



ACCOUNTING STANDARDS BOARD

**PREFACE TO THE STANDARDS OF GENERALLY
RECOGNISED ACCOUNTING PRACTICE (GRAP)**



Accounting Standards Board

PO Box 74129

Lynnwood Ridge

0040

Copyright ©2011 by the Accounting Standards Board

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior permission of the Accounting Standards Board.

Permission to reproduce limited extracts from the publication will not usually be withheld.



Preface to the Standards of Generally Recognised Accounting Practice

Contents

	Paragraphs
Objective	1
Functions of the Board	2
Application of Standards of GRAP	3 - 7
Scope of Standards of GRAP	8 - 10
Publications issued by the Board	11 - 17
Setting of Standards of GRAP	18 - 22
Due process	23 - 35
Timing of application of Standards of GRAP	36 - 39
Communication	40 - 45



Preface to the Standards of Generally Recognised Accounting Practice

Objective

1. This Preface sets out the objectives and operating procedures of the Accounting Standards Board (the Board) and explains the scope and authority of the Standards of Generally Recognised Accounting Practice (Standards of GRAP).

Functions of the Board

2. In accordance with section 89 of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), as amended, the functions of the Board are:
 - a) i) set Standards of GRAP for the annual financial statements of institutions listed in paragraph 3;
 - ii) prepare and publish Directives, Guidelines and Interpretations of Standards of GRAP set in terms of paragraph (a)(i) above;
 - iii) recommend to the Minister of Finance (the Minister) effective dates of implementation of these Standards of GRAP for the different categories of institutions to which these Standards of GRAP apply;
 - iv) perform any other function incidental to advancing financial reporting in the public sector;
 - b) take into account all relevant factors in setting Standards of GRAP;
 - c) set different Standards of GRAP where necessary for different categories of institutions to which such Standards of GRAP apply; and
 - d) promote accountability, transparency and effective management of revenue, expenditure, assets and liabilities of the institutions to which these Standards of GRAP apply, in setting Standards of GRAP.

Application of Standards of GRAP

3. The Board must determine GRAP for the following institutions:
 - departments (including national and provincial and government components);
 - public entities;
 - trading entities;
 - constitutional institutions;
 - municipalities, municipal entities or any other entities under the ownership control of a municipality and, boards, commissions, companies, corporations and funds;
 - Parliament and the provincial legislatures.
4. The above are collectively referred to as “entities” in this document and in the Standards of GRAP.



5. The Board has decided that Statements of Generally Accepted Accounting Practice (GAAP), codified by the Accounting Practices Board (APB) and issued by the South African Institute of Chartered Accountants (SAICA), should be applied by the following entities:

- government business enterprises (GBE) (as defined in the PFMA);
- any other entities, other than a municipality, whose ordinary shares, or debt are publicly traded, or are potentially publicly tradable on the capital markets; and
- entities under the ownership control of any of the above entities.

The Board believes GAAP has more relevance and applicability to such entities as their activities are comparable to entities with a profit objective.

6. All other entities and the entities under their ownership control should apply GRAP.
7. The release of the Companies Act, 2009 has resulted in a conflict with the Treasury Regulations regarding the appropriate reporting framework for GBEs. The appropriate reporting framework for GBEs is being researched as some GBEs have ordinary shares or debt that are publicly traded, or are potentially publicly tradable in the capital markets. The decision in this regard and the amendments to the Treasury Regulations will be subject to a due process and will then be aligned.

Scope of Standards of GRAP

8. A Standard of GRAP should be read in the context of the objective stated in the Standard and this preface. Any exclusion from the scope of a particular Standard of GRAP is set out in the relevant Standard of GRAP itself.
9. In some cases, a Standard of GRAP permits alternative treatments for a transaction, other event and condition. When alternatives are allowed, additional disclosure requirements will be introduced to facilitate comparability. The financial statements of an entity may appropriately be described as being prepared in accordance with Standards of GRAP if use is made of one of the alternatives with appropriate disclosures.
10. All paragraphs in Standards of GRAP have equal authority. The authority of appendices is dealt with in the preamble to each appendix.

Publications issued by the Board

11. Standards of GRAP set out the recognition, measurement, presentation and disclosure requirements for financial reporting in the public sector in South Africa.
12. Directives may be used to set transitional provisions and transitional arrangements for the entities listed in paragraph 2.
13. Guidelines are used to explain and expand on the Standards of GRAP issued by the Board. Guidelines do not establish any new principles and do not have the authority of a Standard of GRAP.



14. The Board issues an Interpretation of a Standard of GRAP when the need arises. Any Standard of GRAP should be read in conjunction with applicable Interpretations. Compliance with GRAP requires compliance with every Standard of GRAP and every Interpretation issued by the Board.
15. A *Basis for Conclusions* will be published to explain significant departures that are made from the international equivalent of the standard. These deviations will usually be made to meet specific South African situations. Any Standard of GRAP should be read in conjunction with the *Basis for Conclusions* (where applicable). Where a departure from an International Accounting Standard (IAS) or International Financial Reporting Standard (IFRS) has been made by the International Public Sector Accounting Standards Board (IPSASB) and the Board concludes that the IASB text should be used, an explanation will be included in the *Basis for Conclusions*.
16. Reference may be made in a Standard of GRAP to another Standard of GRAP that has not been issued. This is done to avoid having to change Standards already issued when a Standard is subsequently issued. The ASB is able to anticipate the issuance of a standard if it is included in its published work programme. Paragraph .12 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance. The Directive on *Determining the GRAP Reporting Framework* explains the process to adopt when a Standard of GRAP has not yet been issued, but other international standards may be available to use.
17. Frequently Asked Questions (FAQs) are issued from time to time by the Secretariat to assist preparers but do not have the same authority as other documents issued by the Board. FAQs have not been through the due process of the Board but do not have the same authority as other documents that have been through such due process.

Setting of Standards of GRAP

18. In developing Standards of GRAP the Board considers and makes use of pronouncements issued by:
 - the IPSASB;
 - the IASB; and
 - other national and international accountancy organisations that develop financial reporting, accounting and auditing standards for the public sector.
19. In developing Standards of GRAP for the public sector, the Board is required to take into account all relevant factors, including:
 - (a) best accounting practices, both locally and internationally; and
 - (b) the capacity of relevant entities to comply with Standards of GRAP.
20. Standards of GRAP are developed either:
 - (a) by adapting International Public Sector Accounting Standards (IPSASs) issued by the IPSASB. The Board attempts, wherever possible, to maintain the accounting treatment and original text of the IPSASs unless there is a significant South



- African public sector issue including simplification for factors not applicable in South Africa that warrants a departure; or
- (b) by developing a Standard of GRAP to deal with a specific public sector issue that is either not comprehensively dealt with in an existing IPSAS or for which an IPSAS has not been developed by the IPSASB.
21. The development of a pronouncement involves the processes set out below. Some of these processes may be eliminated depending on the circumstances of the particular pronouncement.
- (a) Revisions of IASs and IFRSs

Any revision to an IAS or IFRS on which an IPSAS is based, after publication of the IPSAS, or any Interpretation of an IAS or IFRS issued by the IASB, will be taken into account when drafting a new Exposure Draft. Any draft Interpretations or Exposure Drafts of proposed amendments will not be considered when drafting the new Exposure Draft.
 - (b) Fundamental issues

Where an accounting principle or a significant element of a disclosure requirement contained in an international/national standard is considered to be in conflict with the current and developing body of international/national accounting knowledge, this would be regarded as a fundamental issue. The accounting principle or disclosure requirement may then be changed. It is expected that such changes will not be in conflict with the Framework for the Preparation and Presentation of Financial Statements (conceptual framework).
 - (c) Alternative treatments provided in international/national standards

Alternative treatments will be retained, provided that they satisfy the overriding requirement of fair presentation, and are not seen to be disqualified in terms of paragraph .21(b) above. However, where there is an allowed alternative treatment in the international/national standard in order to accommodate regulatory or other restrictions in other countries and, which is clearly not applicable in South Africa, such allowed alternative will be excluded from the South African Standard. But, where the international/national standard does not provide an alternative, and there is an alternative that should be allowed in South Africa, due to its fundamental importance, the alternative will be included.
 - (d) Simplification

Where an international standard is considered to be overly complex and that simplification of the issues can lead to reduced compliance costs without detracting from the quality of the financial statements of the South African Standard, changes will be made in the development of the South African Standard. Such simplifications will not result in conflicts with the conceptual framework.
 - (e) Statutory authority

Where the South African regulatory or legislative environment requires an amendment to the international standard, the international standard may be amended accordingly.



(f) Disclosure requirements

Disclosure requirements may be amended where the amendments are regarded as being significant for improving fair presentation of the matter. The Board will apply a test of “undue cost and effort” to determine the appropriateness of the disclosure requirements. The disclosure requirement will not be required in cases here the Board determines that the benefits of disclosure are marginal.

22. On topics for which there are no international/national equivalents, the ASB is required to research and draft a discussion document and an Exposure Draft. Thereafter, the final Standard of GRAP is prepared for consideration by the Board, based on principles that conform to the concepts set out in the conceptual framework.

Due process

23. The Board develops and publishes a work programme.
24. The Board consults with key stakeholders about its work programme and discusses technical matters in meetings that are open to the public. The work programme is open for comment by anyone with an interest in the activities of the ASB.
25. Board meetings are open to the public. However, as the number of seats available to the public is limited, the Board requires registration by observers before attending a meeting.
26. Standards of GRAP and other publications are developed through a due process that involves key stakeholders such as accountants, auditors, investors, legislators, preparers, regulators, and users of financial statements in the public sector. Representatives of these stakeholders participate in project groups that develop Standards of GRAP.
27. In developing Standards of GRAP, research is carried out to identify and review issues associated with the topic and to consider the application of the conceptual framework to the issues. Accounting requirements, practices and standards issued by other national or international standard-setting bodies are also studied.
28. Where sufficient national or international material is available on which to base a Standard of GRAP, such as an existing IPSAS or an IAS or IFRS, a project group is formed to give advice on the development of an Exposure Draft and advise the Board on specifically South African matters that should be considered. To maintain the link with the IPSAS, the Standard of GRAP is allocated the same number as the IPSAS. For example, IPSAS 1 and GRAP 1 both deal with *Presentation of Financial Statements*.
29. Where there is insufficient material, the project group will assist in the development of a discussion document to provide the basis for the development of a local Standard of GRAP. The Board approves the discussion document for publication. The discussion document is published on the Board’s web-site and notice of its publication is given in the Government Gazette. This enables an Exposure Draft to be developed by the project group based on the comments received on the discussion document.



30. Where a Standard of GRAP is developed and there is no IPSAS equivalent, the Standard will be assigned a number in a series of Standards of GRAP starting with 100. If and when IPSASB subsequently issues the equivalent Standard as an IPSAS, the number 100 Standard of GRAP will be withdrawn and re-issued as a Standard of GRAP with the IPSAS number. The same due process will be followed before changing the number of a Standard. Standards of GRAP have equal authority regardless of the numbering used.
31. The Board issues Exposure Drafts of all proposed Standards of GRAP for comment by interested parties including auditors, preparers (including treasuries), standard-setters, and individuals. The Exposure Drafts are published on the Board's web site and notice of the publication is given in the Government Gazette. The Board sets a reasonable time (normally three months) to allow interested parties to consider and comment on its proposals. This provides an opportunity for those affected by the Board's pronouncements to present their views before the pronouncements are finalised and approved by the Board. The Board considers all comments received on Exposure Drafts and makes such modifications as it considers appropriate. The basis for accepting or rejecting significant comments is published on the web site.
32. If considered appropriate, discussion forums and round table discussions are held in order to obtain further opinions on issues identified by the exposure process.
33. The draft of a Standard of GRAP, developed from the exposure process, is submitted to the Board for approval. If there are significant changes to the Standard under consideration, or unresolved issues remain, the Board may decide to issue a revised Exposure Draft.
34. For the purposes of approving a discussion document, an Exposure Draft or a Standard of GRAP, each Board member represented on the Board has one vote. A quorum of six members is required. A Standard of GRAP requires approval by at least two thirds of the total voting rights present at a meeting before the pronouncement is published and released. Discussion documents and Exposure Drafts are approved by at least a majority of the total voting rights present at a meeting.
35. The process for the development of Interpretations of Standards of GRAP, Guidelines and Directives is the same as the approach set out in the previous paragraphs, except that a discussion document may seldom be required for these types of pronouncements.

Timing of application of Standards of GRAP

36. The Board relies on the National Treasury and the Auditor-General to advise the Board on the capacity of the relevant entities to comply with the Standards. The Board may consult other stakeholders that may have a significant interest in the implementation of a Standard of GRAP on their readiness to implement. The Board may also issue questionnaires to specific preparers to assess their readiness to implement. This consultation process assists the Board in its responsibility to recommend a proposed implementation date to the Minister. It does not, however, pre-empt the Minister's prerogative to determine implementation dates.



37. The Minister may exempt an entity from compliance with one or all Standards of GRAP or a specific requirement thereof. The National Treasury administers the process of applying for exemptions.
38. The effective date of a Guideline is determined by reference to the effective date of the relevant Standards of GRAP.
39. Directives are effective when the Standard of GRAP is initially adopted, or on the date specified in the directive.

Communication

40. The primary means of communication with stakeholders is the ASB website. All Exposure Drafts, Standards, Directives, Guidelines and Interpretations of the Standards of GRAP are available electronically.
41. When the Board approves a document for comment, a notice of the comment period is published in the Government Gazette.
42. After each Board meeting a newsletter is sent to all those persons registered on the database. The newsletter is free of charge. Persons interested in registering for the newsletter can complete the registration form on the ASB website.
43. Awareness of the contents of documents issued by the ASB is achieved by making presentations at public forums.
44. The ASB contacts stakeholders to make them aware of the new documents issued and the need to comment. The ASB liaises with professional bodies in the accounting profession to create awareness amongst their members of documents issued.
45. The web address of the ASB is <http://www.asb.co.za>.