

ANALYSIS AND RESPONSE TO WRITTEN AND VERBAL COMMENT RECEIVED ON DISCUSSION PAPER 5, *COMPARISON OF THE STANDARDS OF GRAP TO THE IFRS FOR SMEs*

The Board approved Discussion Paper 5, *Comparison of the Standards of GRAP to the IFRS for SMEs* in July 2010 with a comment date of 28 February 2011. The Discussion Paper was published on the ASB's website and a Notice published in the Government Gazette (Notice 33584).

Comment letters were received from the Institute of Municipal Finance Officers (IMFO), Ducharme Consulting and the Office of the Accountant-General (OAG).

In order to obtain input on the proposals in the Paper, workshops or discussions were held with the following stakeholders:

- Various groups of the South African Institute of Chartered Accountants (SAICA) (separate workshops were held with SAICA members from the Southern Region, Eastern Region, and those comprising the Siyenza Manje project team);
- City of Cape Town
- South African Local Government Association (SALGA)(Free State branch);
- Government officials in the Free State and Western Cape; and
- A roundtable discussion was hosted in Gauteng and was attended by auditors, preparers and other interested parties.

Input received at these sessions has been documented and considered in the same way as the written comments that were sent to the ASB.

The comments have been analysed as follows:

Part I – Differential reporting, including:

- A summary of the key issues and proposals on the way forward for differential reporting.
- Comments (both verbal and written) on differential reporting, and the analysis and response to it.

Part II – Standards-level simplifications, including:

- An analysis of the key issues and suggested proposals.
- Comments (both verbal and written) on the Standards-level simplifications, and the analysis and responses to it.

CLASSIFICATION OF COMMENT RECEIVED AS PART OF THE FORMAL COMMENT PROCESS

No.	Name/Organisation	Total	Preparers	Users	Auditors/ Accountants	Representative bodies
1	IMFO	1	-	-	-	1
2	Office of the Accountant- General	1	-	1	-	-
3	Ducharme Consulting	1	1	-	-	-
	TOTAL	3	1	1	0	1

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Part I - Analysis and response to written and verbal comments received on differential reporting

No.	WRITTEN COMMENT RECEIVED	Board's response
1.	Differential reporting	
	<p>Specific matter for comment – Question 1</p> <p>1.15 <i>The Board is therefore of the view that:</i></p> <p>(a) <i>The requirements of the IFRS for SMEs are designed to meet the reporting requirements of those entities that do not have public accountability. The application of the IFRS for SMEs as a complete reporting framework for public sector entities is inappropriate as these entities are publicly accountable.</i></p> <p>(b) <i>The comparability of financial statements in the public sector supports public accountability and sound decision-making. At a basic level, users of the various entities' financial statements, such as the public at large, require the same information from all entities. Use of differential reporting in the public sector is therefore inappropriate.</i></p> <p>(c) <i>The use of different reporting frameworks does not necessarily reduce the reporting burden of entities. Entities may still be required to prepare additional information that complies with the Standards of GRAP to enable the preparation of consolidated financial statements in accordance with legislation.</i></p> <p><i>Do you agree with the Board's views expressed above? Please provide reasons for your view.</i></p>	
1.1	IMFO	
	<ol style="list-style-type: none"> 1. The position paper of SALGA is supported. <i>(Note: a copy of the draft SALGA position paper has been included as Annexure A).</i> 2. Comments provided are based on the capacity / funding constraints of medium to small municipalities. 3. The complexity of the standards lead to the need for Chartered Accountants in many instances – to attract CAs to the municipal environment (particularly in smaller muni's) are not always possible due to the salary scales as approved by the Bargaining Council. 4. The cost involved in the implementation of the standards, especially GRAP 17 are very onerous. In many smaller municipalities it could mean prioritising between compliance with accounting standards 	<ol style="list-style-type: none"> 1. Noted. 2. Noted. 3. Noted. It is not only the Standard that gives rise to the need for skilled staff. The complexity of municipalities' operations in themselves give rise to the need for skilled staff.

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<p>and the implementation of much needed maintenance.</p> <ol style="list-style-type: none"> 5. Very few municipalities (if any) will be able to remain GRAP 17 compliant after the initial conversion to GRAP 17 done by consultants. There will in all probability be either an ongoing consultant fees cost, or a relapse to qualified audits. 6. The restatement of figures with the implementation of new standards is a reportable matter in audit reports and incorrectly creates the impression that there was something done wrong by the municipality. 7. Provisions for post retirement employee benefits (which are budgeted for on an annual basis as part of the salary budget) does not significantly alter the user's information on the financial position of the municipality. The benefits of local government employees are standardised and nationally agreed to – the need to quantify (which can only be done by an actuary to ensure the AG agrees to the provision) is questioned. 8. The initiatives to have clean audit reports by 2014 will not be achieved by smaller municipalities as they simply do not have the financial resources to comply with all of the requirements. The reputation risk to the public sector is severe. 9. In strong support of a set of simplified accounting standards for medium to smaller municipalities and overall simplification of accounting standards. Examples include: <ol style="list-style-type: none"> a. GRAP 17 to have less onerous requirements for movable assets (no annual review of useful lives, impairments, etc.) b. R5 000 threshold for capitalisation of assets to be included in GRAP 17 (normal tax deductible available to corporates and guidelines for national and provincial departments for capitalisation) c. Restatements on first time adoption of new standards not required d. Provisions to be reviewed – provisions should not be raised for ongoing annual expenditure which is budgeted for and taxed for annually (examples: Landfill rehab is a once off future cost, per site, and should be provided for but employee benefits, alien vegetation and the likes are ongoing activities of the municipality and should not be treated as provisions. 	<ol style="list-style-type: none"> 4. The cost of compliance may be high initially, particularly where historical information is unavailable or unreliable. 5. Assuming that skills are transferred from the consultants to the staff at the municipalities then the cost of compliance after adoption should decrease. It is acknowledged, however that specialist skills may still be required in some areas. 6. This issue will be discussed with the Auditor-General. 7. The current accounting for post-employment benefit obligations aims to identify the full extent of the costs and obligations associated with an entity's workforce. This information assists users in making decisions now about whether those costs and obligations are affordable and sustainable. Accounting for benefits paid to retired employees does not provide any information about the future amounts an entity is committed to pay its employees. The fact that these obligations are funded on a pay-as-you-go basis cannot negate the fact that the obligation exists. 8. In many instances, the Standards have highlighted the poor financial management practices at municipalities. While it may take
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		<p>some time for all municipalities to comply in full with all the Standards (resulting in modified audit opinions), the final objective should always be the improvement of financial management and accountability. Municipalities should focus on improving their financial management on an ongoing basis, and reporting any progress made towards achieving that objective in the financial statements and annual report.</p> <p>9. (a) to (b) – Considered under Standards -level simplifications.</p> <p>9(c) – For most entities, the restatement only meant determining an opening balance on the date of adoption the Standard, particularly where deemed cost was used for assets.</p> <p>9(d) – If an entity’s ongoing activities give rise to obligations, liabilities must be recognised.</p>
1.2	Ducharme Consulting	
	<p>As most of the Public Sector Entities receive national and provincial grant monies which is funded by greater public (by way of income taxes, VAT etc), the interest of the public is greater than only the people living within e.g. a municipal jurisdiction, and thus the users would not be able to do proper comparisons with differential reporting.</p> <p>Alternative view: On a national and provincial level differential reporting does not make sense as these entities are consolidated as required by legislation. However, municipalities are not consolidated nationally, per province or per district – consolidation is only required when GRAP 6, 7 or 8 scenarios exist. Thus the suggestion is that if a municipality is small enough for the application of the IFRS for SME’s, then the</p>	<p>Noted.</p> <p>Noted. If whole-of-government accounts are prepared in future, all three levels of</p>

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	municipality applies the IFRS for SME's and its entities would be required to do the same (thus governed by requirement for parent/ controlling entity).	government would be consolidated. If differential reporting is applied at local government level, then this consolidation would not be possible unless additional information is retained by entities for consolidation purposes.
1.3	Office of the Accountant-General	
	We agree with the Board with regards to a), b) and c). IFRS for SME's are not suited as a complete reporting framework for public sector entities. An IFRS should only be used to simplify/modify a GRAP standard which can be used for public sector entities. In the public sector the key factor is use of public money to provide service to the citizen without a profit motive. As a result, the size of the entity is not a key factor in determining reporting requirements. Therefore we do not support differential reporting.	Noted.
2.	VERBAL COMMENT RECEIVED	
2.1	SAICA Eastern Region	
	General consensus that two reporting frameworks are not required.	Noted.
2.2	SAICA Southern Region	
	General consensus that two reporting frameworks are not required.	Noted.
2.3	SALGA Free State	
	Differential reporting should be considered for the following reasons: <ul style="list-style-type: none"> If a medium or low capacity municipality applies a less complex reporting, it can require its municipal entities to also apply such a framework. A lower level of skill would be required for a less complex reporting framework	Noted. If whole-of-government accounts are prepared in future, all three levels of government would be consolidated. If differential reporting is applied at local government level, then this consolidation would not be possible unless additional information is retained by entities for consolidation purposes.

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2.4	SAICA Siyenza Manje Project Team	
	General consensus that one reporting framework appropriate for practicality purposes. Many practitioners already overwhelmed; another reporting framework would exacerbate this.	Noted.
2.5	City of Cape Town	
	<p>It was suggested that:</p> <ul style="list-style-type: none"> • High and medium capacity municipalities should apply the Standards of GRAP as currently drafted. It was however noted that because low capacity municipalities often do not have municipal entities, they are not required to prepare consolidated financial statements. • For low capacity municipalities, the accounting framework should focus on preparing financial statements that highlight the risks of the organisation to users of the financial statements. It was noted that instead of preparing a completely new framework, the existing Standards of GRAP could be used, but that certain requirements be exempted for low capacity municipalities. As an example, certain standards could be excluded if they are not undertaken at low capacity municipalities; certain disclosure requirements within Standards could be eliminated. <ul style="list-style-type: none"> • Even if a new framework is developed, comprehensive implementation guidance (similar to that produced by the IASB) would need to be developed to assist these municipalities given the shortage of necessary skills. <p>Sufficient guidance is provided to low capacity municipalities regarding the differences between the numbers in their budget (which is used for tariff setting and forms the basis of their financial management)</p>	<p>Noted.</p> <p>Noted. The accounting requirements are simple or as complex as the underlying transactions. Where transactions are not undertaken by an entity for which a Standard of GRAP (or part of a Standard of GRAP) exists, those requirements are not applied. As the Standards of GRAP deal with a range of issues at a number of different entities, the scope of the Standards should be sufficiently comprehensive. There may be a need, however, to educate practitioners about the use of the Standards.</p> <p>Noted. This suggestion will be communicated to the National Treasury.</p> <p>Noted. This suggestion will be communicated to the National Treasury.</p>

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	<p>and those reflected in their financial statements. Some municipalities are under the impression that they should only use the numbers in the financial statements to make certain decisions, e.g. in determining tariffs.</p>	<p>for inclusion in their GRAP guides and other material.</p>
<p>2.6</p>	<p>Roundtable discussion</p>	
	<p>General consensus of participants that there should not be differential reporting in the public sector. The reasons for this justification are outlined below:</p> <ul style="list-style-type: none"> • As public sector entities all deal with public money and public resources, there should be no difference between the reporting frameworks applied by the various entities. • It is difficult to justify “fair presentation” in two accounting frameworks where different recognition, measurement and disclosure requirements exist. • Most of the simplifications in the IFRS for SMEs relate to less onerous disclosures. After reviewing the disclosures between the IFRS for SMEs and the Standards of GRAP, it is clear that where public sector entities undertake such transactions, they should make the necessary disclosures. Where they do not undertake such transactions, no action is required. • There are underlying reasons for entities not being able to comply with Standards of GRAP. Most notably, entities’ poor accounting and financial management practices result in entities not having basic financial information available to comply with the Standards. • It would also be useful to understand what the underlying causes are of entities’ poor accounting and financial management practices, particularly at low capacity municipalities. For example, is it the lack of funding made available from other spheres of government, is it the lack of collecting revenues, is it the ability to attract the necessary staff? <p>It was noted by some participants that there was concern amongst the Board’s stakeholders regarding its strategy on the recent exposure drafts and pronouncements issued by the IASB. In particular, stakeholders are concerned about the Board’s strategy with regards to IFRS 9 on <i>Financial Instruments</i>, and recent exposure drafts on <i>Leases</i> and <i>Revenue</i>.</p> <p>Participants felt that a communication issued by the Board with regards to its strategy for these three areas may alleviate stakeholders’ concerns.</p>	<p>Noted and agreed. The Board agreed that because the users of a public sector entity’s financial statements, and their information needs, are the same across all entities, two reporting frameworks cannot be justified.</p> <p>Noted. A communication will be issued outlining the Board’s due process in dealing with newly issued IFRSs.</p>

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2.	<p>Specific matter for comment - Question 2</p> <p><i>Alternative reporting frameworks for the public sector</i></p> <p>1.16 <i>During the preliminary consultation with stakeholders on the Discussion Paper, it was indicated that some entities may exist in the public sector that should not use Standards of GRAP to prepare their financial statements because:</i></p> <ul style="list-style-type: none"> • <i>they are not funded from public resources, i.e. they do not receive appropriations, transfers or grants from the revenue collected and distributed by government;</i> • <i>they are not controlled, jointly controlled or significantly influenced by an entity that is required to produce consolidated financial statements using Standards of GRAP; and</i> • <i>a wide range of users does not exist for their financial statements.</i> <p>1.17 <i>Where an entity meets all three the requirements in paragraph 1.16, it may be appropriate to apply an alternative reporting framework. For example, where a wide range of users does not exist for an entity's financial statements, it may be appropriate to apply a special purpose reporting framework. To assess whether and what type of reporting framework is required, the Board would particularly value comment on the nature and extent of the entities that exist in the public sector that meet all the three requirements in paragraph 1.16.</i></p>	
2.1	Ducharme Consulting	
	None	Noted. No further action required.
2.2	Office of the Accountant-General	
	We did not come up with examples of entities that meet all 3 requirements.	Noted. No further action required.

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Part II - Analysis and response to comments received on Standard-level simplifications

WRITTEN COMMENT		
No.	Comment	Board's response
1.	<p>Specific matter for comment - Question 3</p> <p><i>Accounting approaches</i></p> <p>2.11 <i>Investments in associates or joint ventures indicate that the investor is able to either exercise significant influence or joint control over another entity. The accounting for these investments should therefore reflect that a more significant relationship exists. Accounting for investments in associates and joint ventures, using the equity method (or proportionate consolidation for joint ventures), rather than cost or fair value, better reflects the economic circumstances of the relationship.</i></p> <p>2.12 <i>In addition, the comparability of public sector entities' financial statements is an important objective of financial reporting. Allowing entities a range of accounting policy choices does not promote comparability and does not provide users with consistent information for decision-making.</i></p> <p>2.13 <i>The Board therefore does not support the approach adopted in the IFRS for SMEs for the measurement of investments in associates and joint ventures.</i></p> <p>2.14 <i>Do you agree with the Board's view? Please provide reasons for either agreeing or disagreeing with the Board's views.</i></p>	
1.1	Ducharme Consulting	
	The author is in agreement with the ASB's view, although equity method of accounting is not that much different from Fair Value (as the value of the investment should consider all post acquisition increases in Net Assets of associate).	<p>Noted. In determining fair value, a directly observable market price could be used, in which case there may be differences between fair value and the equity method.</p> <p>No change proposed to the existing requirements of GRAP 7 and 8.</p>
1.2	Office of the Accountant-General	
	We agree with the Board. Cost or fair value may be simpler to understand as they are commonly used for measurement of other financial statement elements. However, equity and proportionate methods are more appropriate to reflect the economic classification of the relationship.	Noted. No change proposed to the existing requirements of GRAP 7 and 8.

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2.	Specific matter for comment - Question 4	
	<p><i>2.15 The equity method requires entities to measure these investments, initially at cost, but subsequently adjusted for the post-acquisition change in the investor's share of net assets/equity. Since the equity method is a cost based measurement, the transaction costs should be included in the initial cost. In line with the IFRS for SMEs, the Board proposes that the transaction costs should be capitalised to the initial cost of the investment in an associate. This would require an amendment to GRAP 7.</i></p> <p><i>2.16 Do you agree with the Board's proposed treatment of the transaction costs? Please provide reasons for either agreeing or disagreeing with the Board's views.</i></p>	
2.1	Ducharme Consulting	
	The author is in agreement with the board's view. Transaction costs are usually immaterial in relation to the cost of investment/ interest, thus the adjustment required to what always had been done is not onerous. It is conceptually sounder to capitalise transaction costs.	Noted and agreed. The Board agreed that an amendment should be proposed to GRAP 7.
2.2	Office of the Accountant-General	
	We agree with the Board. This is especially relevant where transaction costs are material in relation to the investment. The transaction costs arise as a result of the investments made. In order to reflect the true cost of the investment they should be capitalised to the cost of the investment. Capitalising transaction costs at initial recognition is also in line with initial recognition of assets.	Noted and agreed. The Board agreed that an amendment should be proposed to GRAP 7.
3.	Specific matter for comment - Question 5	
	<p><i>2.17 In issuing GRAP 7 and 8, the Board concluded that the additional disclosures outlined in paragraph 2.10 above are useful to users of the financial statements.</i></p> <p><i>2.18 The Board would, however, value comment on whether any of the additional disclosure requirements in GRAP 7 and 8 should be eliminated. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.</i></p>	
3.1	Ducharme Consulting	
	Unless stated otherwise, all of the above disclosures are viewed as useful and are usually quite inexpensive to obtain as the associate should have the information. Also not all of these disclosure requirements will be applicable for every instance of reporting.	Noted and agreed. Where entities have investment in associates and joint ventures, the information required by the disclosures in GRAP 7 and 8 should be available.

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3.2	Office of the Accountant-General	
	The additional disclosure requirements in GRAPs on Investments in Associates and Interest in Joint Ventures should not be eliminated as they provide a more comprehensive analysis of transactions and events. It is not foreseen that the cost of the additional disclosures will outweigh the benefit.	Noted and agreed. Where entities have investment in associates and joint ventures, the information required by the disclosures in GRAP 7 and 8 should be available.
4.	Specific matter for comment - Question 6	
	<i>2.19 Are there any principles included in GRAP 7 and 8 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standards.</i>	
4.1	Ducharme Consulting	
	Very few GRAP 7 and GRAP 8 arrangements exist in local government, thus the author does not view the suggested changes as having a significant impact on municipalities	Noted.
4.2	Office of the Accountant-General	
	Specific guidance identified by the National Treasury will be covered in the revised GRAP Guides.	Noted.
5.	Specific matter for comment - Question 7	
	<i>Assets held for sale</i>	
	<i>3.12 In the South African public sector, entities apply the measurement, presentation and disclosure requirements of GRAP 100 for non-current assets held for sale (including disposal groups) and discontinued operations. Broadly, GRAP 100 requires entities to measure assets held for sale using the lower of their carrying value and fair value less costs to sell when an entity is committed to sell the asset, and to present these assets separately on the statement of financial position. GRAP 100 requires specific presentation and disclosure of discontinued operations both in the statement of financial performance and position.</i>	
	<i>3.13 During the initial adoption of the Standards of GRAP the Board received feedback from stakeholders that the requirements of GRAP 100 are onerous. The Board continues to hold the view that the treatment of non-current assets held for sale and discontinued operations is appropriate as it reflects the effect of decisions taken by management regarding the use of their assets at year-end as well as operations that have been discontinued. However, the Board is willing to consider whether any areas of GRAP 100 could be clarified or simplified.</i>	
	<i>3.14 The Board requests respondents' views on what aspects of GRAP 100 could be amended or improved. Respondents should describe their issues in sufficient detail and, where relevant, make reference to the necessary paragraphs in GRAP 100.</i>	

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5.1	Ducharme Consulting	
	<p>The author agrees with the Board's view that GRAP 100 should apply. It is further agreed with the fact that assets should not be depreciated, after an entity has made a commitment to sell these assets. Experience shows that assets accumulate in store rooms, before they are sold off, normally at public auction. The commitment being that a public auction will be held to sell identified assets.</p> <p>The author is further of the opinion that municipalities find it difficult to make a conclusion whether criteria for reclassification of assets from PPE to NCAHFS are met and therefore when reclassification must be done. Processes in public sector are slow and there is involvement of politicians. GRAP 100 could include a paragraph which explains difference between NCAHFS and inventories held for sale in the ordinary course of operations, especially if asset has previously been treated as PPE and now management intends to sell asset within 12 months after year end. Alternatively, NT could provide guidance on the matter (see below section 4, inventories). An example of this is when land is sold it could be classified under GRAP 100 or GRAP 12, depending on the circumstances and interpretation of GRAP</p>	<p>Noted. No further action required.</p> <p>Noted and agreed. The Board proposes amendments to the following aspects of GRAP 100:</p> <ul style="list-style-type: none"> • Clarification of when an asset is held for sale by providing additional examples of when an entity is committed to a binding sale agreement (eg outlining the approval processes in government, and the time periods involved). • Clarification of the difference between the application of GRAP 12 and GRAP 100. <p>The Board agreed to undertake a review of GRAP 100 as part of a GRAP simplification project. These issues will be considered as part of that project.</p> <p>These issues will also be communicated to National Treasury so that additional guidance can be included in the relevant GRAP Guide(s).</p>
5.2	Office of the Accountant-General	
	<p>The additional disclosure requirements in GRAP on Non-current assets held for sale and discontinued operations should not be eliminated as they are deemed to be useful. It is not foreseen that the cost of the additional disclosures will outweigh the benefit.</p>	<p>Noted. No further action required.</p> <p>The Board agreed to undertake a review of GRAP 100 as part of a GRAP simplification project.</p>

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6.	Specific matter for comment - Question 8	
	<i>Borrowing costs</i>	
	<i>3.15 The IASB concluded that borrowing costs should not be capitalised by small and medium-sized entities on the basis of feedback received that the cost of applying this approach outweighs the benefits. In 2008, the IPSASB re-considered its approach to borrowing costs and issued an Exposure Draft requiring the capitalisation of borrowing costs. Comment received as part of the public due process indicated that many respondents did not support the capitalisation of borrowing costs.</i>	
	<i>3.16 Locally, the Board has received informal feedback from stakeholders that the requirements to capitalise borrowing costs are onerous and difficult to apply in practice. In particular, stakeholders have said that it is difficult to allocate borrowing costs as many entities borrow centrally and cannot necessarily attribute borrowing costs to specific qualifying assets.</i>	
	<i>3.17 The Board would therefore appreciate respondents' views on whether the approach in GRAP 5 should be retained, i.e. borrowing costs are capitalised unless it is inappropriate to do so, or the approach in the IFRS for SMEs should be followed. The latter requires that all borrowing costs are expensed. Respondents should provide supporting rationale for their views.</i>	
6.1	Ducharme Consulting	
	<p>The approach in the IFRS for SMEs is supported. Due to loans be obtained to construct various assets and not specific assets, the allocation of borrowing costs incurred on centralised borrowings to specific qualifying assets is an onerous task. The cost and effort is un-due, but more important is fact that allocation of borrowing costs to specific qualifying assets is impracticable in most instances. Even though the cost of capitalised finance charges on assets is spread more evenly over the useful life of a depreciable asset (through depreciation) so as not to distort the income/fixed asset ratio with the construction of the asset, the benefit obtained would be more relevant for the private sector than the public sector, as the focus of the Public Sector is on service delivery and not profit generation.</p> <p>Conceptually the author believes that borrowing costs should not form part of initial costs incurred to obtain an asset: the financing decision should not affect the initial measurement of an asset. As an example, if borrowing costs are capitalised to a bridge built by an entity from external loans, such a bridge would reflect a higher initial cost than an exact same bridge built by using Grant monies (such as MIG). This results in an overstatement.</p>	<p>Noted and agreed. The Board agreed to amend the requirements in GRAP 5 to require the expensing of borrowing costs on the basis that (a) the sources of funding used in the public sector to construct assets should not result in different asset values being recorded, and (b) it is often impracticable to make an appropriate allocation given that funding is often arranged based on funding shortfall rather than for the construction of specific assets.</p>
6.2	Office of the Accountant-General	
	Borrowing costs must be capitalised. The PFMA restricts borrowings, with some exceptions.	Noted. The example provided is another indication

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	<p>The MFMA allows municipalities to borrow provided certain requirements are met. When public sector borrows money it is usually a substantial amount of money for example for constructing infrastructure. This spans a number of years and large amounts of interest is paid. At the end of the project a user will be interested to know how much was spend on the project in its entirety which includes interest associated with the qualifying asset. Capitalising borrowing costs reflects the cost of the qualifying asset.</p> <p>One can argue that finance leases are another form of borrowing. However, finance costs of a finance lease are reported separate from the capital portion. If applying the same principle, borrowing costs should not be capitalised. However, similar to other asset initial recognition principles, borrowing costs incurred relate directly to the qualifying asset and are incurred to bring the asset to its present location and condition. Thus borrowing cost must be capitalised as part of the cost of the asset.</p>	<p>of the inconsistency in the Standards (both locally and internationally) regarding the treatment of borrowing costs. It is particularly important to use a consistent basis for asset values as these values are often used as a basis for informing decision-making regarding tariffs. (The numbers are usually adjusted for tariff setting, but it is important that consistent values are used, regardless of the funding source.)</p> <p>Based on feedback received from a number of other respondents, the Board agreed to amend the requirements in GRAP 5 to require the expensing of borrowing costs on the basis that (a) the sources of funding used in the public sector to construct assets should not result in different asset values being recorded, and (b) it is often impracticable to make an appropriate allocation given that funding is often arranged based on funding shortfall rather than for the construction of specific assets.</p>
<p>7.</p>	<p>Specific matter for comment - Question 9</p> <p><i>3.20 Broadly, the IFRS for SMEs requires the use of:</i></p> <ul style="list-style-type: none"> <i>(a) fair value for investment property, including property interests held by a lessee in an operating lease, except where fair value cannot be determined reliably without undue cost and effort.</i> <i>(b) the cost model for:</i> <ul style="list-style-type: none"> <i>(i) investment properties that cannot be measured reliably at fair value without undue cost and effort;</i> <i>(ii) property, plant and equipment; and</i> <i>(iii) intangible assets.</i> <p><i>3.21 The Board would value input on whether any measurement alternatives should be eliminated from the Standards of GRAP in line with the requirements of the IFRS for SMEs, or whether measurement alternatives should be allowed. Respondents' should also consider if any of the measurement alternatives impact on the scope of any of the Standards, for example, investment properties (see paragraph 4.14).</i></p>	

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7.1	Ducharme Consulting	
	<p>The popular comment on the matter is that the current GRAP measurement alternatives should be allowed and kept, except with regards to IP: in principle, IP should always have a FV due to the investment nature thereof. Instances can exist where a reliable FV for IP cannot be determined (such as land currently held for undeterminable use), but the question should then be asked whether such land truly is IP (despite the requirement of GRAP 16 that such property should be treated as IP until change in intention evidenced by change in use). IP should either earn rentals or grow in capital value (which implies a determinable value which increases/decreases). If no such value can be determined or if no rental is earned, it is very unlikely to be IP. Also to determine FV as part of the subsequent measurement of IP is not as difficult/expensive as for e.g. PPE due to fact that qualified appraiser if not required for the valuation exercise. Despite the fact that certain entities lease out property to be used by the lessee for e.g. operation of correctional facilities (such facility of which a FV will very unlikely be determinable), such instances are very few in practice.</p>	<p>Noted. Even though there is merit in only allowing fair value from a conceptual standpoint, given the nature of some entities' investment properties it may not be feasible. For example, prisons, police stations and schools, held by the Department of Public Works and rented to other departments, may be classified as investment property. The fair value of such properties may be difficult to determine. As a result, no change is proposed to GRAP 16.</p>
7.2	Office of the Accountant-General	
	<p>Alternatives allow managers to manage. Managers are able to determine the most appropriate accounting policy without compromising on fair presentation. Skills should not be the key determinant in selecting an accounting policy. For example, for a metro with large infrastructure, revaluation model may be appropriate for measurement of property, plant and equipment. Moreover, measurement alternatives are needed as it is not always possible to determine cost.</p>	<p>Noted. The Board agreed to retain the measurement alternatives in GRAP 16, 17 and 102.</p>
8.	<p style="text-align: center;">Specific matter for comment - Question 10</p> <p><i>Re-assessment of useful lives, depreciation methods and residual values</i></p> <p>3.22 <i>The Board has received feedback from stakeholders that the annual assessment of residual values, useful lives and depreciation methods is onerous. This is particularly the case where entities hold large numbers of assets or they control complex assets such as infrastructure assets.</i></p> <p>3.23 <i>The IFRS for SMEs does not require an annual assessment of residual values, useful lives and depreciation method. It requires an assessment only when there has been an indication that there has been a change in circumstances (as outlined in 3.11 above).</i></p> <p>3.24 <i>The Board would therefore value comment particularly on whether:</i></p> <p style="padding-left: 40px;"><i>(a) An indicator based approach to assessing residual values, useful lives and depreciation methods is appropriate for the public sector?</i></p> <p style="padding-left: 40px;"><i>(b) The indicators outlined in the IFRS for SMEs are appropriate? Respondents should explain their views wherever appropriate.</i></p>	

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8.1	Ducharme Consulting	
	The author agrees with the indicators - an indicator based approach would be better for the assessment of residual values, useful lives and depreciation methods, as it has been found that annual review of useful lives, residual values, etc is too costly and sufficient manpower is usually not available at entities, furthermore small entities use assets for longer periods than what would necessary be the norm.	Noted and agreed. Based on comment received which suggested that using an indicator based approach would be less onerous than applying an annual test, the Board agreed to amend the requirements in GRAP 17 and 102 to allow useful lives, depreciation methods and residual values to be tested using an indicator-based approach. A specific set of indicators will nevertheless need to be developed as those in the IFRS for SMEs are not public sector specific.
8.2	Office of the Accountant-General	
	<p>a) Indicator based approach will be appropriate. However, a less onerous annual assessment can be in a form of completing a checklist with minimal or high level indicators which can be used as evidence for audit purposes. If results of the checklist exercise determine that a full review of the useful lives, residual values or depreciation methods is necessary only then should the full review be carried out by the entity.</p> <p>b) Indicators should be more public sector specific. In government, the numbers of assets held are vast and often complex. A streamlined approach to reassessing these must be implemented to reduce time, cost and effort.</p>	Noted and agreed. Based on comment received which suggested that using an indicator-based approach would be less onerous than applying an annual test, the Board agreed to amend the requirements in GRAP 17 and 102 to allow useful lives, depreciation methods and residual values to be tested using an indicator-based approach. A specific set of indicators will nevertheless need to be developed as those in the IFRS for SMEs are not public sector specific.
9.	<p style="text-align: center;">Specific matter for comment - Question 11 (Inventories)</p> <p><i>Disclosures</i></p> <p><i>4.3 The Board believes that disclosure of the circumstances that led to the reversal of any write-down would be useful information to provide users of the financial statements. Similarly, since inventories are measured at the lower of cost and net realisable value or current replacement cost in GRAP 12, it is useful to indicate to users whether any inventories are measured at fair value less estimated point-of-sale costs. As a result, the Board does not propose amending the disclosure requirements in GRAP 12.</i></p> <p><i>4.4 Do you agree with the Board's view? Please provide reasons for either agreeing or disagreeing with the Board's views.</i></p>	
9.1	Ducharme Consulting	
	Due to the nature of inventories held by municipalities, the reversal of write-downs happens	Noted. No change proposed.

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	infrequently. The author is, however, in agreement with the Boards view as the disclosure would indicate to users how well the entity performs its inventory management function.	
9.2	Office of the Accountant-General	
	<p>The additional disclosure requirements in GRAP on Inventories should not be eliminated as the disclosure of the circumstances that led to the reversal of any write down would be useful in providing users with an understanding of why the reversal was made.</p> <p>Government has a service mandate and the inventory valuations require slightly different measurement bases. Fair value less costs to sell and replacement cost needs to be retained for this purpose.</p>	Noted. No change proposed.
10.	Specific matter for comment - Question 12	
	<i>4.5 Are there any principles included in GRAP 12 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i>	
10.1	Ducharme Consulting	
	NT should provide guidance which explains difference between NCAHFS and inventories held for sale in the ordinary course of operations, especially if asset has previously been treated as PPE and now management intends to sell asset within 12 months after year end.	Noted. This will communicated to National Treasury (also see the response to question 5.1 above).
10.2	Office of the Accountant-General	
	Specific guidance identified by the National Treasury will be covered in the revised GRAP Guides. Detailed guidance already exists in the form of the Inventory Management Framework and Inventory Management Guide.	Noted. Suggestions have been made by respondents regarding additional areas that could be included in the National Treasury guidance (see response to questions 5.1 and 10.1 above).
11.	Specific matter for comment - Question 13	
	<p><i>Scope</i></p> <p><i>4.14 Many of the differences in the scope of the IFRS for SMEs and GRAP 16 and the classification of investment property arise from the different measurement approach adopted in the IFRS for SMEs. Whether the scope of the standard is appropriate will be informed by respondents' comments on the measurement alternatives outlined in paragraphs 3.18 to 3.20 above.</i></p> <p><i>Disclosures</i></p> <p><i>4.15 In issuing GRAP 16, the Board concluded that the additional disclosures outlined in paragraph 4.12 and 4.13 above are useful to users of the</i></p>	

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	<p><i>financial statements.</i></p> <p>4.16 The Board would, however, value comment on whether any of the disclosure requirements in GRAP 16 should be eliminated. Responses should consider or outline</p> <p>(a) the usefulness of the disclosures to users of the financial statements and</p> <p>(b) the cost of preparing this information.</p>	
11.1	Ducharme Consulting	
	<p>GRAP 16 Par 88(e) the fair value of investment property. In the exceptional cases described in paragraph .61, when an entity cannot determine the fair value of the investment property reliably, the entity shall disclose:</p> <p>(i) a description of the investment property,</p> <p>(ii) an explanation of why fair value cannot be determined reliably, and</p> <p>(iii) if possible, the range of estimates within which fair value is highly likely to lie.</p> <p>The use of the Cost model suggests that the fair value could not be obtained. (a) there would be no benefit for the user, as the fair value has no influence on the financial statements, further (b) by incurring the cost to estimate a fair value (by use of a valuer), would exceed the benefit, as there would be no change to the value of the Investment Property as presented on the face of the statement of financial position.</p>	<p>Noted. This paragraph applies when entities have elected to apply the fair value model in GRAP 16. In particular, this requirement caters for those instances where an entity measures all of its investment properties at fair value, but is unable to measure the fair value of some individual properties.</p> <p>The Board is of the view that this disclosure is useful given that fair value has been selected as the measurement basis for investment property. For an entity to be in a position to conclude that fair value cannot be estimated reliably (usually based on the variability of the cash flows), it should have made a number of estimates or calculations to come to that conclusion. As a result, those calculations are included in the disclosures to the financial statements. The Board did agreed, however, that the wording in GRAP 16 should be amended to clarify when these disclosures should be made.</p>
11.2	Office of the Accountant-General	
	<p>The additional disclosure requirements in GRAP on Investment Properties should not be eliminated as they are deemed to be useful. Essentially DPW, as custodian should provide these disclosures in order to effectively manage their investment property. Costs should be limited to once off systems modifications to enable proper disclosures. After that it should become routine for entities to disclose the financial information.</p>	<p>Noted. No further action required.</p>

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12.	Specific matter for comment - Question 14	
	<i>4.17 Are there any principles included in GRAP 16 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i>	
12.1	Ducharme Consulting	
	<p>GRAP 16.07 - .11 deals with when an asset is considered to be Investment property, specifically par 94 – 96 deals with Land for an undetermined use. Treasury should provide guidance as to when Land will be classified as PPE (under which circumstances), and when it should be classified as Investment property. For example a Municipality owns a piece of land next to an informal settlement. The chances are good that the piece of land will be overtaken by the informal settlement in the near future. The Municipality has does not have a determined use for the land, and it is currently not occupied.</p> <p>Also NT could include guidance on GRAP 16.12’ meaning of “insignificant” in terms of componentising IP and PPE separately.</p>	Noted. These issues will be communicated to the National Treasury.
12.2	Office of the Accountant-General	
	Specific guidance identified by the National Treasury will be covered in the revised GRAP Guides.	Noted. No further action required.
13.	Specific matter for comment - Question 15	
	<i>Componentisation of assets</i>	
	<i>4.23 The Board has received feedback from stakeholders that the componentisation of assets is onerous. The IFRS for SMEs adopts a less stringent approach than GRAP 17 as an entity is only required to separate an asset into its component parts where those parts have different useful lives. This will, at a minimum, ensure that the use of the assets is correctly reflected in the financial statements as the depreciation expense adequately reflects the use of the asset.</i>	
	<i>4.24 However, GRAP 17 requires an entity to identify and account for separate parts where they have a significant cost in relation to the asset as a whole. Each part is depreciated separately. This approach (a) ensures that the use of the asset is correct, and (b) facilitates better derecognition and recognition of parts of assets, e.g. when major components of assets are replaced.</i>	
	<i>4.25 While the Board believes that the approach in GRAP 17 is conceptually more correct, if the parts of the assets do not have different useful lives, there is no financial impact if the parts of the assets are not accounted for separately. Given the feedback from stakeholders that</i>	

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	<p><i>componentisation of assets is difficult, the Board believes that a pragmatic rather than a conceptual approach should be taken regarding the componentisation of assets. The Board therefore proposes that the approach in the IFRS for SMEs should be followed and that parts of assets should only be accounted for separately where their useful lives differ.</i></p> <p><i>4.26 The Board requests views on whether its proposal to follow the approach in the IFRS for SMEs is supported. Please provide reasons for supporting or disagreeing with its view.</i></p>	
13.1	Ducharme Consulting	
	<p>The componentisation model as per IFRS for SME's are supported, because rightly so that for the parts of the assets that do not have different useful lives, there is no financial impact if the parts of the assets are not accounted for separately. It is rather more costly for a small entity to manage (ex yearly re-estimation of usefull lives, depreciation methods), for example a pump station that has been divided into 20 different parts, and thus ending up with a huge Asset register, than having one item on a smaller manageable asset register. We however suggest the following hierarchy test:</p> <p>Componentise assets into separate components if:</p> <ol style="list-style-type: none"> 1) Useful lives of components differ; or 2) If useful lives of 2 or more assets are the same, but in components are significant in relation to total cost of asset, still account separately. <p>Reason for above is for the sake of derecognition/ depreciation changes (e.g. if it is later discovered that one component depreciates quicker/ slower than the other) of significant components in event where say one large component experiences impairment or different wear and tear.</p>	<p>Noted. The Board agreed to amend the Standards to require componentisation only where the useful lives of the components are different. The Board also agreed that a test of significance should be applied to ensure that only material components are identified.</p>
13.2	Office of the Accountant-General	
	<p>We agree with the Board. Componentisation is more relevant where the components of the asset have different useful lives. Essentially you want to depreciate the full asset correctly. Implementing the current GRAP requirement on componentisation results in undue cost and time.</p> <p>Should there be any need to replace a significant component of an item of Property plant and equipment, the approach followed in GRAP 17 paragraph 79 should be used for derecognition i.e.use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.</p>	<p>Noted and agreed. The Board agreed to amend the Standards to require componentisation only where the useful lives of the components are different. The Board also agreed that a test of significance should be applied to ensure that only material components are identified.</p>

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14.	Specific matter for comment - Question 16	
	<i>Disclosures</i>	
	<i>4.27 In issuing GRAP 17, the Board concluded that the additional disclosures outlined in paragraph 4.20 to 4.22 above are useful to users of the financial statements.</i>	
	<i>4.28 The Board would however value comment on whether any of the additional disclosure requirements in GRAP 17 should be eliminated. Responses should consider or outline</i>	
	<i>(a) the usefulness of the disclosures to users of the financial statements and</i>	
	<i>(b) the cost of preparing this information.</i>	
14.1	Ducharme Consulting	
	The disclosure requiring “(a) The carrying value of temporarily idle property, plant and equipment.”, This would be misleading to users of the financial statements, for the following reasons: a) No guidance is provided as to what is considered “Temporary idle”, further an asset may have been idle for 10 months of the year, but not at year-end, then the disclosure would not be required.	Noted. Disclosure of temporarily idle property, plant and equipment is encouraged. (It was amended from required to encouraged disclosure in the improvements project.) Since it is encouraged, entities would make their own assessment as to whether there were any material items of property, plant and equipment that were idle during the year and whether this information is likely to be users of the financial statements. It may be useful if it provides information about an entity’s asset management. The Board did agreed, however, that the wording in the Standard could be improved to reflect the intention of the disclosure.
14.2	Office of the Accountant-General	
	The additional disclosure requirements in GRAP on Property, Plant and Equipment should not be eliminated as they are deemed to be useful. However, the requirement that states that where the cost model is used, the fair value of property, plant and equipment in cases in which this is materially different from the carrying amount must be disclosed might be defeating the purpose of incurring costs to measure fair value.	Noted. This disclosure is merely encouraged. It may be useful to users of the financial statements where entities have this information available.

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15.	Specific matter for comment - Question 17 <i>4.29 Are there any principles included in GRAP 17 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i>	
15.1	Ducharme Consulting	
	Guidance on meaning of “significant” (if current GRAP 17 componentisation approach remains unchanged) could be provided.	Noted. While this may always remain an area of judgement, this will be addressed as part of the change in approach to componentisation (see 14.1 above).
15.2	Office of the Accountant-General	
	Specific guidance identified by the National Treasury will be covered in the revised GRAP Guides.	Noted. No further action required.
16.	Specific matter for comment - Question 18 <i>Research and development costs</i> <i>4.36 The IASB noted that it did not require the capitalisation of development costs as it was difficult for small and medium-sized entities to determine whether assets would be commercially viable in the future. It noted that users of the financial statements would not find the different treatment of research and development costs useful.</i> <i>4.37 Entities in the public sector may undertake significant research and development activities. Unlike in the private sector, many intangible assets may be developed for use by the entity in providing goods and services to the public, including for internal use. The Board believes that:</i> <ul style="list-style-type: none">· <i>entities in the public sector are able to make the necessary assessments required in GRAP 102 to capitalise development costs; and</i>· <i>the capitalisation of costs incurred to develop assets that are used in the delivery of goods and services should be capitalised since it better reflects the use of public resources.</i> <i>4.38 The Board therefore proposes to retain the approach in GRAP 102 and require the capitalisation of development costs where specific criteria are met. Do you agree with this view? Please provide reasons for supporting or disagreeing with the Board's view.</i>	

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16.1	Ducharme Consulting	
	None	Noted. No further action required.
16.2	Office of the Accountant-General	
	We agree with the Board. Capitalisation of development costs must be retained. For example, entities such as the Department of Science and Technology and its public entities spend a significant amount of money on research and development. Development costs incurred meet the definition of an asset and this will reflect the economic effects of having incurred the costs. Therefore it is appropriate to capitalise their development costs.	Noted and agreed. No further action required.
17.	Specific matter for comment - Question 19 <i>Useful lives of intangible assets</i> <i>4.39 Indefinite life intangible assets result in complex accounting requirements in the Standards of GRAP, particularly with regard to impairment testing. A significant indefinite life intangible asset is goodwill, calculated as the difference between the fair value of the assets acquired and liabilities assumed and proceeds paid for an acquiree in a transfer of functions. The Board has recently issued a proposed Standard of GRAP on transfers of functions that does not allow the recognition of goodwill.</i> <i>4.40 Indefinite life intangible assets typically comprise goodwill and other assets where the useful life is indefinite. With the Board's proposal that goodwill should not be recognised, a potential opportunity exists to simplify GRAP 102 if no other indefinite life intangible assets exist. To inform the Board's decision, it would value feedback from respondents on the existence of intangible assets in the public sector, other than goodwill, that have an indefinite useful life. Where indefinite life intangible assets exist, it would be useful if respondents provided a detailed description of the intangible assets, how they arise and why they have an indefinite life.</i> <i>4.41 The IFRS for SMEs requires that if the amortisation period of an intangible asset cannot be reliably determined, it is amortised over 10 years. While prescribing specific thresholds simplifies the application of the IFRS for SMEs, it is inappropriate for Standards of GRAP that are principle-based. The Board believes that entities should make an estimate of the useful life of the asset, and disclose any uncertainty regarding this assessment in the financial statements.</i>	
17.1	Ducharme Consulting	
	Software such as accounting application packages are often not replaced until need arises for replacement, e.g. certain municipalities still use the same software as used 10 years ago and it has continued to be updated every year for new requirements. Other examples include servitudes purchased by municipality.	Noted. Software that is continually upgraded is an example of a definite life intangible asset, and the useful life should be assessed based on

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		management's best estimate of the period over which it intends using the asset. As servitudes are prevalent at a local government level, the Board agreed to retain the requirements in GRAP 102 for indefinite life intangible assets.
17.2	Office of the Accountant-General	
	We did not come up with an example of an intangible asset that has an indefinite useful life.	Noted. See the response to 17.1 above.
18.	Specific matter for comment - Question 20 <i>4.42 The Board does not support prescribing specific thresholds in the Standards of GRAP and therefore does not propose amending GRAP 102. Do you agree with this view? Please provide reasons for agreeing or disagreeing.</i>	
18.1	Ducharme Consulting	
	None.	Noted. No further action required.
18.2	Office of the Accountant-General	
	We agree with the Board. Prescribing specific thresholds goes against a principle-based approach and leads to more inaccurate assessment of future potential. The use of a threshold does not necessarily reflect the period for which the entity will use the asset.	Noted and agreed. No further action required.
19.	Specific matter for comment - Question 21 <i>4.44 Do you agree with the Board's view that no changes are necessary to the disclosures in GRAP 102? Please provide reasons for agreeing or disagreeing with the Board.</i>	
19.1	Ducharme Consulting	
	None	Noted. No further action required.
19.2	Office of the Accountant-General	
	The additional disclosure requirements in GRAP on Intangible Assets should not be eliminated as they are deemed to be useful. The disclosure requirements in GRAP 102 are not significantly more onerous than those in the IFRS for SMEs.	Noted. No further action required.
20.	Specific matter for comment - Question 22 <i>4.45 Are there any principles included in GRAP 102 that should specifically be addressed in the implementation guidance issued by the National</i>	

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	<i>Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, wherever relevant, refer to the specific paragraphs in the Standard.</i>	
20.1	Ducharme Consulting	
	None	Noted. No further action required.
20.2	Office of the Accountant-General	
	Specific guidance identified by the National Treasury will be covered in the revised GRAP Guides.	Noted. No further action required.
21.	Specific matter for comment - Question 23	
	<i>Disclosures</i>	
	<i>4.48 In issuing GRAP 101, the Board concluded that the additional disclosures outlined in paragraph 4.47 above are useful to users of the financial statements.</i>	
	<i>4.49 The Board would however value comment on whether any of the additional disclosure requirements in GRAP 101 should be eliminated. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.</i>	
21.1	Ducharme Consulting	
	None	Noted. No further action required.
21.2	Office of the Accountant-General	
	The additional disclosure requirements in GRAP on Biological Assets are deemed to be useful. However, the concerns are the time and effort required to produce the information and whether entities have the relevant systems to comply. Item (h) under cost model states “GRAP 101 requires disclosure of a range of estimates within which fair value is likely to lie”. If one was unable to determine fair value, it is highly unlikely that one can determine a reasonable range of estimates within which fair value is likely to lie.	Noted. The Board is of the view that the same considerations apply for the use of the cost for investment properties where fair value cannot be determined (see the response to question 11.1 above).
22.	Specific matter for comment - Question 24	
	<i>4.50 Are there any principles included in GRAP 101 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i>	

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22.1	Ducharme Consulting	
	None	Noted. No further action required.
22.2	Office of the Accountant-General	
	Specific guidance identified by the National Treasury will be covered in the revised GRAP Guides.	Noted. No further action required.
23.	Specific matter for comment - Question 25	
	<i>Disclosures</i>	
	<i>4.54 In issuing GRAP 26, the Board concluded that the additional disclosures outlined in paragraph 4.53 above are useful to users of the financial statements.</i>	
	<i>4.55 The Board would however value comment on whether any of the additional disclosure requirements in GRAP 26 should be eliminated. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.</i>	
23.1	Ducharme Consulting	
	<p>The above disclosures are as follows, with comments included where relevant:</p> <p>GRAP 26 requires the following additional disclosures.</p> <p>(a) For each material impairment loss recognised or reversed (for an asset or CGU):</p> <p>(iii) for an asset, the nature of the asset and which reportable segment is affected; <u>AC: Reportable segment should not be required as of yet as segment reporting is not yet requirement.</u></p> <p>(iv) for a CGU, a description of the CGU, amount of the impairment loss recognised or reversed by class of assets (and by reported segment), and if the aggregation of assets has changed since last year, the reasons for the change. <u>AC: Reportable segment should not be required as of yet as segment reporting is not yet requirement.</u></p> <p>(b) Whether the recoverable amount was determined using fair value less costs to sell or value in use.</p> <p>(c) The manner in which fair value less costs to sell and value in use is determined.</p>	<p>Noted. GRAP 21 and 26 include requirements that link to other Standards of GRAP that are not yet effective. (This is consistent with the Board's due process for the development of Standards of GRAP.)</p> <p>The Board has recently approved a revised GRAP 18, and will begin consultations shortly on the proposed implementation date of the Standard.</p> <p>As a result, no change is proposed.</p>

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	(d) Key assumptions used in determining the recoverable amounts of assets.	
23.2	Office of the Accountant-General	
	The additional disclosure requirements in GRAP on Impairment of Assets should not be eliminated as they are deemed to be useful. It is not foreseen that the cost of the additional disclosures will outweigh the benefit. Impairment of non-cash-generating assets is tailored for public sector.	Noted. No further action required.
24.	Specific matter for comment - Question 26	
	<i>4.56 Are there any principles included in GRAP 21 (or GRAP 26) that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i>	
24.1	Ducharme Consulting	
	The author agrees with the Boards view, as it would indicate to users how well the entity performs its asset management function, eg. if the reversal of the write-down is due to errors made by Municipality, the matter could be addressed by the Municipal Council.	Noted and agreed. No further action required.
24.2	Office of the Accountant-General	
	Specific guidance identified by the National Treasury will be covered in the revised GRAP Guides.	Noted. No further action required.
25.	Specific matter for comment - Question 27	
	<i>Disclosures</i>	
	<i>5.3 In issuing GRAP 19, the Board concluded that the additional disclosures outlined in paragraph 5.2 above are useful to users of the financial statements.</i>	
	<i>5.4 The Board would however value comment on whether any of the additional disclosure requirements in GRAP 19 should be eliminated. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.</i>	
25.1	Ducharme Consulting	
	None.	Noted. No further action required.

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25.2	Office of the Accountant-General	
	The additional disclosure requirements in GRAP on Liabilities, Contingent Liabilities and Contingent Assets should not be eliminated as they are deemed to be useful. It is not foreseen that the cost of the additional disclosures will outweigh the benefit.	Noted and agreed. No further action required.
26.	Specific matter for comment - Question 28	
	<i>5.5 Are there any principles included in GRAP 19 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i>	
26.1	Ducharme Consulting	
	If the municipality can prove that the previous year's assumptions included in the actuarial valuation report are still valid (from a materiality perspective) then the projections included by actuary can be used going forward – with a significant cost saving for the municipality.	Noted. This response appears to relate to question 29 (see the response to question 27.1 below).
26.2	Office of the Accountant-General	
	Specific guidance identified by the National Treasury will be covered in the revised GRAP Guides.	Noted. No further action required.
27.	Specific matter for comment - Question 29	
	<i>Measuring defined benefit obligations</i>	
	<i>5.20 Employee costs and, in particular, retirement costs resulting from defined benefit plans, are a significant expense for entities in the public sector. The approach adopted to measure these plans should adequately reflect their impact on entities' financial performance and financial position. The alternative approach required in the IFRS for SMEs does not consider future salary increases, nor does it consider in-service mortality. Ignoring both these variables would have a significant impact on the measurement of the plan. Depending on the circumstances, ignoring salary increases means that the liability may be understated, while ignoring in-service mortality may mean that the liability is overstated. As the projected unit credit method considers all variables in determining the value of the defined benefit obligation, the Board believes that this approach provides a more accurate measurement of the liability.</i>	
	<i>Alternative accounting treatments</i>	
	<i>5.21 In developing GRAP 25, the Board simplified the requirements of IAS 19 wherever possible. This resulted in the Board eliminating alternative accounting treatments wherever possible. Apart from simplifying the requirements of the Standard, it improves comparability across entities'</i>	

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	<p><i>financial statements. As a result of the extensive consultation during the development of GRAP 25, the Board does not support the following alternative accounting treatments in the IFRS for SMEs:</i></p> <p><i>(a) an alternative approach to measuring defined benefit obligations; and</i></p> <p><i>(b) recognition of actuarial gains and losses either in surplus or deficit or comprehensive income.</i></p> <p><i>Guidance and disclosures – IFRS for SMEs</i></p> <p><i>5.22 The IFRS for SMEs provides guidance on the approach to be followed in measuring defined benefit plans in the periods between actuarial valuations as well as specific disclosure requirements (see paragraph 5.14 and 5.15 above). As this is an area that practitioners find difficult, the Board believes that this guidance, along with the related disclosures, could usefully be included in GRAP 25.</i></p> <p><i>5.23 Do you agree with the Board? Please provide reasons for either agreeing or disagreeing.</i></p>	
27.1	Ducharme Consulting	
	If the municipality can prove that the previous year's assumptions included in the actuarial valuation report are still valid (from a materiality perspective) then the projections included by actuary can be used going forward – with a significant cost saving for the municipality	Noted. This may be true for certain elements of the valuation. It may however be difficult, however, for municipalities to prove that interest cost and the return on plan asset (if any) for the current year are not materially different from the actuaries' last report, particularly in a high interest environment.
27.2	Office of the Accountant-General	
	We agree with the Board. Alternatives in relation to Defined Benefit Plans may result in understatement of the obligation.	Noted and agreed. No further action required.
28.	<p>Specific matter for comment - Question 30</p> <p><i>Disclosures – GRAP 25</i></p> <p><i>5.24 In issuing GRAP 25, the Board concluded that the additional presentation and disclosure requirements outlined in paragraph 5.16 and 5.17 above are useful to users of the financial statements. The narrative disclosure, sensitivity analysis and historical trend information assist users in understanding the assumptions used in measuring the plan and the impact any changes in assumption may have on an entity's financial position and performance.</i></p> <p><i>5.25 The Board would however value comment on whether any of the additional disclosure requirements in GRAP 25 should be eliminated, if any. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.</i></p>	

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28.1	Ducharme Consulting	
	None.	Noted. No further action required.
28.2	Office of the Accountant-General	
	The additional disclosure requirements in GRAP on Employee Benefits should not be eliminated as they are deemed to be useful. It is not foreseen that the cost of the additional disclosures will outweigh the benefit.	Noted and agreed. No further action required.
29.	Specific matter for comment - Question 31	
	<i>5.26 Are there any principles included in GRAP 25 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i>	
29.1	Ducharme Consulting	
	None.	Noted. No further action required.
29.2	Office of the Accountant-General	
	There is currently no guidance on GRAP 25. The guidance will be developed by the National Treasury once the GRAP becomes effective.	Noted. No further action required.
30.	Specific matter for comment - Question 32	
	<i>Straight-lining of operating leases</i>	
	<i>6.6 The straight-lining of leases requires a high degree of judgement in applying the approaches in GRAP 13 and the IFRS for SMEs. While the approach in the IFRS for SMEs may be simpler, entities still need to assess and demonstrate whether the escalations compensate the lessor for expected inflationary cost increases. If this cannot be determined, the lease must be straight-lined.</i>	
	<i>6.7 The Board would appreciate comment on the approach in the IFRS for SMEs in straight-lining leases, particularly whether it would be simpler to apply than the current requirements of GRAP 13.</i>	
30.1	Ducharme Consulting	
	The approach suggested by IFRS for SME's would be a more simple approach - in practice often the increase in contracts have been linked to CPIX, and practically it would be very	Noted. Given that such increases may already be excluded from the straight-lining of lease

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	difficult to determine future interest rate increases to determine the expenditure from the straight lining of operating leases.	payments under the existing requirements of GRAP 13, because they are variable and consequently viewed as contingent rent, and because of the IASB impending revision of IAS 17 on which GRAP 13 is based, the Board did not propose any changes to GRAP 13.
30.2	Office of the Accountant-General	
	IFRS for SMEs straight-lining is clearer and practically more suited to public sector conditions. This will encourage consistency in application and comparability.	Noted. See the response to 30.1 above.
31.	Specific matter for comment - Question 33 <i>6.9 The Board would however value comment on whether any of the additional disclosure requirements in GRAP 13 should be eliminated. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.</i>	
31.1	Ducharme Consulting	
	None	Noted. No further action required.
31.2	Office of the Accountant-General	
	The additional disclosure requirements in GRAP on Leases should not be eliminated as they are deemed to be useful. It is not foreseen that the cost of the additional disclosures will outweigh the benefit.	Noted and agreed. No further action required.
32.	Specific matter for comment - Question 34 <i>6.10 Are there any principles included in GRAP 13 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i>	
32.1	Ducharme Consulting	
	We are of the opinion that NT could provide guidance on the treatment of RDP construction contracts.	Noted. This issue was raised with the Board during workshops held when the first improvements project took place. As a result, guidance was included in GRAP 11, although no specific mention was made of RDP houses. This issue will be

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		communicated to National Treasury, however, as there have been changes to the legislative environment in this regard.
32.2	Office of the Accountant-General	
	Specific guidance identified by the National Treasury will be covered in the revised GRAP Guides.	Noted. No further action required.
33.	Specific matter for comment - Question 35	
	<i>7.6 Based on the discussions above, the Board believes that no changes are required to GRAP 9 and GRAP 11.</i>	
	<i>7.7 Do you agree with the Board? Please provide reasons for either agreeing or disagreeing.</i>	
33.1	Ducharme Consulting	
	None	Noted. No further action required.
33.2	Office of the Accountant-General	
	We agree with the Board. The disclosures required by GRAP 9 and GRAP 11 allow the user of the financial statements the opportunity to make informed analysis of the financial transactions related to revenues.	Noted and agreed. No further action required.
34.	Specific matter for comment - Question 36	
	<i>7.8 Are there any principles included in GRAP 9 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i>	
34.1	Ducharme Consulting	
	None	Noted. No further action required.
34.2	Office of the Accountant-General	
	Specific guidance identified by the National Treasury will be covered in the revised GRAP Guides.	Noted. No further action required.
35.	Specific matter for comment - Question 37	
	<i>7.14 Accounting for non-exchange revenue is one of the most significant accounting issues in the public sector. GRAP 23 provides detailed guidance on how to recognise and measure the various elements that arise from non-exchange revenue transactions. In addition, it provides</i>	

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	<p><i>specific guidance about when conditions imposed on a transfer of resources give rise to an obligation. Consequently, the Board believes that the requirements of GRAP 23 should be retained.</i></p> <p><i>7.15 Do you agree with the Board? Please provide reasons for either agreeing or disagreeing.</i></p>	
35.1	Ducharme Consulting	
	None	Noted. No further action required.
35.2	Office of the Accountant-General	
	We agree with the Board. The main contributor of revenue to public sector entities comes from non exchange revenue and thus its accounting requirements are relevant to the public sector.	Noted and agreed. No further action required.
36.	Specific matter for comment - Question 38	
	<p><i>7.16 Are there any principles included in GRAP 23 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i></p>	
36.1	Ducharme Consulting	
	<p>GRAP 23.13 dealing with the difference between conditions & restrictions, states that: “Stipulations relating to a transferred asset may be either conditions or restrictions. While conditions and restrictions may require an entity to use or consume the future economic benefits or service potential embodied in an asset for a particular purpose (performance obligation) on initial recognition, only conditions require that future economic benefits or service potential be returned to the transferor in the event that the stipulation is breached (return obligation).”</p> <p>Issue 1 – Par 12-24 of GRAP 23, seems to relate to Transferred Assets (ie. PPE, IA etc) (Ie, A department purchases an asset, and transfers the ASSET to an entity.)</p> <p>This is not the case, as it can happen that transfers in CASH can be made to an entity for the purpose of acquiring a certain asset (ie. PPE, IA etc), OR a transfer can be made to an entity to incur specific operational expenditure (For example research at a Museum by scientists).</p> <p>The implementation guidance of GRAP 23 should address the meaning of the term “Transferred Asset”, being not only a physical asset, but a grant for a specific purpose (conditional grant).</p> <p>Issue 2:</p>	Noted. The intention in using the term, “transferred asset”, in GRAP 23, is to include any asset received or to be received by an entity (both monetary and non-monetary). This issue will be communicated to National Treasury for inclusion in their GRAP Guides.

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	<p>GRAP 23.19 States that: “In determining whether a stipulation is a condition or a restriction, the entity considers whether a requirement to return the asset or other future economic benefits or service potential is enforceable and would be enforced by the transferor. If the transferor could not enforce a requirement to return the asset or other future economic benefits or service potential, the stipulation fails to meet the definition of a condition and will be considered a restriction. If past experience with the transferor indicates that the transferor never enforces the requirement to return the transferred asset or other future economic benefits or service potential when breaches have occurred, then the recipient entity may conclude that the stipulation has the form but not the substance of a condition, and is, therefore, a restriction. If the entity has no experience with the transferor, or has not previously breached stipulations that would prompt the transferor to decide whether to enforce a return of the asset or other future economic benefits or service potential, and it has no evidence to the contrary, it would assume that the transferor would enforce the stipulation and, therefore, the stipulation meets the definition of a condition.</p> <p>Additional implementation guidance should be provided by NT as to what constitutes a condition:</p> <p>For example: Does a requirement to provide reports at certain intervals for a research project constitute a condition, or is the condition, that the research paper should only meet the final deadline.</p> <p>Further, NT should provide guidance what to do in the scenario where an entity had recognised revenue from a grant in the current year, and where the Department in the following year, demands back any unspent monies on conditional grants.</p>	<p>Noted. This is an area that has proved difficult to apply in practice. The National Treasury is in the process of developing a GRAP Guide for this Standard, and this comment will be forwarded to them for consideration in finalising the Guide.</p>
36.2	Office of the Accountant-General	
	Specific guidance identified by the National Treasury will be covered in the revised GRAP Guides.	Noted. No further action required.
37.	<p>Specific matter for comment - Question 39</p> <p><i>8.4 The IASB does not require the recycling of exchange differences to profit or loss as this approach does not require entities to track the exchange differences after recognition.</i></p> <p><i>8.5 While recognition in surplus or deficit (profit or loss) is conceptually sound, the Board would value input from users on whether the requirement to recycle exchange differences to surplus or deficit is onerous.</i></p>	
37.1	Ducharme Consulting	

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	None	Noted. No further action required.
37.2	Office of the Accountant-General	
	We agree with the Board. The information in the Statement of Changes in Net Assets is useful. The surplus or deficit should only be recognised when the investment in the foreign operation is disposed of. GRAP 4 requirements should be retained. Tracking and accumulating exchange differences from year to year until a foreign operation is disposed can be onerous particularly for entities that have many foreign operations. Exchange differences are accumulated in the Statement of Changes in Net Assets as these increase or decrease the value of the foreign operation.	Noted. As the occurrence of these types of arrangements is limited, no change is proposed to GRAP 4.
38.	Specific matter for comment - Question 40 <i>8.7 The Board would however value comment on whether any of the additional disclosure requirements in GRAP 4 should be eliminated, if any. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.</i>	
38.1	Ducharme Consulting	
	None.	Noted. No further action required.
38.2	Office of the Accountant-General	
	Additional disclosures of foreign currency translation are useful. Public sector transacts with foreign donors and foreign donors often require additional information, as required by the GRAP.	Noted and agreed. No further action required.
39.	Specific matter for comment - Question 41 <i>8.8 Are there any principles included in GRAP 4 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i>	
39.1	Ducharme Consulting	
	None.	Noted. No further action required.
39.2	Office of the Accountant-General	
	Specific guidance identified by the National Treasury will be covered in the revised GRAP Guides.	Noted. No further action required.

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40.	Specific matter for comment - Question 42	
	<i>8.11 There may be limited instances in which any entity is able to demonstrate that income, expenses and inflation were approximately equal throughout the period. The Board is therefore of the view that the current approach in GRAP 10 should be retained and use of average rates should not be permitted.</i>	
	<i>8.12 Do you agree with the Board? Please provide reasons for either agreeing or disagreeing.</i>	
40.1	Ducharme Consulting	
	None.	Noted. No further action required.
40.2	Office of the Accountant-General	
	We agree with the Board. Using average rate will not result in fair presentation.	Noted. No further action required.
41.	Specific matter for comment - Question 43	
	<i>8.13 Are there any principles included in GRAP 10 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i>	
41.1	Ducharme Consulting	
	None.	Noted. No further action required.
41.2	Office of the Accountant-General	
	GRAP 10 is currently not relevant in South Africa. If ever required, a GRAP 10 guideline will be developed, but currently it is not regarded as a necessity.	Noted. No further action required.
42.	Specific matter for comment - Question 44	
	<i>8.16 The Board believes that the additional considerations in GRAP 14 are useful to users of the financial statements as they ensure that all relevant information is provided in the financial statements for a particular period. As a result, the Board does not propose any amendment to GRAP 14.</i>	
	<i>8.17 Do you agree with the Board? Please provide reasons for either agreeing or disagreeing with the proposal.</i>	
42.1	Ducharme Consulting	
	None.	Noted. No further action required.
42.2	Office of the Accountant-General	

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	We agree with the Board. It is useful to users to be provided with additional considerations.	Noted. No further action required.
43.	Specific matter for comment - Question 45	
	<i>8.18 Are there any principles included in GRAP 14 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i>	
43.1	Ducharme Consulting	
	None.	Noted. No further action required.
43.2	Office of the Accountant-General	
	Specific guidance identified by the National Treasury will be covered in the revised GRAP Guides.	Noted. No further action required.
44.	Specific matter for comment - Question 46	
	<i>9.9 The International Public Sector Accounting Standards Board (IPSASB) is in the process of developing a conceptual framework for the public sector. The conceptual framework, which will be completed in phases, will identify and address:</i>	
	<ul style="list-style-type: none"> • <i>the users of general purpose financial statements in the public sector;</i> • <i>qualitative characteristics of financial statements;</i> • <i>elements of the financial statements and their recognition criteria;</i> • <i>presentation and disclosure; and</i> • <i>measurement.</i> 	
	<i>9.10 As a result of the ongoing work at the IPSASB, the Board believes that it would be inappropriate to make any significant amendments to the current GRAP Framework until the conceptual framework project has been completed by the IPSASB.</i>	
	<i>9.11 The Board would value comment on the issue outlined below. Responses to this issue will be provided to the IPSASB for consideration in its conceptual framework project and may be used in any future revisions the Board may make to GRAP Framework.</i>	
	<i>9.12 The IFRS for SMEs prescribes a default measurement approach for assets and liabilities, i.e. cost, unless indicated otherwise. In the Standards of GRAP, most assets and liabilities (with the exception of financial instruments and assets that are part of an agricultural activity) are measured at cost if acquired in an exchange transaction and fair value if acquired in a non-exchange transaction. Subsequent measurement is specified in individual Standards of GRAP.</i>	

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	<i>9.13 The Board believes that the measurement requirements in the Standards of GRAP are well understood. Nevertheless, the Board would appreciate views on whether a default measurement approach, similar to the IFRS for SMEs, would be useful to preparers and users of the financial statements.</i>	
44.1	Ducharme Consulting	
	None	Noted. No further action required.
44.2	Office of the Accountant-General	
	A default measurement approach is not supported. Each standard is developed with the most appropriate measurement bases. Management must determine the most appropriate accounting policy in line with the standard requirements. This complements the principle-based accounting approach.	Noted and agreed. If the approach to include the measurement alternatives in the current requirements of the individual Standards of GRAP is more readily understood, no change is proposed to the Standards.
45.	<p>Specific matter for comment - Question 47</p> <p><i>Components of financial statements</i></p> <p><i>10.11 The components that comprise the financial statements prepared using the IFRS for SMEs and the Standards of GRAP differ. The different components are appropriate in the context of the objective of financial statements prepared using Standards of GRAP and those prepared using the IFRS for SMEs. The Board is therefore of the view that it should not introduce or remove any components of the financial statements for the following reasons.</i></p> <p><i>(a) Comparison of budget and actual results: This comparison is important for the public sector since it promotes and enhances accountability over the resources received by an entity during a period.</i></p> <p><i>(b) Statement of income and retained earnings: In developing Standards of GRAP, the Board eliminates alternative accounting treatments where possible. The introduction of an alternative statement would not achieve comparability across entities' financial statements. The inclusion of an additional statement would also increase the complexity of the Standard.</i></p> <p><i>10.12 Do you agree with the Board's view? Please provide reasons for either agreeing or disagreeing.</i></p>	
45.1	Ducharme Consulting	
	We are in agreement with the board's view – Comparison to budgeted amounts does promote and enhance accountability & agreed that introducing a statement of comprehensive income would hinder the comparability of results between entities.	Noted and agreed. No further action required. The Board will be in a better position to consider a statement of comprehensive income once the IPSASB has completed the conceptual framework project.

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45.2	Office of the Accountant-General	
	<p>We agree with the board.</p> <p>Comparison of actual results to budget results promotes accountability and simplifies the performance evaluation process. This is especially important for the public sector. Thus this component of the financial statements should not be removed. The information is particularly useful for planning and to creditors.</p> <p>It is not deemed necessary to include an additional statement.</p>	Noted and agreed. No further action required.
46.	<p>Specific matter for comment - Question 48</p> <p><i>10.13 During the Board's Improvements Project, the requirements to depart from the Standards of GRAP to achieve fair presentation was again debated. Based on circumstances in the public sector, the Board concluded that departures should only be made where legislation requires such a departure. Therefore, the Board does not propose any amendments to the requirements of GRAP 1 in this regard.</i></p> <p><i>10.14 Do you agree with the Board's view? Please provide reasons for either agreeing or disagreeing.</i></p>	
46.1	Ducharme Consulting	
	None	Noted. No further action required.
46.2	Office of the Accountant-General	
	We agree with the board. Legislation has more authority than standards of GRAP. Departures to achieve fair presentation must only be allowed where legislation requires such departure.	Noted. No further action required.
47.	<p>Specific matter for comment - Question 49</p> <p><i>Disclosures</i></p> <p><i>10.15 In issuing GRAP 1, the Board concluded that the additional disclosures outlined in paragraph 10.7 and 10.8 above are useful to users of the financial statements.</i></p> <p><i>10.16 The Board would however value comment on whether any of these additional disclosures in GRAP 1 should be eliminated. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.</i></p>	
47.1	Ducharme Consulting	
	None	Noted. No further action required.

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47.2	Office of the Accountant-General	
	The additional disclosure requirements in GRAP on Presentation of Financial Statements should not be eliminated as they are deemed to be useful. It is not foreseen that the cost of the additional disclosures will outweigh the benefit.	Noted and agreed. No further action required.
48.	Specific matter for comment - Question 50	
	<i>10.17 Are there any principles included in GRAP 1 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i>	
48.1	Ducharme Consulting	
	None	Noted. No further action required.
48.2	Office of the Accountant-General	
	Specific guidance identified by the National Treasury will be covered in the revised GRAP Guides.	Noted. No further action required.
49.	Specific matter for comment - Question 51	
	<i>10.22 The Board would value comment on whether GRAP 3 could be clarified to state that a change from fair value to cost, or vice versa, due to the availability of information, is not a change in accounting policy.</i>	
49.1	Ducharme Consulting	
	GRAP 3 defines “Accounting policies,” as “the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.”. When a specific measurement base (for example from cost to fair value) changes, it should be treated as a change in the accounting policy, whether the change is due to information being available or not.	Noted. The Board agreed that the clarification may be useful, and supports the view in the IFRS for SMEs. The Board also agreed that specific examples should be provided and agreed that the following example may be appropriate: If an entity measures investment properties at fair value, but cannot determine the fair value of an individual property, measuring that individual property at cost does not result in a change in accounting policy as all other investment property is measured at fair value.

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49.2	Office of the Accountant-General	
	Practical examples are required to understand the rationale of the Board for stating that change in fair value to cost or vice versa due to the availability of information is not a change in accounting policy.	Noted. The Board agreed that the clarification may be useful, and supports the view in the IFRS for SMEs. The Board also agreed that specific examples should be provided and agreed that the following example may be appropriate: If an entity measures investment properties at fair value, but cannot determine the fair value of an individual property, measuring that individual property at cost does not result in a change in accounting policy as all other investment property is measured at fair value.
50.	Specific matter for comment - Question 52	
	<i>10.24 The Board would however value comment on whether any of the additional disclosure requirements in GRAP 3 should be eliminated. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.</i>	
50.1	Ducharme Consulting	
	None	Noted. No further action required.
50.2	Office of the Accountant-General	
	The additional disclosure requirements in GRAP on Accounting policies, change in accounting estimates and errors should not be eliminated as they are deemed to be useful. It is not foreseen that the cost of the additional disclosures will outweigh the benefit.	Noted and agreed. No further action required.
51.	Specific matter for comment - Question 53	
	<i>10.25 Are there any principles included in GRAP 3 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i>	
51.1	Ducharme Consulting	
	None	Noted. No further action required.

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51.2	Office of the Accountant-General	
	The additional disclosure requirements in GRAP on Accounting policies, change in accounting estimates and errors should not be eliminated as they are deemed to be useful. It is not foreseen that the cost of the additional disclosures will outweigh the benefit.	Noted and agreed. No further action required.
52.	<p>Specific matter for comment - Question 54</p> <p><i>10.29 In developing GRAP 2, the Board eliminated alternative accounting treatments where possible, based on comment received during the public consultation process. The Board therefore believes that the current requirements of GRAP 2 are appropriate for the public sector and should be retained, i.e. the direct method is used to prepare cash flow statements, supplemented with a reconciliation of the surplus or deficit for the year to the net cash from operating activities. It was noted during the initial consultation on GRAP 2, that preparers of consolidated financial statements found the cash flow information on a direct basis more useful. The additional guidance provided in GRAP 2 is useful to larger public sector entities.</i></p> <p><i>10.30 Do you agree with the Board's view? Please provide reasons for either agreeing or disagreeing.</i></p>	
52.1	Ducharme Consulting	
	The author is in agreement with the Boards view, the direct method is more useful. However, a clarification of the correct format would be useful, as the format per GRAP2 & IAS 7 differs for the direct method.	Noted. As this is an implementation issue, it will be communicated to National Treasury.
52.2	Office of the Accountant-General	
	We agree with the board. The direct method is easier to implement, perform and understand and should thus be used. Consistency and comparability should be promoted by applying this method as the standard method of performing a cash flow statement. Indirect method is onerous.	Noted and agreed. No further action required.
53.	<p>Specific matter for comment - Question 55</p> <p><i>10.31 Respondents views are requested on the following issues related to the implementation of GRAP 2:</i></p> <p><i>(a) Would it be useful for the implementation guidance issued by National Treasury to clarify that cash and cash equivalents generally have a maturity of less than three months, as noted in the definition of cash and cash equivalents in the IFRS for SMEs (see paragraph 10.26 above)?</i></p> <p><i>(b) Are there any principles included in GRAP 2 that should specifically be addressed in the implementation guidance issued by the National</i></p>	

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	<i>Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i>	
53.1	Ducharme Consulting	
	None	Noted. No further action required.
53.2	Office of the Accountant-General	
	Specific guidance identified by the national Treasury will be covered in the revised GRAP Guides.	Noted. No further action required.
54.	Specific matter for comment - Question 56	
	<i>11.9 Based on the discussions above, the Board believes that no changes should be made to those aspects of GRAP 6 that deal with the preparation of consolidated and separate financial statements and the consolidation methodology.</i>	
	<i>11.10 Do you agree with the Board? Please provide reasons for either agreeing or disagreeing.</i>	
54.1	Ducharme Consulting	
	None	Noted. No further action required.
54.2	Office of the Accountant-General	
	We agree with the board. Giving entities an option will result in compromising fair presentation.	Noted and agreed. No further action required.
55.	Specific matter for comment – Question 57	
	<i>11.12 The Board would however value comment on whether any of the additional disclosure requirements in GRAP 6 should be eliminated. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.</i>	
55.1	Ducharme Consulting	
	None	Noted. No further action required.
55.2	Office of the Accountant-General	
	The additional disclosure requirements in GRAP on Consolidated and Separate Financial Statements should not be eliminated as they are deemed useful. It is not foreseen that the cost of the additional disclosures will outweigh the benefits.	Noted and agreed. No further action required.

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56.	Specific matter for comment - Question 58 <i>11.13 Are there any principles included in GRAP 6 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i>	
56.1	Ducharme Consulting	
	None	Noted. No further action required.
56.2	Office of the Accountant-General	
	Specific guidance identified by the National Treasury will be covered in the revised GRAP Guides.	Noted. No further action required.
VERBAL COMMENT RECEIVED		
1.	Investments in joint ventures and associates	
	<p>Specific matter for comment – Question 3</p> <p><i>2.11 Investments in associates or joint ventures indicate that the investor is able to either exercise significant influence or joint control over another entity. The accounting for these investments should therefore reflect that a more significant relationship exists. Accounting for investments in associates and joint ventures, using the equity method (or proportionate consolidation for joint ventures), rather than cost or fair value, better reflects the economic circumstances of the relationship.</i></p> <p><i>2.12 In addition, the comparability of public sector entities' financial statements is an important objective of financial reporting. Allowing entities a range of accounting policy choices does not promote comparability and does not provide users with consistent information for decision-making.</i></p> <p><i>2.13 The Board therefore does not support the approach adopted in the IFRS for SMEs for the measurement of investments in associates and joint ventures.</i></p> <p><i>2.14 Do you agree with the Board's view? Please provide reasons for either agreeing or disagreeing with the Board's views.</i></p>	
1.1	Roundtable discussion	
	Participants agreed with the Board's proposal to retain the existing requirements in GRAP 7 and GRAP 8 for the treatment of investments in associates and joint ventures in the consolidated financial statements.	Noted. No further action required.

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	<p>Some participants indicated that the IASB had eliminated the proportionate consolidated method in its recent pronouncements and questioned whether the same should be done in GRAP 8.</p> <p>It was indicated by some participants that given the nature of the investments in associates and joint ventures in the public sector, that the fair value alternative for measuring investments in associates and joint ventures in the separate financial statements of an entity could be eliminated.</p>	<p>Noted. The Board will consider this when it considers the impact of the newly issued IFRSs on the South African public sector.</p> <p>Noted. As entities may have investments in GBEs which can be measured at fair value, the Board did not propose amending the existing requirement.</p>
2.	Assets	
2.1	Non-current assets held for sale	
	<p>Specific matter for comment – Question 7</p> <p><i>The Board requests respondents’ views on what aspects of GRAP 100 could be amended or improved. Respondents should describe their issues in sufficient detail and, where relevant, make reference to the necessary paragraphs in GRAP 100.</i></p>	
2.1.1	SAICA Southern Region	
	<p>Participants agreed with GRAP 100, but noted that certain application issues should be considered. For example, the disposal of assets (or disposal groups) often requires Ministerial or Mayoral approval. This might take a significant period of time and may impact on whether (a) there is a firm commitment to sell the asset without this approval; and (b) whether the sale can be completed within one year.</p>	<p>Noted. As this issue has been raised by a number of respondents, the Board agreed that it is necessary to clarify GRAP 100 in this regard.</p>
2.1.2	SAICA Siyenza Manje Project Team	
	<p>Participants noted that the treatment of disposals or transfers of assets at zero is problematic. Does GRAP 100 apply in these circumstances or not?</p> <p>It is unclear whether GRAP 100 applies to circumstances when assets, most often furniture and fittings, are sold on auction.</p>	<p>Noted. The Board agreed to develop requirements for assets that are transferred in a non-exchange transaction.</p> <p>Noted. It is arguable whether the requirements of GRAP 100 always apply when assets are sold on auction as this is not always done at fair value (unless a specific minimum price is set that is closely aligned with the fair value of the assets). As this is an implementation issue, it will be forwarded to the National Treasury for possible inclusion in their GRAP Guides.</p>

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2.1.3	City of Cape Town	
	<p>The timing of the period leading up to the sale is often more than 1 year, and this has led to challenges in practice. For example, when properties are listed for sale, identifying the most appropriate offer, counterparty etc. may take longer than 1 year. This has resulted in a number of reclassifications from assets held for sale to investment property.</p>	<p>Noted. Many respondents have indicated that the requirements in the Standard could be clearer regarding the classification of assets as held for sale. The Board proposes that additional explanatory guidance be included in GRAP 100 in this regard.</p>
2.1.4	Roundtable discussion	
	<p>Participants agreed with the Board's approach to retaining GRAP 100 on <i>Non-current Assets Held for Sale and Discontinued Operations</i>.</p> <p>It was however indicated that it may be useful to separate discontinued operations from non-current assets held for sale as experience in practice has indicated that many preparers neglect the requirements for discontinued operations.</p> <p>Other practical challenges with GRAP 100 which were noted and discussed by participants included:</p> <ul style="list-style-type: none"> • The distinction between GRAP 12 on <i>Inventories</i> and GRAP 100. • The misapplication of GRAP 100 for all assets held for sale, including those that are not sold for their fair value (for example, moveable assets sold on auction without a specific market-related reserve price being set). • Classification of assets as held for sale when in fact the criteria for a committed sale transaction may not be met, e.g. classification of assets as held for sale when the appropriate ministerial approval has not been obtained. 	<p>Noted. No further action required.</p> <p>Noted. The Board agreed to undertake a revision of GRAP 100 as part of a GRAP simplification project.</p> <p>Noted. These issues have been raised by a number of respondents. The Board agreed that GRAP 100 be clarified or amended to deal with these and other issues as part of its review of GRAP 100.</p> <p>These issues will be communicated to the National Treasury for possible inclusion in their GRAP Guides, if amendments to GRAP 100 are not appropriate.</p>

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2.2	Borrowing costs	
	<p><i>Specific matter for comment – Question 8</i></p> <p><i>The Board would therefore appreciate respondents' views on whether the approach in GRAP 5 should be retained, i.e. borrowing costs are capitalised unless it is inappropriate to do so, or the approach in the IFRS for SMEs should be followed. The latter requires that all borrowing costs are expensed. Respondents should provide supporting rationale for their views.</i></p>	
2.2.1	SAICA Eastern Region	
	Prefer expensing of borrowing costs. A centralised treasury within a group makes the capitalisation of borrowing costs difficult.	Noted. Based on comment received, the Board agreed that GRAP 5 should be amended to require the expensing of borrowing costs.
2.2.2	SAICA Southern Region	
	Participants generally agreed with the expensing of borrowing costs. It was however noted that if GRAP 5 is changed, the transitional provisions should allow prospective application.	Noted. See the response to 2.2.1 above.
2.2.3	SALGA Free State	
	General agreement that borrowing costs should be expensed for practicality purposes.	Noted. See the response to 2.2.1 above.
2.2.4	SAICA Siyenza Manje Project Team	
	<p>General consensus that borrowing costs should be expensed.</p> <p>Some expressed the view that it is appropriate to capitalise borrowing costs where the asset will take a significant period of time to construct. A choice should therefore be allowed.</p>	<p>Noted. See the response to 2.2.1 above.</p> <p>Allowing alternative accounting treatment does not promote comparability between entities' financial statements. Alternative accounting treatment also adds complexity to entities' financial statements. Consequently, an alternative accounting treatment for borrowing costs is not favoured.</p>
2.2.5	City of Cape Town	
	<p>General consensus that borrowing costs should be expensed. Many areas have proved difficult or onerous to apply in practice, in particular:</p> <ul style="list-style-type: none"> • In assessing impairment of assets when borrowing costs capitalised. 	Noted. See the response to 2.2.1 above.

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	<ul style="list-style-type: none"> Determining whether assets take a significant period of time to complete, particularly those completed in stages e.g. sections of roads which may be completed within a relatively short time frame versus the completion of the whole road which may take a substantial period of time. 	
2.2.6	Roundtable discussion	
	<p>Participants agreed that borrowing costs should be expensed on the basis that (a) it is conceptually inappropriate to value assets differently depending on their funding source, and (b) it is simpler to do so.</p> <p>It was debated how a change in approach could be justified. It was agreed that the developments internationally and within the Board could justify a change from capitalising to expensing borrowing costs:</p> <ul style="list-style-type: none"> When the Board issued GRAP 5 the IPSASB had not yet debated or considered revising IPSAS 5. When the IPSASB revised IPSAS 5, many respondents to the exposure draft indicated that capitalisation of borrowing costs is inappropriate. The IFRS for SMEs requires expensing rather than capitalising borrowing costs. <p>The Board recently consulted on its work methods and respondents indicated that reducing complexity should be considered by the Board in developing Standards of GRAP.</p>	Noted. See the response to 2.2.1 above.
2.3	Measurement alternatives for assets	
	<p>Specific matter for comment – Question 9</p> <p><i>3.21 The Board would value input on whether any measurement alternatives should be eliminated from the Standards of GRAP in line with the requirements of the IFRS for SMEs, or whether measurement alternatives should be allowed. Respondents' should also consider if any of the measurement alternatives impact on the scope of any of the Standards, for example, investment properties (see paragraph 4.14).</i></p>	
2.3.1	SAICA Eastern Region	
	Retain measurement alternatives in Standards of GRAP.	Noted and agreed. The Board agreed to retain the measurement alternatives in the Standards as this allows entities flexibility to determine the most appropriate measurement basis for their assets after considering the use of the assets, what information would be useful to users of the financial statements, and considering the cost of

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		applying a particular measurement basis.
2.3.2	SAICA Southern Region	
	<p><i>Investment property</i></p> <p>While there was general agreement that both measurement alternatives should be retained.</p> <p>Some were of the view that fair value is the most appropriate measure for investment property, based on the fact that such property should be held to generate returns in the form of rental or capital appreciation. It was however noted that because of the types of properties that are classified as investment properties, e.g. land held for an undetermined use, social housing etc. it may not always be appropriate to use fair value.</p> <p><i>Property, plant and equipment</i></p> <p>Participants agreed that both measurement alternatives should be retained. However, criteria/guidelines should be provided about when it would be appropriate to use a specific measurement basis.</p>	Noted and agreed. See the response to 2.3.1 above.
2.3.3	SALGA Free State	
	Measurement alternatives: Agreed that alternative measurement bases should be allowed.	Noted. See the response to 2.3.1 above.
2.3.4	Siyenza Manje Project Team	
	<p><i>Investment property</i></p> <p>Allow both alternatives. Onerous to determine fair value at ever reporting date. Suggestion that it should be linked to rates-cycle (i.e. fair value determined every 4 years).</p> <p><i>Property, plant and equipment</i></p> <p>Allow both alternatives. Views expressed that a depreciated replacement cost very relevant for infrastructure.</p> <p><i>Intangible assets</i></p> <p>Application of the revaluation model may be limited, given the nature of the intangible assets in</p>	<p>Noted. The Board agreed to retain the measurement alternatives in the Standards as this allows entities flexibility to determine the most appropriate measurement basis for their assets, after considering the use of the assets, what information would be useful to users of the financial statements, and considering the cost of applying a particular measurement basis.</p> <p>The Board noted that in the case of intangible assets, even though there may currently be limited</p>

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	the public sector.	examples of intangible assets that can be measured at fair value, new intangible assets may arise in the future which may meet these requirements. As a result, both alternatives should be retained.
2.3.5	City of Cape Town	
	<ul style="list-style-type: none"> • Investment property: Eliminating the cost alternative would not be appropriate as determining fair value on an ongoing basis is costly in practice, even if internal resources used to value properties. • Property, plant and equipment: Both alternatives should be allowed as it may be appropriate to value different classes of assets using either cost or fair value. If a different framework is developed for low capacity municipalities, then fair value should be eliminated. • Intangible assets: Given the nature of intangible assets in the public sector (most common examples are servitudes and software), the revaluation model should be eliminated. 	Noted. See the response to 2.3.4 above.
2.3.6	Roundtable discussion	
	<p>There was significant debate among participants about whether measurement alternatives could be eliminated. Much of the debate centred around identifying the most appropriate measurement basis for certain assets, while keeping in mind cost-benefit considerations. The following discussions were noted regarding the elimination of measurement alternatives:</p> <p><i>Investment property</i></p> <p>It was noted by some that investment property should only be measured at fair value given its nature and the intention for holding such properties (capital appreciation or rental to others). This requirement could be supplemented by the approach in the IFRS for SMEs which indicated that fair value should be used unless determining fair value would result in undue cost and effort.</p> <p>Others noted that if cost-benefit is a consideration, then both alternatives should be allowed.</p> <p>More generally, participants noted that there is currently a misconception that if the fair value model is used, an external valuer must be used and that the valuation should be done at every reporting date. It may be useful to indicate to users that an external valuer need not be used, and that a full valuation need not be undertaken at every reporting date, e.g. indices and other</p>	Noted. See the response to 2.3.4 and 2.3.5 above.

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	<p>approaches may be used to adjust values previously obtained. Clarification of this issue may assist the Board in promoting the elimination of the cost method.</p> <p><i>Property, plant and equipment</i></p> <p>Participants noted that cost-benefit considerations were vital in determining whether cost or a revaluation approach should be used. As the revaluation of assets is costly, some participants suggested that the revaluation model should be eliminated.</p> <p>Other participants indicated that a revaluation approach may be particularly useful in determining user charges for goods and services.</p> <p>It was suggested that if the revaluation model is eliminated, the disclosure of fair values should be encouraged as this might provide useful information for other areas of reporting e.g. sustainability reporting on the replacement and maintenance of assets.</p> <p>It was noted that some entities currently misuse the revaluation model to mask other accounting issues such as poor record keeping which results in cost information not being available.</p> <p><i>Intangible assets</i></p> <p>Participants generally agreed that the revaluation model should be eliminated for intangible assets as it is not widely used in the public sector.</p>	
2.4	Re-assessment of residual values, useful lives and depreciation methods	
	<p>Specific matter for comment – Question 10</p> <p><i>3.24 The Board would therefore value comment particularly on whether:</i></p> <p>(a) <i>An indicator based approach to assessing residual values, useful lives and depreciation methods is appropriate for the public sector?</i></p> <p>(b) <i>The indicators outlined in the IFRS for SMEs are appropriate?</i></p> <p><i>Respondents should explain their views wherever appropriate.</i></p>	
2.4.1	SAICA Eastern Region	
	<p>Most participants preferred an indicator based approach.</p> <p>Some expressed reservations about whether using an indicator based approach would result in insufficient estimates being made and a correction of an error in future. It was agreed that the indicators should be specific enough to ensure that assessments are made when they are</p>	<p>Noted. Based on comment received, many respondents agreed that an indicator-based approach may be simpler to apply than an annual test. As a result, the Board agreed to make an</p>

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	needed.	amendment to GRAP 17 and GRAP 102 in this regard. It also agreed that public sector specific indicators should be developed.
2.4.2	SAICA Southern Region	
	It was agreed that an indicator based assessment of residual values, useful lives and depreciation methods should be used. It was noted that the indicators specific to the public sector may need to be developed.	Noted. See the response to 2.4.1 above.
2.4.3	SALGA Free State	
	Re-assessment of residual values, useful lives, depreciation methods: General agreement that using indicators preferable to the current requirements. Some participants noted a specific time period should be prescribed, e.g. reviews done every five years.	Noted. See the response to 2.4.1 above. Specifying specific time periods is contrary to the development of principles-based Standards. As a result, the Board is of the view that specifying that reviews be done every X number of years is inappropriate.
2.4.4	SAICA Siyenza Manje Project Team	
	General view that the indicator based approach may be appropriate, however the indicators should be robust; different indicators may be necessary for finance and technical staff. Clarification of whether the indicator-based testing should be assessed individually or per class. Other suggestions for assessing residual values, useful lives and depreciation methods: Perform periodically, e.g. every 4 years; perform over a period of time, e.g. all asset classes will be reviewed within a 4 year period.	Noted. See the response to 2.4.1 above. When considering the amendments to GRAP 17 and 102, the Board will consider whether the assessment should be done on an individual asset basis or per class of assets basis. Specifying specific time periods is contrary to the development of principles-based Standards. As a result, the Board is of the view that specifying that reviews be done every X number of years is inappropriate.
2.4.5	City of Cape Town	
	An indicator based assessment would be easier to apply given the volume of assets. It was noted that an additional indicator might be “assessing the results of surveys of assets”. Additional guidance is required on the difference between a change in useful life and an impairment.	Noted. See the response to 2.4.1 above. Noted. As this is an implementation issue, it will be

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		communicated to the National Treasury for possible inclusion in their GRAP Guides.
2.4.6	Roundtable discussion	
	<p>Participants had mixed reactions to this amendment. Some indicated that this would result in a significant simplification, while others noted that the amount of work required is no less than under the existing requirements in GRAP 17 and 102. Some participants indicated that the use of an indicator-based approach still requires entities to make an assessment of whether any events occurred (or did not occur) during the year that impact on the useful lives of assets.</p> <p>It was suggested that the indicator based approach may in fact provide guidance to entities about the circumstances of events that may need to be considered in assessing useful lives.</p> <p>As a result of these views, two alternative approaches emerged:</p> <ul style="list-style-type: none"> • Change the approach to an indicator based approach and develop detailed indicators that can be used by public sector entities. • Retain the current approach in GRAP 17 and 102, and include detailed indicators in the GRAP guides issued by the National Treasury. <p>It was also noted that guidance may be required on whether the assessment is done on an asset-by-asset basis, or per class of assets.</p>	<p>Noted. See the response to 2.4.1 above.</p> <p>As the requirement in GRAP 17 and 102 is to conduct annual testing in this regard, the requirements in the Standards will have to be amended if this approach is preferred, unless the GRAP Guides use the indicator-based approach as first step in the annual test.</p>
3.	Investment property	
	<p>Specific matter for comment – Question 14</p> <p><i>4.17 Are there any principles included in GRAP 16 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i></p>	
3.1	SAICA Southern Region	
	<p>The classification of investment properties is often based on the most “significant” use of the property. Guidance should be provided as to what is deemed “significant”/“insignificant”.</p>	<p>Noted. This has been raised by a number of respondents. The Board agreed to review GRAP 16 and identify whether any changes can be accommodated. This issue will also be communicated to National Treasury for possible inclusion in their GRAP Guides.</p>

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3.2	SAICA Siyenza Manje Project Team	
	Both the terms social benefit and social service are used in GRAP 16. It is unclear whether there is a difference between these two terms. Clarification in this regard would be useful.	Noted. The Board agreed to review GRAP 16 and identify the context in which these words are used and, if necessary, amended.
3.3	City of Cape Town	
	<p>Difficulties have been experienced in practice on determining whether the portion of a mixed use investment property used by an owner is insignificant or not. A few examples where classification of properties has proved difficult are:</p> <ul style="list-style-type: none"> • Mixed use housing developments. A block of flats is built to be used as social housing. The bottom floor of the building is rented out to shops so that the building is a self-contained “housing development”. The value of the rental received from the shops on the ground floor may be significant in relation to the value of the rental received from the building as a whole. • Substations located on properties that are rented out to external parties. • Properties that were developed many years ago for social housing. Over time, these houses have become sought after real estate resulting in the earning (or potential earning) of high value rentals. The intention of holding of these buildings has however not changed; they are still used as social housing. <p>It is suggested that “significance” be explained in the Standard.</p>	Noted. As the distinction between assets accounted for under GRAP 16 and GRAP 17 has proved problematic in the past, the Board is of the view that the wording in GRAP 16 could be improved. In 2010, improvements were made to the Standard of GRAP to note that rentals on investment properties do not have to be market-related for the property to be considered investment property. Building on this change, it might be appropriate to indicate that not only rentals are considered when determining whether the most significant use of a property is an investment property. GRAP 16 will be reviewed and possible amendments suggested.
4.	Property, plant and equipment	
4.1	Componentisation of assets	
	<p>Specific matter for comment – Question 15</p> <p><i>4.23 The Board has received feedback from stakeholders that the componentisation of assets is onerous. The IFRS for SMEs adopts a less stringent approach than GRAP 17 as an entity is only required to separate an asset into its component parts where those parts have different useful lives. This will, at a minimum, ensure that the use of the assets is correctly reflected in the financial statements as the depreciation expense adequately reflects the use of the asset.</i></p> <p><i>4.24 However, GRAP 17 requires an entity to identify and account for separate parts where they have a significant cost in relation to the asset as a whole. Each part is depreciated separately. This approach (a) ensures that the use of the asset is correct, and (b) facilitates better derecognition and recognition of parts of assets, e.g. when major components of assets are replaced.</i></p>	

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	<p>4.25 While the Board believes that the approach in GRAP 17 is conceptually more correct, if the parts of the assets do not have different useful lives, there is no financial impact if the parts of the assets are not accounted for separately. Given the feedback from stakeholders that componentisation of assets is difficult, the Board believes that a pragmatic rather than a conceptual approach should be taken regarding the componentisation of assets. The Board therefore proposes that the approach in the IFRS for SMEs should be followed and that parts of assets should only be accounted for separately where their useful lives differ.</p> <p>4.26 The Board requests views on whether its proposal to follow the approach in the IFRS for SMEs is supported. Please provide reasons for supporting or disagreeing with its view.</p>	
4.1.1	SAICA Eastern Region	
	<p>Some agreed that componentising based on useful lives would be easier, while others had differing views:</p> <ul style="list-style-type: none"> • Some expressed concern about how derecognition would be done in future. • Others noted that componentising based solely on differing useful lives without some sort of hurdle (i.e. parts with different useful lives are componentised when those parts are significant) may result in additional rather than fewer components being recognised. 	Noted. The Board agreed to amend the Standards to require componentisation only where the useful lives of the components are different. The Board also agreed that a test of significance should be applied to ensure that only material components are identified.
4.1.2	SAICA Southern Region	
	it was noted that the approach to only componentise assets when those parts have significant useful lives is simpler, except that it should be combined with a “significance” or “materiality” test. For example, only those parts that have different useful lives and are material in relation to the asset as a whole are componentised.	Noted. See the response in 4.1.1. above.
4.1.3	SALGA Free State	
	General agreement that the proposal in the IFRS for SMEs more appropriate. However, it was indicated that clearer guidance should be provided by National Treasury regarding the level of componentisation that is expected.	Noted. While this will remain an area of judgement, this will be considered when amending the existing requirements.
4.1.4	SAICA Siyenza Manje Project Team	
	General view that approach in GRAP 17 appropriate; better guidance needed on what “significant” means. Views that “significant” should be defined as a specific threshold, e.g. 10% of the value of the asset.	Noted. The Board did not agree with the approach to prescribe a specific threshold as this is inconsistent with a principles-based approach to setting Standards.
4.1.5	Roundtable discussion	

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	<p>Some participants questioned whether the approaches in the IFRS for SMEs and GRAP 17 would result in a different answer in the financial statements. It was noted that the net result would be the same, but complexities may arise where key components need to be derecognised.</p> <p>It was noted by participants that componentisation was often at too detailed a level for financial reporting purposes and, as a result, education of both preparers and auditors may be necessary in this area. A view was expressed that the componentisation for financial reporting purposes should be the “first level” of componentisation.</p> <p>In general, the approach in the IFRS for SMEs was supported, but that this should be combined with the notion of having only “significant” components with different useful lives being componentised.</p>	<p>Noted. No further action required.</p> <p>Noted. This may be useful as implementation guidance in the National Treasury’s GRAP Guides. This will be communicated to them for possible inclusion in the Guides.</p> <p>Noted. The Board agreed to amend the Standards to require componentisation only where the useful lives of the components are different. The Board also agreed that a test of significance should be applied to ensure that only material components are identified.</p>
4.2	Implementation issues – Property, plant and equipment	
	<p>Specific matter for comment – Question 17</p> <p><i>4.29 Are there any principles included in GRAP 17 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i></p>	
4.2.1	SAICA Southern Region	
	<p>Some participants were of the view that National Treasury should set a single capitalisation threshold for all public sector entities (similar to the R5,000 capitalisation threshold for departments). Other participants noted that it may be difficult to set a standard threshold for all entities, but that individual entities may want to set their own thresholds based on materiality. It was however cautioned that entities need to ensure that, over time, the effect of not capitalising assets does not become material.</p>	<p>Noted. This issue will be communicated to the National Treasury.</p>
4.2.2	SAICA Siyenza Manje Project Team	
	<p>Some participants were of the view that National Treasury should set a single capitalisation threshold for all public sector entities (similar to the R5,000 capitalisation threshold for departments). Other participants noted that it may be difficult to set a standard threshold for all</p>	<p>Noted. This issue will be communicated to the National Treasury.</p>

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	<p>entities, but that individual entities may want to set their own thresholds based on materiality. It was however cautioned that entities need to ensure that, over time, the effect of not capitalising assets does not become material.</p> <p>Additional guidance is required on the practical application of GRAP 17 to library books.</p>	
4.2.3	Roundtable discussion	
	<p>Participants indicated that it may be useful to provide guidance on the distinction or differentiation between changes in useful life and impairment.</p>	<p>Noted. This comment has been raised by other respondents, and will thus be communicated to the National Treasury for possible inclusion in their GRAP Guides.</p>
5.	Intangible assets	
5.1	Existence of indefinite life intangible assets	
	<p>Specific matter for comment – Question 19</p> <p><i>4.39 Indefinite life intangible assets result in complex accounting requirements in the Standards of GRAP, particularly with regard to impairment testing. A significant indefinite life intangible asset is goodwill, calculated as the difference between the fair value of the assets acquired and liabilities assumed and proceeds paid for an acquiree in a transfer of functions. The Board has recently issued a proposed Standard of GRAP on transfers of functions that does not allow the recognition of goodwill.</i></p> <p><i>4.40 Indefinite life intangible assets typically comprise goodwill and other assets where the useful life is indefinite. With the Board's proposal that goodwill should not be recognised, a potential opportunity exists to simplify GRAP 102 if no other indefinite life intangible assets exist. To inform the Board's decision, it would value feedback from respondents on the existence of intangible assets in the public sector, other than goodwill, that have an indefinite useful life. Where indefinite life intangible assets exist, it would be useful if respondents provided a detailed description of the intangible assets, how they arise and why they have an indefinite life.</i></p>	
5.1.1	SAICA Eastern Region	
	<p>It was noted that servitudes exist extensively in the public sector. Often these servitudes are granted for an indefinite period.</p>	<p>Noted. As these are often significant indefinite life intangible assets, the requirements in GRAP 102 will be retained.</p>
5.1.2	SAICA Southern Region	
	<p>It was noted that some entities had developed in-house software that had been used for a number of years. This has been accounted for as an "indefinite" life intangible asset.</p>	<p>Noted. Software that is continually upgraded is an example of a definite life intangible asset, and the useful life should be assessed using</p>

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		management's best estimate of the period over which it intends using the asset.
5.2	Implementation guidance – Intangible assets	
	Specific matter for comment – Question 22	
	<i>4.45 Are there any principles included in GRAP 102 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, wherever relevant, refer to the specific paragraphs in the Standard.</i>	
5.2.1	SAICA Siyenza Manje Project Team	
	Clarification sought on the meaning of “service potential” in the context of intangible assets.	Noted. This issue will be communicated to the National Treasury for possible inclusion in their GRAP Guides.
6.	Impairment of assets	
	Specific matter for comment – Question 26	
	<i>4.56 Are there any principles included in GRAP 21 (or GRAP 26) that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i>	
6.1	Roundtable discussion	
	<p>Participants discussed the execution of the impairment methodologies in practice, particularly for non-cash-generating assets, e.g. the measurement of service potential rather than economic benefits.</p> <p>Some participants noted that GRAP 21 and GRAP 26 require use of “the higher of” fair value and value in use rather than “either/or”. The use of “higher of” may result in a higher impairment being recognised for assets where only value in use is determined.</p> <p>It was suggested that this issue should be discussed during consultations on the IPSASB's conceptual framework project on measurement, which outlines a methodology that could be used to decide on appropriate measurement bases for assets, i.e. deprival value model.</p>	Noted. The Board agreed that no changes should be made to GRAP 21 and GRAP 26 at present. Once the outcome of the IPSASB's conceptual framework project (specifically Part III on Measurement) has been finalised, a more informed debate on this issue may take place.

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7.	Leases	
7.1	Change in approach to the straight-lining of leases	
	<p>Specific matter for comment – Question 32</p> <p><i>The straight-lining of leases requires a high degree of judgement in applying the approaches in GRAP 13 and the IFRS for SMEs. While the approach in the IFRS for SMEs may be simpler, entities still need to assess and demonstrate whether the escalations compensate the lessor for expected inflationary cost increases. If this cannot be determined, the lease must be straight-lined.</i></p> <p><i>The Board would appreciate comment on the approach in the IFRS for SMEs in straight-lining leases, particularly whether it would be simpler to apply than the current requirements of GRAP 13.</i></p>	
7.1.1	SALGA Free State	
	Views expressed that it is unclear as to whether the approach in the IFRS for SMEs is simpler to GRAP.	Noted. Given that such increases may already be excluded from the straight-lining of lease payments under the existing requirements of GRAP 13, because they are variable and consequently viewed as contingent rent, and because of the IASB impending revision of IAS 17 on which GRAP 13 is based, the Board agreed that no change should be made to GRAP 13.
7.1.2	Roundtable discussion	
	Participants generally did not support amending GRAP 13 to the IFRS for SMEs approach. It was noted that guidance should be provided on the straight-lining of long term leases.	Noted. See the response to 7.1.1. above. The need for guidance on long-term leases will be communicated to the National Treasury for possible inclusion in their GRAP Guides.
7.2	Implementation issues - Leases	
	<p>Specific matter for comment – Question 34</p> <p><i>Are there any principles included in GRAP 13 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.</i></p>	

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7.2.1	SAICA Southern Region	
	Guidance should be developed by the Treasury on standardising accounting for operating and finance leases.	Noted. Determining whether an arrangement is a finance or an operating lease is very subjective. It is unlikely, however, that standardised guidance can be developed in this regard. The comment will nevertheless be communicated to National Treasury.
7.2.2	City of Cape Town	
	<p>Areas where the application of the lease Standard, particularly regarding the straight-lining of leases, has proved difficult in practice are listed below. The list of examples relates primarily to the determination of the lease period being unclear.</p> <ul style="list-style-type: none"> • Leases with an indefinite period. • Month-to-month leases concluded with tenants, but history shows that the tenant has occupied the property for a significant period of time (e.g. 5, 10, 20, 30+ years). Uncertainty about how lease term should be estimated. • Leases that are signed for a period of time, e.g. 50 years, but the terms are renegotiated upon reaching certain milestones, e.g. every 10 years. • Leases where rentals increase at the option of the lessor. Unclear whether such amounts should be included in the determination of the future minimum lease payments. 	Noted. These issues will be communicated to National Treasury for possible inclusion in the GRAP Guides.
8.	Employee benefits	
	Implementation issues – Employee benefits	
8.1	SAICA Siyenza Manje Project Team	
	<p>General agreement with GRAP 25, however issues have arisen regarding the Joint Municipal Pension Fund, which is a multi-employer plan. Municipalities have been penalised for not having information available for their individual share of the defined benefit obligation and plan assets. IAS 19 and GRAP 25 do however address this eventuality.</p> <p>As the year end of the fund and the municipality differ, valuation is also difficult.</p> <p>Valuation certificates are not made available to municipalities: Suggestion that the OAG needs</p>	<p>Noted. Both IAS 19 and GRAP 25 allow entities to apply defined contribution accounting when information is not available for individual entities.</p> <p>These issues will be discussed with the National Treasury and the Auditor-General for further resolution.</p>

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	to communicate with the funds on this issues; requesting that the information be made available.	
8.2	IMFO KwaZulu-Natal	
	Issues have been raised regards to the accounting of joint municipal pension funds. Municipalities have been requested to identify and account for their portion of the assets and liabilities held by the fund.	See the response to 8.1 above.
9.	Other issues raised	
9.1	Undue cost and effort	
	Roundtable discussion	
	<p>Participants noted the following with regards to undue cost and effort:</p> <ul style="list-style-type: none"> • Use of undue cost and effort implies sophisticated decision-making on the part of preparers as they should be aware of the resources required to make certain disclosures. • Undue cost and effort could be included in the standards for specific issues, e.g. the use of fair value for investment property or the retrospective application of certain requirements. • Undue cost and effort should be distinguished from impracticability. Impracticability implies that something cannot be done while undue cost and effort implies that it can be done, but with certain implications. <p>It was noted that it may be useful to understand the experiences of SMEs with applying undue cost and effort in the private sector. It was agreed that this would be investigated further.</p>	Noted. This will be considered when revising the Prefaces to the Standards of GRAP, which outlines the Board's due process. At present, the proposed amendments to the Prefaces suggest considering undue cost and effort at a Standard-setting level only.