

Communication – Preparation for the adoption of six newly effective Standards of GRAP

For reporting periods commencing on or after 1 April 2012, there are six newly effective Standards of GRAP. This means that for financial years ending 31 March 2013 and 30 June 2013 respectively, the following Standards of GRAP should be applied by public entities, constitutional institutions, municipalities and municipal entities:

- GRAP 21 *Impairment of Non-cash-generating Assets*
- GRAP 23 *Revenue from Non-exchange Transactions (Taxes and Transfers)*
- GRAP 24 *Presentation of Budget Information in the Financial Statements*
- GRAP 26 *Impairment of Cash-generating Assets*
- GRAP 103 *Heritage Assets*
- GRAP 104 *Financial Instruments*.

Transitional provisions have been prescribed for each of these Standards and are outlined in Directives 2, 3 and 4¹. A brief summary of the transitional provisions for each Standard, along with possible first-time adoption issues, is outlined below:

- GRAP 21 and 26 should be applied prospectively. Previously, entities would have applied IAS 36 *Impairment of Assets* and IPSAS 21 *Impairment of Non-cash-generating assets* in assessing their assets for impairment or, they would have used GRAP 21 or 26 in formulating an accounting policy. As GRAP 21 and GRAP 26 are similar to IAS 36 and IPSAS 21, only limited first time adoption issues are likely to arise.
- GRAP 23 should be applied retrospectively in accordance with GRAP 3 *Accounting Policies, Changes in Accounting Estimates and Errors*. Entities should analyse their existing revenue arrangements and develop criteria and policies which can be used to distinguish and account for exchange and non-exchange revenue.
 - Public entities: Public entities have used GRAP 23 to formulate their accounting policies for non-exchange revenue since 2009. The full adoption of GRAP 23 does mean that entities will now need to comply with all the disclosure requirements in full.
 - Municipalities: One of the key issues, particularly for municipalities, is the difference between GRAP 23 and GAMAP 9 *Revenue* regarding the treatment of grants and other transfers. Under GAMAP 9, entities may have deferred the recognition of revenue from grants and other transfers until the related expenditure was incurred. GRAP 23 only allows the deferral of revenue when a valid obligation exists. A valid obligation only exists where a grant or transfer is subject to conditions, i.e. the resources (which may be cash or other assets) must be used in a certain way or returned to the transferor. Entities should therefore review their existing arrangements and balances to identify whether any grants or transfers are subject to conditions (as defined in GRAP 23) and whether a liability should in fact be recognised. Any existing liabilities which arise from grants and transfers that are not subject to conditions should be derecognised and accumulated surplus or deficit adjusted using GRAP 3. Similarly, where any new liabilities are identified as a result of grants and transfers that are subject to conditions, these should be recognised. Another area where changes in accounting policy may be required is the recognition of revenue related to fines. Under GRAP 23, entities should recognise fines when the receivable meets the criteria to be recognised as an asset.

¹ Directives 2 to 4 refers to: Directive 2 *Transitional Provisions for Public Entities, Trading Entities, Constitutional Institutions and Municipal Entities*; Directive 3 *Transitional Provisions for High Capacity Municipalities* and Directive 4 *Transitional Provisions for Medium and Low Capacity Municipalities*.

With the exception of GRAP 104, these Standards were already effective for Parliament and the Provincial Legislatures. These entities should consult the transitional provisions in Directive 8 *Transitional Provisions for Parliament and the Provincial Legislatures* for GRAP 104.

Trading entities will be required to apply Standards of GRAP, including these six Standards, from 1 April 2013.

- GRAP 24 should be applied prospectively. In previous reporting periods, entities would have presented a brief comparison of budgeted and actual amounts in the financial statements in order to comply with the requirements of GRAP 1 *Presentation of Financial Statements*. GRAP 24 requires a detailed comparison of actual and budgeted information either by including an additional column in the financial statements (where the actual and budgeted results are on the same basis) or, by presenting a separate statement of comparison of budgeted and actual information. Where budgeted and actual information is prepared using a different basis (i.e. basis of accounting, classification and, includes different entities or activities), actual information is adjusted so that it is comparable to the budgetary basis. It is expected that the National Treasury may issue guidance outlining the format of the comparison for certain types of entities. Entities should however familiarise themselves with the requirements of the Standards, identify the differences between the basis used to prepare the budget and actual information and, develop policies to facilitate comparison and reconciliation of the information.
- GRAP 103 should be applied retrospectively. Previously, no prescriptive accounting requirements existed for heritage assets. Although GRAP 103 should be applied retrospectively, entities are granted a period of three years in which to measure their heritage assets². These transitional provisions are similar to those granted to medium and low capacity municipalities for other asset-related Standards. Although entities are allowed three years within which to comply with the initial and subsequent measurement requirements of the Standard, entities should undertake a physical verification of the heritage assets on hand at 31 March/30 June 2012 to assist in determining the opening balance for the 2012/13 reporting period. To do this, entities would need to develop a policy for distinguishing heritage and other assets such as property, plant and equipment, investment properties, inventories, intangible assets etc., and apply this policy in identifying heritage assets that are to be included in the asset register. As an opening balance is required for heritage assets (both for the 2012/13 reporting period and the comparative period), entities should undertake a significant amount of work in advance of the effective date of 1 April 2012 in order to comply with the Standard and to apply it retrospectively.
- GRAP 104 should also be applied retrospectively, except where indicated otherwise. In previous reporting periods, entities would have applied IAS 39 or, they may have used GRAP 104 to formulate their accounting policies. The main difference between GRAP 104 and IAS 39 is the elimination of certain categories of financial assets in GRAP 104. As a result of these differences in categorisation, entities should analyse the financial assets recognised as at 31 March/30 June 2012 and categorise them using the requirements in GRAP 104. Entities should also take note of the carrying values and fair values of any instruments at that date as these will form the basis of either the fair value or carrying value going forward.

Based on the discussions outlined above, it is important that entities begin planning for the adoption of the newly effective Standards of GRAP and undertake certain activities in advance of the 1 April 2012 effective date. Executive summaries of the Standards can be downloaded from the ASB's website. More detailed GRAP Guides and other useful tools are available on the OAG's website.

This summary has been prepared by the Secretariat of the ASB. This summary only highlights the most common issues that are likely to arise across a range of entities and is consequently not complete. This summary is not intended to replace a comprehensive analysis of the requirements of the relevant Standards of GRAP and their transitional provisions and, the possible effect on the various arrangements, transactions and balances within individual entities.

² This three year transitional period means that entities must comply with all the requirements of GRAP 103 by 31 March/30 June 2015. Entities should also consider the requirements of Directive 7 *The Application of Deemed Cost for the Initial Adoption of the Standards of GRAP*.