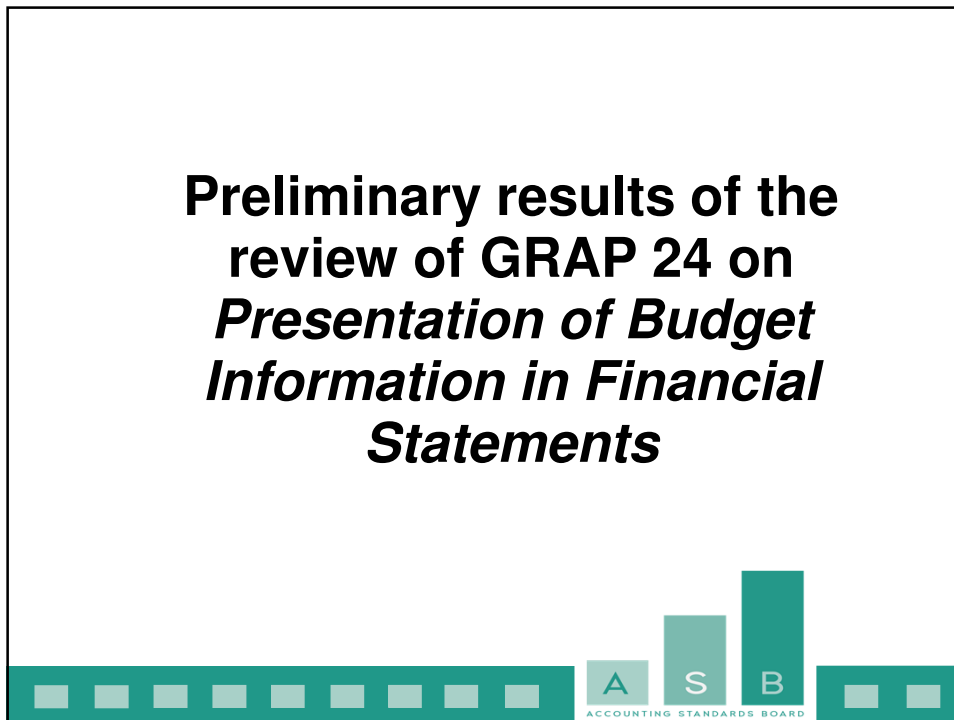
Other GRAP 2 disclosures

Board actions:

- Consider areas of concern on disclosure of the amount of cash and cash flows arising from operating, investing and financing activities of each reportable segment
- Cash receipts and cash payments reported on net basis considered as part of review of GRAP 109
- Review encouraged disclosures in all GRAPs as part of next Improvements Project

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Preliminary results of the review of GRAP 24 on *Presentation of Budget Information in Financial Statements*



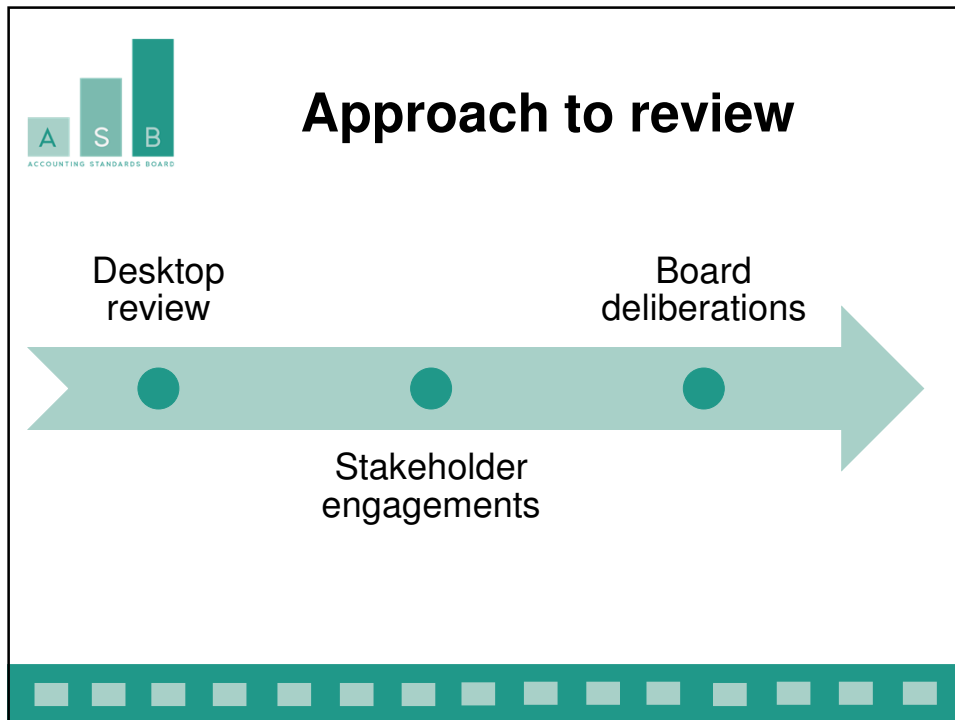
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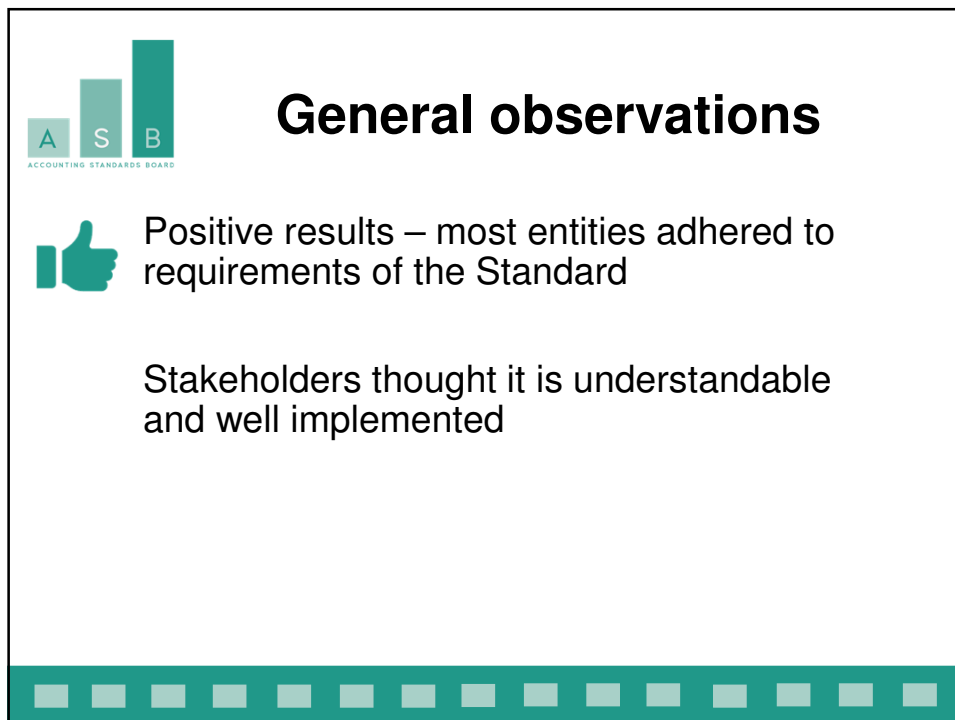
Background to review

- GRAP 24 requires:
 - What:** Comparison of budget & actual amounts in financial statements
 - By whom:** Entities that required, or elect, to make their approved budgets publicly available, and for which they are held publicly accountable
- Reviewed application of GRAP 24 to:
 - assess whether entities adhere to requirements and report quality information
 - identify application & other issues with implementation


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Specific observations

- 1) Applicability of GRAP 24
- 2) Format of presentation of comparison of budget and actual information
- 3) Presentation of comparison of budget and actual information
- 4) Changes from approved to final budget
- 5) Comparable basis
- 6) Reconciliation of actual amounts on comparable basis and actual amounts in financial statements
- 7) Note disclosures of budgetary basis, period and entities included in budget


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1) Applicability of GRAP 24

Requirements	Findings and issues	Root causes	Way forward
<p>Applies to entities that are required, or elect, to make their approved budgets publicly available.</p> <p>Publicly available = approved & made available to public at large by tabling in Parliament/ legislatures/ municipal councils, and held accountable for those budgets</p>	<ul style="list-style-type: none"> • Uncertainty about meaning of “publicly available” for public entities • Uncertainty and disagreements with some about when Standard would apply 	<ul style="list-style-type: none"> • No explicit requirement for public entities to make their budgets publicly available • Preparers do not properly document the basis for not applying the Standard 	<ul style="list-style-type: none"> • Fact Sheet could clarify what “publicly available budgets” means for public entities. • OAG will be asked to amend the GRAP 24 Accounting Guideline to include specific guidance with scenarios for consideration by public entities


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2) Format of presentation of comparison

Requirements	Findings and issues	Root causes	Way forward
Presented as: a) separate additional financial statement; or b) additional budget columns in financial statements (only when budget and financial statements are prepared on same basis)	Municipalities either presented: • both a Statement of Comparison and an Appropriation Statement in AFS; • a Statement of Comparison in AFS, with or without an Appropriation Statement as an annexure; or • only an Appropriation Statement in AFS	Not all entities are aware of the ASB's FAQ on " <i>What should be considered when presenting information to what is required by GRAP 24 on a comparison of budget and actual information</i> "	Board encourages entities to consider the FAQ which clarifies that entities may present, in a single statement or a note, information that is required by the Standards. Additional information could be presented as an annexure


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2) Format of presentation of comparison (cont.)

Requirements	Findings and issues	Root causes	Way forward
Entities should present comparison of budget and actual information consistent with classes / classifications / headings of budget	Classes / classifications / headings used in Statement of Comparison were same as those used to prepare financial statements, rather than those set by relevant authority in approved budget	Entities do not understand the requirement for the information to be presented consistently with the budget	Guidance on method, format and extent of comparison to be included in Fact Sheet
	Users (e.g. audit committee and rating agencies) questioned purpose of the information	Users do not fully understand the purpose of the information	Addressed as part of National Treasury's project on development of education material for users


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3) Presentation of comparison

Requirements	Findings and issues	Root causes	Way forward
Present comparison between: <ul style="list-style-type: none"> last approved & final budget amounts budget & actual amounts on comparable basis explanations of material differences between budget and actual amounts (or cross reference) 	<ul style="list-style-type: none"> Some entities did not provide explanations of material differences while other entities did not apply materiality and explained all differences The quality of explanations were poor 	<ul style="list-style-type: none"> Entities do not understand how to assess materiality in the context of GRAP 24 Preparation of the budget comparison is not given adequate attention when preparing financial statements 	<ul style="list-style-type: none"> Guidance on how to assess materiality in context of requirements of GRAP 24, based on Materiality Guideline, to be included in Fact Sheet Similar guidance to be considered by OAG for Accounting Guideline


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4) Changes from approved to final budget

Requirements	Findings and issues	Root causes	Way forward
Explanation of changes between <i>approved</i> and <i>final</i> budget - to be presented in notes (or cross reference to another report)	Most entities with changes from approved to final budget did not explain reasons for the changes. It was unclear if reasons were explained elsewhere in annual or another report as no cross reference was provided	Entities are not aware of requirement or do not fully understand it	Guidance to clarify what are changes between approved and final budget, and to explain why these changes are material, to be included in Fact Sheet


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5) Comparable basis

Requirements	Findings and issues	Root causes	Wy forward
<p>GRAP 24 requires the comparison of budget and actual amounts to be presented on a comparable basis to budget, meaning the same:</p> <ul style="list-style-type: none"> - basis of accounting - classification system - period - entities 	<p>Because of boilerplate disclosures, information on budgetary basis and classification system of budget was inconsistent with what was presented in the comparison</p>	<ul style="list-style-type: none"> • Entities do not understand what a comparable basis means, and that basis differences include accounting basis & classification differences • Entities do not adjust boilerplate accounting policies and note disclosures 	<ul style="list-style-type: none"> • Guidance to be included in Fact Sheet clarifying what is a comparable basis • The OAG to consider similar guidance for GRAP 24 Accounting Guideline


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6) Recon of actual amounts

Requirements	Findings and issues	Root causes	Way forward
<p>When financial statements and budget are not prepared on a comparable basis - present a reconciliation of financial statements to budget, on face of statement or in notes. Separately identify any basis, timing and entity differences for specified subtotals</p>	<ul style="list-style-type: none"> • Budget on <i>accrual</i> basis: review could not confirm extent of classification differences, but none of entities provided a reconciliation • Budget on <i>cash/modified cash</i> basis: Entities that presented reconciliation did not reconcile to specified subtotals 	<ul style="list-style-type: none"> • Entities do not understand when to provide the reconciliation, and that basis differences include accounting basis & classification differences • Reconciliation is challenging when information is not readily available 	<p>GRAP 24 will be amended to be less prescriptive about format of the reconciliation:</p> <ul style="list-style-type: none"> • guiding principles on line items that can reconcile to • same line items reconciled consistently from one period to next

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7) Note disclosures


Requirements	Findings and issues	Root causes	Way forward
Disclose in notes a) budgetary basis and classification basis adopted in approved budget; b) period of approved budget; and c) entities included in approved budget	<ul style="list-style-type: none"> Some entities only provided some or none of required information Information duplicated between accounting policies and notes Inaccurate disclosures due to inconsistent information between accounting policies, notes and budget information in comparison 	<ul style="list-style-type: none"> Boilerplate policies and note disclosures are not adjusted for entities' circumstances Preparation of comparison is not given adequate attention 	<ul style="list-style-type: none"> Reinstating illustrative examples in Standard to assist with preparation of disclosures, and improve quality of financial statements

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Next steps




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Next steps

- Develop a Fact Sheet
- Amend Standard (next Improvements project)
- Publish Review Report & other communication



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Reporting Framework for 30 June 2022 and beyond



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Reporting Framework 2021/22

- Effective for period 1 April 2021 to 31 March 2022
(1 July 2021 to 30 June 2022)
- Directive 14 on *The Application of Standards of GRAP by Public Entities that Apply IFRS Standards*
 - Applicable to entities that apply IFRS Standards in accordance with Directive 12

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Reporting Framework 2022/23

- Effective for period 1 April 2022 to 31 March 2023. (1 July 2022 to 30 June 2023)
- Added IGRAP 21 on *The Effect of Past Decisions on Materiality*. Although only effective 1 April 2023, earlier adoption is encouraged

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Effective dates of new Standards approved

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Effective dates of new Standards

Topic	Effective date	Adoption arrangements
Amendments to GRAP 1 on <i>Presentation of Financial Statements</i>	1 April 2023	Early adopt amendments
Improvements to Standards of GRAP (2021)	1 April 2023	Early adopt amendments (per Standard)
GRAP 104 on <i>Financial Instruments</i>	1 April 2025	Early adoption of <u>entire Standard</u> permitted
GRAP 25 on <i>Employee Benefits</i>	Proposed 1 April 2023	Early adoption of <u>entire Standard</u> permitted

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Newly published

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Newly published

Topic	Applicable date
Review Report on Directive 12 on <i>The Selection of an Appropriate Reporting Framework by Public Entities</i>	Not applicable Affected public entities (and auditors) to review findings
Fact Sheet on Directive 12	Not applicable
Research Paper on <i>The Desktop Review of Cash Flow Statements Presented in the Financial Statements</i>	Not applicable Entities (and auditors) to review findings
ED 194 on <i>ASB's Work Programme 2024 to 2026</i>	Consultation in process – comment deadline 18 March 2022

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