



ACCOUNTING STANDARDS BOARD

Preface to the Directives issued by the Accounting Standards Board



Accounting Standards Board

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Preface to the Directives issued by the Accounting Standards Board

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Preface to the Directives issued by the Accounting Standards Board

Objective

1. This Preface is issued by the Accounting Standards Board (the Board) and sets out the objectives, use and authority of directives to the Standards of Generally Recognised Accounting Practice (GRAP), and shall be read in conjunction with the *Preface to the Standards of GRAP*.

Use and authority of directives issued by the Board

2. The Board is required, in terms of section 89 of the Public Finance Management Act (PFMA), Act 1 of 1999, as amended, to:
 - set Standards of GRAP for the annual financial statements of the institutions listed in section 89(1)(a) of the PFMA, and
 - prepare and publish directives, guidelines and interpretations concerning the Standards of GRAP.
3. In accordance with section 89(1)(a) of the PFMA, the Board must determine GRAP for:
 - departments (national and provincial);
 - public entities;
 - trading entities;
 - constitutional institutions;
 - municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality;
 - parliament and the provincial legislatures.
4. The above are collectively referred to as “entities” in this document and all the directives, as well as in the Standards of GRAP.
5. The Board has approved the application of 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) to be GRAP for:
 - government business enterprises (GBEs)(as defined in the PFMA);
 - trading entities (as defined in the PFMA);
 - any other entity, other than a municipality, whose ordinary shares, potential ordinary shares or debt are publicly traded on the capital markets; and
 - entities under the ownership control of any of these entities.

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.

6. Accordingly, directives are only to be applied by those entities that apply Standards of GRAP.



7. Directives shall be read in conjunction with the relevant Standard(s) of GRAP, and have the same authority as those Standard(s).
8. Paragraph 10 of the *Preface to the Standards of GRAP* states that directives may be used to set transitional provisions and transitional arrangements for the entities listed in paragraph 3 above. The Board, is however, not precluded from issuing directives on other topics.
9. Paragraphs 10 to 26 below deal with directives prescribing transitional provisions for the Standards of GRAP.

Directives prescribing transitional provisions

Background

10. When the Board began developing Standards of GRAP, it included transitional provisions in the text of the relevant Standard of GRAP. The Board subsequently decided that it would revise the way in which it prescribed transitional provisions for the Standards of GRAP issued up to the end of June 2007, by issuing directives rather than including transitional provisions in the text of each particular Standard.
11. As a result, all existing transitional provisions included in the Standards of GRAP are repealed. Minor consequential amendments are also proposed to these Standards of GRAP as a result of issuing transitional provisions by way of a directive. (Refer to Directive 1 *Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of GRAP*).

Purpose and application of transitional provisions

12. The Board assists compliance with Standards of GRAP through the use of transitional provisions. Where transitional provisions exist, they may allow an entity additional time to meet the full requirements of, or provide relief from, certain requirements when initially applying a Standard of GRAP.
13. An entity may choose to take advantage of the additional time or specific exemptions granted in any transitional provision in any Standard of GRAP, although entities are generally encouraged to comply in full with the requirements of a Standard of GRAP as soon as possible after its initial adoption.
14. Where additional time is granted to entities in order to meet the full requirements of a particular Standard of GRAP, on the expiry of the transitional provisions, the entity shall prepare its financial statements in accordance with all the requirements of the relevant Standard of GRAP.
15. Transitional provisions that provide entities with additional time to comply with the requirements of a particular Standard of GRAP, commence from the date that that Standard of GRAP is first adopted.
16. For the periods in which an entity takes advantage of additional time or specific exemptions granted in any transitional provision, disclosure of this fact is required in



the financial statements. The entity accordingly discloses that it has used the transitional provisions of a particular Standard of GRAP, the plans it has in place to comply with the requirements of that Standard, and progress made against those plans.

Transitional provisions for different entities

17. Entities are in the process of migrating from different bases of accounting or financial reporting frameworks to Standards of GRAP, although not all entities are migrating to Standards of GRAP at exactly the same time. As the Board is required to consider the capacity of entities to implement the Standards of GRAP, the Board has deemed it appropriate to grant additional time to certain entities or types of entities that may not have sufficient capacity to implement the Standards of GRAP on their effective date.
18. As a result, the Board has developed transitional provisions for specific categories of entities established on the basis of the accounting and financial reporting framework previously applied by those entities, as well as whether or not those entities do in fact possess adequate capacity to implement the requirements of the Standards of GRAP. Transitional provisions have thus been developed for the following categories of entities:
 - Public entities, municipal entities and constitutional institutions.
 - High capacity municipalities.
 - Medium and low capacity municipalities.
19. Transitional provisions for departments, as well parliament and the provincial legislatures will be developed as and when these entities migrate to the accrual basis of accounting.

Application of directives prescribing transitional provisions for entities

20. The Board has developed different transitional provisions for different categories of entities, and thus separate directives have been issued for the various categories of entities.
21. National and provincial public entities, municipal entities and constitutional institutions shall apply Directive 2 *Transitional Provisions for Public Entities, Municipal Entities and Constitutional Institutions*.
22. High capacity municipalities shall apply Directive 3 *Transitional Provisions for High Capacity Municipalities*.
23. Medium and low capacity municipalities shall apply Directive 4 *Transitional Provisions for Medium and Low Capacity Municipalities*, irrespective of the basis of accounting or financial reporting framework applied previously. For example, if a medium capacity municipality applied to the National Treasury to apply the high capacity municipality financial reporting framework for 2006/07 and 2007/08, it must still apply the directive pertaining to medium and low capacity municipalities, rather than the directive for high capacity municipalities. Where entities have early adopted the Standards of GRAP and have made sufficient progress towards complying with those Standards, they are not



required to take advantage of any transitional provisions where specific exemptions or additional time is granted.

Effective dates of directives

24. As directives 2 to 4 prescribe transitional provisions for the Standards of GRAP issued by the Board, the directives become effective when the relevant Standards of GRAP are approved for implementation by the Minister of Finance.

Developing transitional provisions for newly issued Standards of GRAP

25. Transitional provisions for any Standards of GRAP issued after June 2007 by the Board will be developed and issued as follows:
- Once a final Standard of GRAP has been developed and approved by the Board, proposed transitional provisions will be developed closer to the proposed effective date of the Standard of GRAP.
 - The proposed transitional provisions will be issued as an exposure draft for a period of three months (although shorter or longer periods may be allowed, depending on the urgency of finalising a particular transitional provision).
 - Based on comment received, the final transitional provisions for a specific Standard of GRAP will be developed and issued.
 - Any new transitional provisions will be included in directive 2 to 4 by way of a consequential amendment to that directive.
26. It is the intention that once all entities have migrated to the accrual basis of accounting, existing transitional provisions will be revised and re-inserted into the text of the Standards of GRAP. At this future date, directives will no longer be used to prescribe transitional provisions.