

ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(GRAP 19)

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PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

This Standard was originally issued by the Accounting Standards Board (the Board) in July 2007. Since then, it has been amended by:

- Improvements to the Standards of GRAP, issued by the Board in February 2010.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 21 *Impairment of Non-cash-generating Assets*
  - GRAP 26 *Impairment of Cash-generating Assets*
  - GRAP 104 *Financial Instruments*
- Consequential amendments following the revisions to GRAP 100 *Discontinued Operations* in 2013.
- Improvements to the Standards of GRAP, issued by the Board in November 2013.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 105 *Transfer of Functions Between Entities Under Common Control*
  - GRAP 106 *Transfer of Functions Between Entities Not Under Common Control*
  - GRAP 107 *Mergers*
- Improvements to the Standards of GRAP, issued by the Board in April 2017.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 35 *Consolidated Financial Statements*
  - GRAP 37 *Joint Arrangements*
- Consequential amendments from the amendments to GRAP 104 *Financial Instruments*, issued by the Board in April 2019.

Introduction

This pronouncement is set out in paragraphs .01 to .116. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

.01 The objective of this Standard is to define provisions, contingent liabilities and contingent assets, identify the circumstances in which provisions should be recognised, how they should be measured and the disclosures that should be made about them. This Standard also requires that certain information be disclosed about contingent liabilities and contingent assets in the notes to the financial statements to enable users to understand their nature, timing and amount.

Scope

.02 ***An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for provisions, contingent liabilities and contingent assets, except:***

(a) those provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided directly in return from the recipients of those benefits;

(b) those resulting from executory contracts, other than where the contract is onerous subject to paragraph .02(a); and

(c) those covered by another Standard of GRAP.

.03 This Standard applies to:

(a) provisions, contingent liabilities and contingent assets of an insurer (who, for purposes of this Standard, is primarily engaged in insurance activities), other than those arising from its contractual obligations and rights under insurance contracts within the scope of the IFRS Accounting Standard(s) on insurance; and

(b) provisions for restructuring (including discontinued operations). In some cases, a restructuring may meet the definition of a discontinued operation. Guidance on disclosing information about discontinued operations is found in the Standard of GRAP on *Discontinued Operations*.

.04 This Standard does not apply to financial instruments (including guarantees) that are within the scope of the Standard of GRAP on *Financial Instruments* (GRAP 104).

.05 An entity, other than an insurer, that issues–guarantees, such as performance guarantees, applies the recognition, measurement and disclosure requirements of this Standard to such guarantees.

.06 [Deleted].

Social benefits

.07 For the purposes of this Standard "social benefits" refers to goods, services and other benefits provided in the pursuit of the social policy objectives of government. These benefits may include:

(a) the delivery of health, education, housing, transport and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and

(b) payment of benefits to families, the aged, the disabled, the unemployed, veterans and others. That is, government at all spheres may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income.

.08 In many cases, obligations to provide social benefits arise as a consequence of government's commitment to undertake particular activities on an ongoing basis over the long term in order to provide particular goods and services to the community. The need for, and nature and supply of, goods and services to meet social policy obligations will often depend on a range of demographic and social conditions and are difficult to predict. These benefits generally fall within the "social protection", "education" or "health" classifications under the International Monetary Fund's Government Finance Statistics framework and often require an actuarial assessment to determine the amount of any liability arising in respect of them.

.09 For a provision or contingency arising from a social benefit to be excluded from the scope of this Standard, the entity providing the benefit will not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of the benefit. This exclusion would encompass those circumstances where a charge is levied in respect of the benefit, but there is no direct relationship between the charge and the benefit received. The exclusion of these provisions and contingent liabilities from the scope of this Standard reflects the Board's view that both the determination of what constitutes the "obligating event" and the measurement of the liability require further consideration before proposed Standards are exposed. For example, the Board is aware that there are differing views about whether the obligating event occurs when the individual meets the eligibility criteria for the benefit, or at some earlier stage. Similarly, there are differing views about whether the amount of any obligation reflects an estimate of the current period's entitlement or the present value of all expected future benefits determined on an actuarial basis.

.10 Where an entity elects to recognise provisions for such obligations, the entity discloses the basis on which the provisions have been recognised and the measurement basis adopted. The entity also makes other disclosures required by this Standard in respect of those provisions. The Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* (GRAP 3), provides guidance

on dealing with matters not specifically dealt with by another Standard of GRAP. GRAP 3 also includes requirements relating to the selection and disclosure of accounting policies.

.11 In some cases, social benefits may give rise to a liability for which there is:

(a) little or no uncertainty as to amount; and

(b) the timing of the obligation is not uncertain.

Accordingly, these are not likely to meet the definition of a provision in this Standard. Where such liabilities for social benefits exist, they are recognised where they satisfy the criteria for recognition as liabilities (refer also to paragraph .18). An example would be a payable for an amount owing to the existing beneficiaries in respect of aged, or disability pensions that have been approved for payment consistent with the provisions of a contract or legislation.

Other exclusions from the scope of the Standard

.12 This Standard does not apply to executory contracts unless they are onerous. Contracts to provide social benefits entered into with the expectation that the entity will not receive consideration that is approximately equal to the value of goods and services provided directly in return from the recipients of those benefits are excluded from the scope of this Standard.

.13 Where another Standard of GRAP deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. Certain types of provisions are addressed in standards on:

(a) construction contracts (see the Standard of GRAP on *Construction Contracts*);

(b) income taxes (see the IAS Standard on *Income Taxes* (IAS 12));

(c) leases (see the Standard of GRAP on *Leases* (GRAP 13)), however, as GRAP 13 contains no specific requirements to deal with operating leases that have become onerous, this Standard applies to such cases;

(d) employee benefits (see the Standard of GRAP on *Employee Benefits)*;

(e) insurance contracts (see the IFRS Accounting Standard(s) on insurance); and

(eA) contingent consideration of an acquirer in a transfer of functions between entities not under common control (see the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control* (GRAP 106)).

.14 Some amounts treated as provisions may relate to the recognition of revenue, for example where an entity gives guarantees in exchange for a fee. This Standard does not address the recognition of revenue. The Standard of GRAP on *Revenue from Exchange Transactions* (GRAP 9) identifies the circumstances in which revenue from exchange transactions is recognised and provides practical guidance on the application of the recognition criteria. This Standard does not change the

requirements of GRAP 9.

.15 This Standard defines provisions as liabilities of uncertain timing or amount. The term “provision” may also be used in the context of items such as depreciation, impairment of assets and doubtful debts, which are adjustments to the carrying amounts of assets and are not addressed in this Standard.

.16 Other Standards of GRAP specify whether expenditures are treated as assets or as expenses. These issues are not addressed in this Standard. Accordingly, this Standard neither prohibits nor requires capitalisation of the costs recognised when a provision is made.

Definitions

.17 The following terms are used in this Standard with the meanings specified:

A binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to the arrangement as if it were in the form of a contract. It includes rights from contracts or other legal rights.

A constructive obligation is an obligation that derives from an entity’s actions where:

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations

to an equal extent.

A legal obligation is an obligation that derives from:

(a) a contract (through its explicit or implicit terms);

(b) legislation; or

(c) other operation of law.

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Management comprises those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

An onerous contract is a contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

A provision is a liability of uncertain timing or amount.

A restructuring is a programme that is planned and controlled by management, and materially changes either:

(a) the scope of an entity's activities; or

(b) the manner in which those activities are carried out.

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

Binding arrangements

.17A Binding arrangements can be evidenced in several ways:

(a) a contract concluded between the parties;

(b) legislation, supporting regulations or similar means including, but not limited to, laws, regulation, policies, decisions concluded by authorities such as cabinet, executive committees, boards, municipal councils and ministerial orders; or

(c) through the operation of law, including common law.

A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties.

Provisions and other liabilities

.18 Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

(a) payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier (and include payments in respect of social benefits where formal agreements for specified amounts exist); and

(b) accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of accounts payable, whereas provisions are reported separately.

Relationship between provisions and contingent liabilities

.19 In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, within this Standard the term “contingent” is used for liabilities and assets that are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. In addition, the term “contingent liability” is used for liabilities that do not meet the recognition criteria.

.20 This Standard distinguishes between:

(a) provisions — which are recognised as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations; and

(b) contingent liabilities — which are not recognised as liabilities because they are either:

(i) possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits or service potential; or

(ii) present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

Recognition

Provisions

.21 ***A provision shall be recognised when:***

(a) an entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

Present obligation

.22 ***In rare cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date.***

.23 In almost all cases, it will be clear whether a past event has given rise to a present obligation. In other cases, for example in a lawsuit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such cases, an entity determines whether a present obligation exists at the reporting date by taking account of all available evidence including, for example, the opinion of experts. The evidence considered includes any additional evidence provided by events after the reporting date. On the basis of such evidence:

(a) where it is more likely than not that a present obligation exists at the reporting date, the entity recognises a provision (if the recognition criteria are met); and

(b) where it is more likely that no present obligation exists at the reporting date, the entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote (see paragraph .101).

Past event

.24 A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:

(a) where the settlement of the obligation can be enforced by law; or

(b) in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.

.25 Financial statements deal with the financial position of an entity at the end of its

reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to continue an entity's on-going activities in the future. The only liabilities recognised in an entity's statement of financial position are those that exist at the reporting date.

.26 It is only those obligations arising from past events existing independently of an entity's future actions (that is, the future conduct of its activities) that are recognised as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage imposed by legislation on an entity. Both of these obligations would lead to an outflow of resources embodying economic benefits or service potential in settlement regardless of the future actions of that entity. Similarly, an entity would recognise a provision for the decommissioning costs of a defence installation or a government-owned nuclear power station to the extent that the entity is obliged to rectify damage already caused. (The Standard of GRAP on *Property, Plant and Equipment* deals with items, including dismantling and site restoration costs, that are included in the cost of an asset.) In contrast, because of legal requirements, pressure from constituents or a desire to demonstrate community leadership, an entity may intend or need to carry out expenditure to operate in a particular way in the future. An example would be where an entity decides to fit emission controls on certain of its vehicles or a government laboratory decides to install extraction units to protect employees from the fumes of certain chemicals. Because the entities can avoid the future expenditure by their future actions, for example, by changing their method of operation, they have no present obligation for that future expenditure and no provision is recognised.

.27 An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed — indeed the obligation may be to the public at large. Because an obligation always involves a commitment to another party, it follows that a decision by an entity's management or controlling entity does not give rise to a constructive obligation at the reporting date unless the decision has been communicated before the reporting date to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.

.28 An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the entity gives rise to a constructive obligation. For example, when environmental damage is caused by an entity there may be no obligation to remedy the consequences. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified or when the controlling entity or the entity publicly accepts responsibility for rectification in a way that creates a constructive obligation.

.29 Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted as drafted. For the purpose

of this Standard, such an obligation is treated as a legal obligation. Differences in circumstances surrounding enactment often make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases it will be impossible to be virtually certain of the enactment of the law until it is enacted.

Probable outflow of resources embodying economic benefits or service potential

.30 For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits or service potential to settle that obligation. For the purpose of this Standard, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, that is, the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote (see paragraph .101).

.31 Where there are a number of similar obligations (for example, government's obligation to compensate individuals who have received contaminated blood from a government-owned hospital) the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognised (if the other recognition criteria are met).

Reliable estimate of the obligation

.32 The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other assets or liabilities. Except in extremely rare cases, an entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognising a provision.

.33 In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability (see paragraph .101).

Contingent liabilities

.34 An entity shall not recognise a contingent liability.

.35 A contingent liability is disclosed, as required by paragraph .101, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

.36 Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. For example, in the case of joint arrangement debt, that part of the obligation

that is to be met by other joint arrangement participants is treated as a contingent liability. The entity recognises a provision for the part of the obligation for which an outflow of resources embodying economic benefits or service potential is probable, except in the rare circumstances where no reliable estimate can be made.

.37 Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become probable. If it becomes probable that an outflow of future economic benefits or service potential will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs, except in the extremely rare circumstances where no reliable estimate can be made. For example, a municipality may have breached an environmental law but it remains unclear whether any damage was caused to the environment. Where, subsequently, it becomes clear that damage was caused and remediation will be required, the entity would recognise a provision because an outflow of economic benefits is now probable.

Contingent assets

.38 An entity shall not recognise a contingent asset.

.39 Contingent assets usually arise from unplanned or other unexpected events that are not wholly within the control of the entity and give rise to the possibility of an inflow of economic benefits or service potential to the entity. An example is a claim that an entity is pursuing through legal processes, where the outcome is uncertain.

.40 Contingent assets are not recognised in financial statements since this may result in the recognition of revenue that may never be realised. However, when the realisation of revenue is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

.41 A contingent asset is disclosed, as required by paragraph .106, where an inflow of economic benefits or service potential is probable.

.42 Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits or service potential has become probable, an entity discloses the contingent asset (see paragraph .106).

Measurement

Best estimate

.43 The amount recognised as a provision shall be the best estimate of the

expenditure required to settle the present obligation at the reporting date.

.44 The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the reporting date. However, the estimate of the amount that an entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the reporting date.

.45 The estimates of outcome and financial effect are determined by the judgement of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date.

.46 Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is “expected value”. The provision will therefore be different depending on whether the probability of a loss of a given amount is, for example, 60% or 90%. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

Example

A government medical laboratory provides diagnostic ultrasound scanners to both government owned and privately owned medical centres and hospitals on a full cost recovery basis. The equipment is provided with a warranty under which the medical centres and hospitals are covered for the cost of repairs of any defects that become apparent within the first six months after purchase. If minor defects were detected in all equipment provided, repair costs of R1 million would result. If major defects were detected in all equipment provided, repair costs of R4 million would result. The laboratory’s past experience and future expectations indicate that, for the coming year, 75% of the equipment will have no defects, 20% of the equipment will have minor defects and 5% of the equipment will have major defects. In accordance with paragraph .31, the laboratory assesses the probability of an outflow for the warranty obligations as a whole.

The expected value of the cost of repairs is:

(75% of nil) + (20% of R1m) + (5% of R4m) = R400 000

.47 Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be

a higher or lower amount. For example, if government has to rectify a serious fault in a defence vessel that it has constructed for another government, the individual most likely outcome may be for the repair to succeed at the first attempt at a cost of R100 000, but a provision for a larger amount is made if there is a significant chance that further attempts will be necessary.

.48 The provision is measured before tax or tax equivalents (where applicable). Guidance on dealing with the tax consequences of a provision, and changes in it, is found in IAS 12.

Risks and uncertainties

.49 The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.

.50 Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgements under conditions of uncertainty, so that revenue or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a provision.

.51 Disclosure of the uncertainties surrounding the amount of the expenditure is made under paragraph .99(b).

Present value

.52 Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.

.53 Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting date are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.

.54 The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.

Future events

.55 Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

.56 Expected future events may be particularly important in measuring provisions. For example, certain obligations may be index linked to compensate recipients for the effects of inflation or other specific price changes. If there is sufficient evidence of likely expected rates of inflation, this should be reflected in the amount of the provision. Another example of future events affecting the amount of a provision is where government believes that the cost of cleaning up the tar, ash and other pollutants associated with a gasworks' site at the end of its life will be reduced by future changes in technology. In this case, the amount recognised reflects the cost that technically qualified, objective observers reasonably expect to be incurred, taking account of all available evidence as to the technology that will be available at the time of the clean-up. Thus, it is appropriate to include, for example, expected cost reductions associated with increased experience in applying existing technology or the expected cost of applying existing technology to a larger or more complex clean-up operation than has previously been carried out. However, an entity does not anticipate the development of a completely new technology for cleaning up unless it is supported by sufficient objective evidence.

.57 The effect of possible new legislation that may affect the amount of an existing obligation of an entity is taken into consideration in measuring that obligation when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient, objective evidence in every case. Evidence is required both of what legislation will demand and of whether it is virtually certain to be enacted and implemented in due course. In many cases, sufficient objective evidence will not exist until the new legislation is enacted.

Expected disposal of assets

.58 Gains from the expected disposal of assets shall not be taken into account in measuring a provision.

.59 Gains on the expected disposal of assets are not taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision. Instead, an entity recognises gains on expected disposals of assets at the time specified by the Standard of GRAP dealing with the assets concerned.

Reimbursements

.60 Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

.61 In the statement of financial performance, the expense relating to a provision

may be presented net of the amount recognised for a reimbursement.

.62 Sometimes, an entity is able to look to another party to pay part or all of the expenditure required to settle a provision, for example, through insurance contracts, indemnity clauses or suppliers' warranties. The other party may either reimburse amounts paid by the entity or pay the amounts directly. For example, an entity may have legal liability to an individual as a result of misleading advice provided by its employees. However, the entity may be able to recover some of the expenditure from professional indemnity insurance.

.63 In most cases, the entity will remain liable for the whole of the amount in question, so that the entity would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is recognised for the full amount of the liability, and a separate asset for the expected reimbursement is recognised when it is virtually certain that reimbursement will be received if the entity settles the liability.

.64 In some cases, the entity will not be liable for the costs in question if the third party fails to pay. In such a case, the entity has no liability for those costs and they are not included in the provision.

.65 As noted in paragraph .36, an obligation for which an entity is jointly and severally liable is a contingent liability to the extent that it is expected that the obligation will be settled by the other parties.

Changes in provisions

.66 Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.

.67 Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Use of provisions

.68 A provision shall be used only for expenditures for which the provision was originally recognised.

.69 Only expenditures that relate to the original provision are set against it. Setting expenditures against a provision that was originally recognised for another purpose would conceal the impact of two different events.

Application of the recognition and measurement rules

Future operating deficits

.70 Provisions shall not be recognised for deficits from future operating activities.

.71 Deficits from future operating activities do not meet the definition of liabilities in paragraph .17 and the general recognition criteria set out for provisions in paragraph .21.

.72 An expectation of deficits from future operating activities is an indication that certain assets used in these activities may be impaired. An entity tests these assets for impairment. Guidance on accounting for impairment is found in the Standards of GRAP on *Impairment of Non-cash-generating Assets* (GRAP 21) or *Impairment of Cash-generating Assets* (GRAP 26), as appropriate.

Onerous contracts

.73 If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract shall be recognised and measured as a provision.

.74 Paragraph .73 applies only to contracts that are onerous. Contracts to provide social benefits entered into with the expectation that the entity does not receive consideration that is approximately equal to the value of goods and services provided directly in return from the recipients of those benefits are excluded from the scope of this Standard.

.75 Many contracts evidencing exchange transactions (for example, some routine purchase orders) can be cancelled without paying compensation to the other party, and therefore there is no obligation. Other contracts establish both rights and obligations for each of the contracting parties. Where events make such a contract onerous, the contract falls within the scope of this Standard and a liability exists that is recognised. Executory contracts that are not onerous fall outside the scope of this Standard.

.76 This Standard defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it, which includes amounts recoverable. Therefore, it is the present obligation net of recoveries that is recognised as a provision under paragraph .73. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

.77 Before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets dedicated to that contract (see GRAP 21 or GRAP 26, as appropriate).

Restructuring

.78 The following are examples of events that may fall under the definition of restructuring:

(a) termination or disposal of an activity or service;

(b) the closure of a branch office or termination of activities of a government agency in a specific location or region or the relocation of activities from one region to another;

(c) changes in management structure, for example, eliminating a layer of management or executive service; and

(d) fundamental reorganisations that have a material effect on the nature and focus of the entity's operations.

.79 A provision for restructuring costs is recognised only when the general recognition criteria for provisions set out in paragraph .21 are met. Paragraphs .80 to .93 set out how the general recognition criteria apply to restructurings.

.80 A constructive obligation to restructure arises only when an entity:

(a) has a detailed formal plan for the restructuring, identifying at least:

(i) the activity/operating unit or part of an activity/operating unit concerned;

(ii) the principal locations affected;

(iii) the location, function, and approximate number of employees who will be compensated for their services being terminated;

(iv) the expenditures that will be undertaken; and

(v) when the plan will be implemented; and

(b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

.81 Restructuring may occur at national, provincial, municipal, portfolio or ministry, or entity level.

.82 Evidence that government or an entity has started to implement a restructuring plan would be provided, for example, by the public announcement of the main features of the plan, the sale or transfer of assets, notification of intention to cancel leases or the establishment of alternative arrangements for clients of services. A public announcement of a detailed plan to restructure constitutes a constructive obligation to restructure only if it is made in such a way and in sufficient detail (that is, setting out the main features of the plan) that it gives rise to valid expectations in other parties such as users of the service, suppliers and employees (or their representatives) that the entity will carry out the restructuring.

.83 For a plan to be sufficient to give rise to a constructive obligation when communicated to those affected by it, its implementation needs to be planned to begin as soon as possible and to be completed in a timeframe that makes significant changes to the plan unlikely. If it is expected that there will be a long delay before the

restructuring begins or that the restructuring will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of others that government or an entity is at present committed to restructuring, because the timeframe allows opportunities for the entity to change its plans.

.84 A decision by management to restructure taken before the reporting date does not give rise to a constructive obligation at the reporting date unless the entity has, before the reporting date:

(a) started to implement the restructuring plan; or

(b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting date, disclosure is required under the Standard of GRAP on *Events After the Reporting Date* (GRAP 14), if the restructuring is material and non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions.

.85 Although a constructive obligation is not created solely by a management decision, an obligation may result from other earlier events together with such a decision. For example, negotiations with employee representatives for termination payments, or with purchasers for the sale or transfer of an operation, may have been concluded subject only to management approval. Once that approval has been obtained and communicated to the other parties, the entity has a constructive obligation to restructure, if the conditions of paragraph .80 are met.

.86 The ultimate authority for making decisions about an entity is vested in management whose membership may include representatives that are not-employees of the entity. Notification to these representatives may be necessary before a management decision is taken. Because a decision by management involves communication to these representatives, it may result in a constructive obligation to restructure.

Sale or transfer of an operation

.87 No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding arrangement.

.88 Even when an entity has taken a decision to sell an operation and announced that decision publicly, it cannot be committed to the sale until a purchaser has been identified and there is a binding sale agreement. Until there is a binding sale agreement, the entity will be able to change its mind and indeed will have to take another course of action if a purchaser cannot be found on acceptable terms. When a sale of an operation is envisaged as part of a restructuring, the assets of the operation are reviewed for impairment under GRAP 21 or GRAP 26, as appropriate.

When a sale is only part of a restructuring, a constructive obligation can arise for the other parts of the restructuring before a binding sale agreement exists.

.89 Restructuring within government often involves the transfer of operations from one controlled entity to another and may involve the transfer of operations by way of a non-exchange transaction. Such transfers will often take place in terms of legislation or similar means. These are deemed to constitute binding arrangements as described in paragraph .87. Even where proposed transfers do not lead to the recognition of a provision, the planned transaction may require disclosure under other Standards of GRAP such as GRAP 14 and the Standard of GRAP on *Related Party Disclosures*.

Restructuring provisions

.90 A restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both:

(a) necessarily entailed by the restructuring; and

(b) not associated with the ongoing activities of the entity.

.91 A restructuring provision does not include such costs as:

(a) retraining or relocating continuing staff;

(b) marketing; or

(c) investment in new systems and distribution networks.

These expenditures relate to the future conduct of an activity and are not liabilities for restructuring at the reporting date. Such expenditures are recognised on the same basis as if they arose independently of a restructuring.

.92 Identifiable future operating deficits up to the date of a restructuring are not included in a provision, unless they relate to an onerous contract as defined in paragraph .17.

.93 As required by paragraph .58, gains on the expected disposal of assets are not taken into account in measuring a restructuring provision, even if the sale of assets is envisaged as part of the restructuring.

.94 [Deleted].

.95 [Deleted].

.96 [Deleted].

.97 [Deleted].

Disclosure

.98 For each class of provision, an entity shall disclose:

(a) the carrying amount at the beginning and end of the period;

(b) additional provisions made in the period, including increases to existing provisions;

(c) reductions in the carrying amounts of provisions that result from payments or other outflows of economic benefits or service potential made during the reporting period;

(d) reductions in the carrying amounts of provisions resulting from remeasurement of the estimated future outflow of economic benefits or service potential, or from settlement of the provisions without cost to the entity;

(e) unused amounts reversed during the period; and

(f) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

Comparative information is not required.

.99 An entity shall disclose the following for each class of provision:

(a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential;

(b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .55; and

(c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

.100 Where an entity elects to recognise in its financial statements provisions for social benefits for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits, it shall make the disclosures required in paragraphs .98 and .99 in respect of those provisions.

.101 Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability and, where practicable:

(a) an estimate of its financial effect, measured under paragraphs .43 to .59;

(b) an indication of the uncertainties relating to the amount or timing of any outflow; and

(c) the possibility of any reimbursement.

.102 In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar

for a single statement about them to fulfil the requirements of paragraphs .99(a) and (b), and .101(a) and (b). Thus, it may be appropriate to treat as a single class of provision amounts relating to one type of obligation, but it would not be appropriate to treat as a single class amounts relating to environmental restoration costs and amounts that are subject to legal proceedings.

.103 Where a provision and a contingent liability arise from the same set of circumstances, an entity makes the disclosures required by paragraphs .98, .99 and .101 in a way that shows the link between the provision and the contingent liability.

.104 An entity may in certain circumstances use an external valuation to measure a provision. In such cases, information relating to the valuation can usefully be disclosed.

.105 The disclosure requirements in paragraph .101 do not apply to contingent liabilities that arise from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods or services provided, directly in return from the recipients of those benefits (see paragraphs .02(a) and .07 to .11 for a discussion of the exclusion of social benefits from this Standard).

.106 Where an inflow of economic benefits or service potential is probable, an entity shall disclose a brief description of the nature of the contingent assets at the reporting date, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs .43 to .59.

.107 The disclosure requirements in paragraph .106 are only intended to apply to those contingent assets where there is a reasonable expectation that benefits will flow to the entity. That is, there is no requirement to disclose this information about all contingent assets (see paragraphs .38 to .42 for a discussion of contingent assets). It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of revenue arising. For example, a contingent asset would arise from a contract where an entity allows a private sector company to mine one of its properties in exchange for a royalty based on a set price per ton extracted and the company has commenced mining. In addition to disclosing the nature of the arrangement, the contingent asset should be quantified where a reasonable estimate can be made of the quantity of mineral to be extracted and the timing of the expected cash inflows. If there were no proven reserves or some other circumstances prevailed that indicated that it would be unlikely that any minerals would be extracted, the entity would not disclose information required by paragraph .106 as there is no probable flow of benefits.

.108 The disclosure requirements in paragraph .106 encompass contingent assets from both exchange and non-exchange transactions. Whether a contingent asset exists in relation to taxation revenues rests on the interpretation of what constitutes a “taxable event”. The determination of the taxable event for taxation revenue, and its possible

implications for the disclosure of contingent assets related to taxation revenues are dealt with in the Standard of GRAP on *Revenue from Non-exchange Transactions (Taxes and Transfers)*.

.109 It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of revenue arising.

.110 Where any of the information required by paragraphs .101 and .106 is not disclosed because it is not practicable to do so, that fact shall be stated.

.111 In extremely rare cases, disclosure of some or all of the information required by paragraphs .98 to .109 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

Transitional provisions

Initial adoption of the Standards of GRAP

.112 The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.

Amendments to Standards of GRAP

.113 Any amendments to the Standards of GRAP shall be applied retrospectively in accordance with GRAP 3.

.113A Paragraph .13 was amended by the Improvements to the Standards of GRAP issued in April 2017, as a consequential amendment derived from the amendment to GRAP 106. An entity shall apply this amendment prospectively to transfer of functions between entities not under common control for which the acquisition date is on or after 1 April 2018. Earlier application is encouraged. If an entity elects to apply this amendment earlier, it shall disclose this fact.

Effective date

Initial adoption of the Standards of GRAP

.114 An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.

Entities already applying Standards of GRAP

.115 ***[Deleted].***

.115A ***Paragraphs .17 and .89 were amended, and paragraph .17A added by the Standard of GRAP on Consolidated Financial Statements issued March 2017. An entity shall apply these amendments retrospectively for annual financial periods beginning on or after 1 April 2020. If an entity elects to apply these amendments earlier, it shall disclose this fact.***

.115B ***Paragraph .36 was amended by the Standard of GRAP on Joint Arrangements issued March 2017. An entity shall apply this amendment retrospectively for annual financial periods beginning on or after 1 April 2020. If an entity elects to apply this amendment earlier, it shall disclose this fact.***

.115C ***Paragraphs .06 and .94 to .97 were deleted, and paragraphs .04, .05 and .17 were amended by the revision of GRAP 104 issued in April 2019. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 April 2025. An entity shall apply these amendments retrospectively.***

Withdrawal of the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (2007)

.116 This Standard supersedes the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* issued in 2007.

Appendix A – Tables: Provisions, contingent liabilities, contingent assets and reimbursements

This appendix is illustrative only and does not form part of this Standard. The purpose of this appendix is to illustrate the application of this Standard and to assist in clarifying its meaning.

Provisions and contingent liabilities

Where, as a result of past events, there may be an outflow of resources embodying future economic benefits or service potential in settlement of: (a) a present obligation; or (b) a possible obligation whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.		
There is a present obligation that probably requires an outflow of resources.	**There is a possible obligation or present obligations that may, but probably will not, require an outflow of resources.**	**There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.**
A provision is recognised (paragraph .21). Disclosures are required for the provision (paragraphs .98 and .99).	No provision is recognised (paragraph .34). Disclosures are required for the contingent liability (paragraph .101).	No provision is recognised (paragraph .34). No disclosure is required (paragraph .101).

A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. Disclosures are required for the contingent liability.

Contingent assets

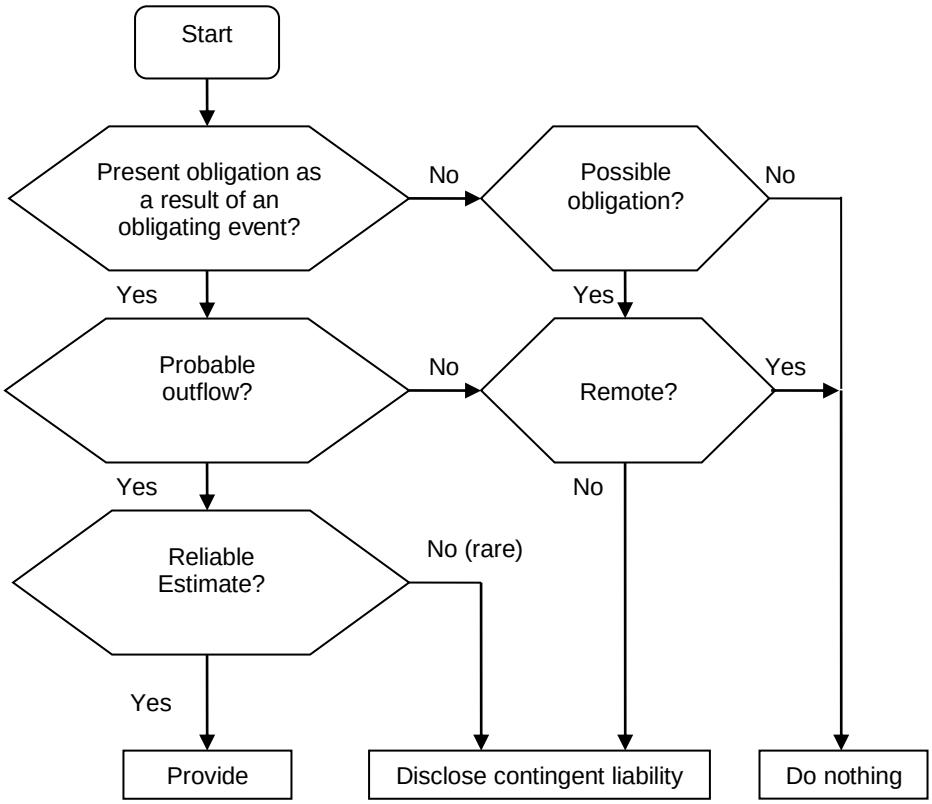
Where, as a result of past events, there is a possible asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.		
The inflow of economic benefits or service potential is virtually certain.	**The inflow of economic benefits or service potential is probable, but not virtually certain.**	**The inflow of economic benefits or service potential is not probable.**
The asset is not contingent (paragraph .40).	No asset is recognised (paragraph .38). Disclosures are required (paragraph .106).	No asset is recognised (paragraph .38). No disclosure is required (paragraph .106).

Reimbursements

Some or all of the expenditure required to settle a provision is expected to be reimbursed by another party.		
The entity has no obligation for the part of the expenditure to be reimbursed by the other party.	**The obligation for the amount expected to be reimbursed remains with the entity and it is virtually certain that reimbursement will be received if the entity settles the provision.**	**The obligation for the amount expected to be reimbursed remains with the entity and the reimbursement is not virtually certain if the entity settles the provision.**
The entity has no liability for the amount to be reimbursed (paragraph .64).	The reimbursement is recognised as a separate asset in the statement of financial position and may be offset against the expense in the statement of financial performance. The amount recognised for the expected reimbursement does not exceed the liability (paragraphs .60 and .61).	The expected reimbursement is not recognised as an asset (paragraph .61).
No disclosure is required.	The reimbursement is disclosed together with the amount recognised for the reimbursement (paragraph .99(c)).	The expected reimbursement is disclosed (paragraph .99(c)).

Appendix B – Decision tree

This appendix is illustrative only and does not form part of this Standard. The purpose of the decision tree is to summarise the main recognition requirements of this Standard for provisions and contingent liabilities.



Note: In some cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date (paragraph .22).

Comparison with the International Public Sector Accounting Standard on *Provisions, Contingent Liabilities and Contingent Assets* (October 2002)

This Standard is drawn primarily from the International Public Sector Accounting Standard on *Provisions, Contingent Liabilities and Contingent Assets* (IPSAS 19). The main differences between this Standard and IPSAS 19 are as follows:

- This Standard contains a definition of the term “management”, whereas IPSAS 19 does not.
- This Standard contains additional disclosure requirements to enhance the reporting of provisions and contingent liabilities. These additional disclosure requirements were adopted from the equivalent Australian Standard and were included as the Board considered the requirements to result in the provision of more useful and relevant information for users of financial statements.
- IPSAS 19 refers to “binding agreements” in the context of restructuring provisions, while this Standard refers to “binding arrangements”.
- Transitional provisions applicable to this Standard are dealt with differently than in IPSAS 19.