



Comments due by 15 February 2012

**ACCOUNTING STANDARDS BOARD
INVITATION TO COMMENT ON PROPOSED
GRAP REPORTING FRAMEWORK FOR 2012/13
AND
AMENDMENTS TO DIRECTIVE 5
(ED 94)**



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Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the Exposure Draft of the proposed *GRAP Reporting Framework for 2012/13 and Amendments to Directive 5*. The purpose of this Exposure Draft is to outline the reporting framework to be applied by entities for financial years commencing on or after 1 April 2012 and proposed amendments to Directive 5. Once finalised, Directive 5 will be updated with the proposed amendments, including the addition of the 2012/13 reporting framework as an appendix to Directive 5 *Determining the GRAP Reporting Framework*.

The proposals in this Exposure Draft may be modified in the final documents in the light of comment received. Comment should be submitted in writing so as to be received by **15 February 2012**. Email responses are preferred. Unless respondents to this Exposure Draft specifically request confidentiality, their comment is a matter of public record once Directive 5 has been updated. Comment should be addressed to:

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INTRODUCTION

Standards of Generally Recognised Accounting Practice

The Accounting Standards Board (the Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

- (a) departments (national and provincial);
- (b) public entities;
- (c) trading entities (as defined in the PFMA);
- (d) constitutional institutions;
- (e) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and
- (f) Parliament and the provincial legislatures.

The above are collectively referred to as “entities”.

The Board has approved the application of Statements of Generally Accepted Accounting Practice (GAAP), as codified by the Accounting Practices Board and issued by the South African Institute of Chartered Accountants, to be GRAP for:

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

The Board believes that Statements of GAAP are relevant and applicable to financial statements prepared by all such entities, including those under their ownership control.

Section 89(1)(b) of the PFMA, requires the Board to prepare and publish directives and guidelines concerning the Standards of GRAP as set in paragraph 89(1)(a) of the PFMA. The *Preface to the Standards of GRAP* determines that directives will be used to set transitional provisions and transitional arrangements for the entities required to comply with Standards of GRAP. Directives issued by the Board in terms of section 89(1)(b) of the PFMA therefore have the same authority as the Standards of GRAP.

Directives should be read in conjunction with the relevant Standard(s) of GRAP, as well as the *Preface to the Directives issued by the Accounting Standards Board*.

Background and purpose of this Exposure Draft

This Exposure Draft is set out in two parts:

- Part I sets out the proposed GRAP reporting framework for the 2012/13 reporting period; and
- Part II outlines proposed amendments to the existing appendices in Directive 5.

Part I – Proposed GRAP reporting framework for 2012/13

Directive 5 *Determining the GRAP Reporting Framework* comprises the pronouncements issued by the Board and, where relevant, other standard-setters, to be applied by entities when preparing their financial statements in accordance with Standards of GRAP. The appendices to Directive 5 list the Standards and pronouncements that form the GRAP Reporting Framework for a particular reporting period.

The Board revises the reporting framework on an annual basis as a result of:

- Standards of GRAP, Interpretations or other publications that have become effective or have been issued;
- Standards and pronouncements issued by other standard-setters, such as the International Public Sector Accounting Standards Board (IPSASB) and International Accounting Standards Board (IASB); and
- Any other developments that require Directive 5 or its related appendices to be revised.

Standards of GRAP and other pronouncements of the Board

The Minister of Finance announced that six new Standards of GRAP would become effective from 1 April 2012. As a result of this announcement, entities are required to apply the following Standards of GRAP for the 2012/13 reporting period:

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

At the time of issuing this Exposure Draft, the Minister of Finance had not yet announced effective dates of the Standards of GRAP included in paragraphs A6 to A7 of the Appendix.

Pronouncements of other standard-setters

While a number of pronouncements have been issued by the IPSASB and IASB, the Board has not proposed the application of any additional International Public Sector Accounting Standards (IPSASs) or International Financial Reporting Standards (IFRSs) for the 2012/13 reporting period. The Board's rationale for not prescribing the recent pronouncements of the IASB and IPSASB is as follows:

- The IPSASB has issued IPSAS 32 *Service Concession Arrangements* but, because the Board has already issued guidance for such transactions in the Guideline on *Accounting for Public-Private Partnerships*, the IPSAS should not be applied.
- The IASB has issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. As the Board has issued equivalent Standards that deal with these topics, i.e. GRAP 6 on *Consolidated and Separate Financial Statements*, GRAP 7 *Investments in Associates*, and *Interests in Joint Ventures*, these IFRSs should not be applied. The Board will consider the effect of these IFRSs on the existing Standards of GRAP in due course.
- The IASB has also issued IFRS 13 *Fair Value Measurement*. Although fair value is used as a measurement basis in a number of Standards of GRAP, the Board has not fully considered the appropriateness of IFRS 13 for the public sector. As a result, this IFRS should not be applied.
- During 2010, the IASB issued a practice statement on Management Commentary which may voluntarily be applied by entities that prepare their financial statements in accordance with IFRSs. As this practice statement provides guidance on the preparation of information outside the financial statements, it is not within the scope of the GRAP reporting framework.

Other amendments

For the last two reporting periods, the Board issued two appendices for each reporting period: one appendix for public entities, constitutional institutions, municipalities and municipal entities, and another appendix for Parliament and the legislatures. The Board deemed it necessary to issue two separate appendices as the composition of the reporting framework was different for Parliament and the legislatures, due to the fact that certain Standards were effective for Parliament and the legislatures earlier than other entities.

With the announcement of an effective date for GRAP 21, 23, 24, 26 and 103 there is no difference between the reporting framework for Parliament and the legislatures and other entities that are presently required to apply Standards of GRAP.

As a result, the Board has reverted to issuing only one appendix, Appendix G, for the 2012/13 reporting period. This appendix should be applied by all public entities, municipalities, municipal entities, constitutional institutions and, Parliament and the legislatures.

The Board issued Directive 9 *The Application of the Standards of GRAP by Trading Entities* in November 2011. This Directive requires trading entities (as defined in the PFMA) to apply Standards of GRAP from 1 April 2013, with early application permitted. As a result, Directive 5, including appendix G, may be applied by trading entities for the 2012/13 reporting period.

Part II – Amendments to Directive 5

The Board has issued appendices to Directive 5 outlining the reporting framework for periods commencing on or after 1 April 2008. The Board is proposing to delete the content of earlier appendices published so as to reduce the volume of Directive 5. In particular, the Board proposes deleting the following appendices:



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- Appendix A: 1 April 2008 - Public entities, constitutional institutions, municipalities and municipal entities
- Appendix B: 1 April 2009 - Public entities, constitutional institutions, municipalities and municipal entities
- Appendix C: 1 April 2010 - Public entities, constitutional institutions, municipalities and municipal entities
- Appendix D: 1 April 2010 - Parliament and the legislatures

Due process and timetable

The due process followed by the Board in developing the GRAP Reporting Framework for the 2012/2013 reporting period and the proposed amendments to Directive 5, is for the Board to receive comment on the proposals set out in this Exposure Draft from preparers, users, auditors, standard-setters and other parties with an interest in public sector financial reporting. All interested parties are thus invited to provide comment.

Upon the closure of the comment period, the Board will consider the comment received on the Exposure Draft. The proposed Appendices may be modified in the light of the comment received before including them in Directive 5.

Request for comment

Comment on this Exposure Draft is invited by **15 February 2012**. The Board requests that respondents express an overall opinion on whether the Exposure Draft, in general, is supported and to supplement this opinion with detailed comment, whether supportive or critical. Respondents are also invited to provide detailed comment identifying the specific paragraphs to which it relates, explaining the issue and suggesting alternative wording, with supporting reasoning, where appropriate. The basis for accepting or rejecting significant comment will be published on the website.

PART I – PROPOSED GRAP REPORTING FRAMEWORK FOR 2012/13

APPENDIX G: 1 APRIL 2012

This Appendix forms part of the Directive.

This Appendix lists the standards and pronouncements that are the GRAP Reporting Framework effective for financial periods commencing on or after 1 April 2012 and should be applied as set out in paragraphs .04 and .05 of Directive 5.

This appendix shall be applied by public entities, constitutional institutions, municipalities, municipal entities, trading entities, Parliament and the provincial legislatures.

- A1. Entities are required to apply the Standards of GRAP where the Minister has determined the effective date. The Minister has determined the effective date for the Standards of GRAP outlined below (paragraph .09 of Directive 5). For Parliament and the provincial legislatures, any notice published by the Minister of Finance outlining the effective dates of the Standards of GRAP should be read in conjunction with the legislation governing the financial management of Parliament and the relevant legislature.

Reference	Topic
GRAP 1	Presentation of Financial Statements (as revised in 2010)
GRAP 2	Cash Flow Statements (as revised in 2010)
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)
GRAP 4	The Effects of Changes in Foreign Exchange Rates (as revised in 2010)
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions (as revised in 2010)
GRAP 10	Financial Reporting in Hyperinflationary Economies (as revised in 2010)
GRAP 11	Construction Contracts (as revised in 2010)
GRAP 12	Inventories (as revised in 2010)
GRAP 13	Leases (as revised in 2010)
GRAP 14	Events After the Reporting Date (as revised in 2010)
GRAP 16	Investment Property (as revised in 2010)
GRAP 17	Property, Plant and Equipment (as revised in 2010)
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)

Reference	Topic
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 Financial Statements
GRAP 26	Impairment of Cash-generating Assets
GRAP 100	Non-current Assets Held for Sale and Discontinued Operations (as revised in 2010)
GRAP 101	Agriculture
GRAP 102	Intangible Assets
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments

- A2. Directives issued and effective that entities are required to apply (paragraph .14 of Directive 5):

Reference	Topic
Directive 1	Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of GRAP
Directive 2	Transitional Provisions for the Adoption of Standards of GRAP by Public Entities, Municipal Entities and Constitutional Institutions
Directive 3	Transitional Provisions for the Adoption of Standards of GRAP by High Capacity Municipalities
Directive 4	Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities
Directive 5	Determining the GRAP Reporting Framework
Directive 6	Transitional Provisions for Revenue Collected by the South African Revenue Service (SARS)
Directive 7	The Application of Deemed Cost on the Adoption of Standards of GRAP
Directive 8	Transitional Provisions for Parliament and the Provincial Legislatures
Directive 9	The Application of the Standards of GRAP by Trading Entities

- A3. Interpretations of the Standards of GRAP approved that entities are required to apply (paragraph .10 of Directive 5):

Reference	Topic
IGRAP 1	Applying the Probability Test on Initial Recognition of Exchange Revenue
IGRAP 2	Changes in Existing Decommissioning, Restoration and Similar Liabilities

Reference	Topic
IGRAP 3	Determining whether an Arrangement Contains a Lease
IGRAP 4	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IGRAP 5	Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
IGRAP 6	Loyalty Programmes
IGRAP 7	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IGRAP 8	Agreements for the Construction of Assets from Exchange Transactions
IGRAP 9	Distributions of Non-cash Assets to Owners
IGRAP 10	Assets Received from Customers
IGRAP 13	Operating Leases – Incentives
IGRAP 14	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IGRAP 15	Revenue – Barter Transactions Involving Advertising Services

- A4. Approved guideline of Standards of GRAP that entities are required to apply (paragraph .15 of Directive 5):

Reference	Topic
Guide 1	Guideline on Accounting for Public Private Partnerships

- A5. Effective IFRSs and IFRICs¹ that entities are required to apply, to the extent that they are applicable (paragraphs .21 to .27 of Directive 5):

Reference	Topic
IFRS 4 (AC 141)	Insurance Contracts
IFRS 6 (AC 143)	Exploration for and Evaluation of Mineral Resources
IAS 12 (AC 102)	Income Taxes
SIC – 25 (AC 425)	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
SIC – 29 (AC 429)	Service Concession Arrangements – Disclosures
IFRIC 12 (AC 445)	Service Concession Arrangements

¹ IFRSs and IFRICs can be downloaded from <http://www.ifrs.org>

- A6. Standards of GRAP approved, but for which the Minister of Finance has not yet determined an effective date, and that entities may consider in formulating an accounting policy (paragraph .30 of Directive 5):

Standards of GRAP that may be used in developing an accounting policy:

Reference	Topic
GRAP 25	Employee Benefits
GRAP 105	Transfers of Functions Between Entities Under Common Control ²
GRAP 106	Transfers of Functions Between Entities Not Under Common Control
GRAP 107	Mergers

Standards of GRAP that an entity may use to disclose information in its financial statements:

Reference	Topic
GRAP 20	Related Party Disclosures ³

- A7. Approved Standards of GRAP that entities are not required to apply:

Reference	Topic
GRAP 18	Segment Reporting

² Where an entity uses GRAP 105, 106 and/or 107 to formulate an accounting policy, it should also consider the amendments to GRAP 6, 7 and 8 published in 2010, along with IGRAP 11 and 12.

³ Annexure A to D previously required the application of IPSAS 20 on *Related Party Disclosures*. An entity may either continue to disclose this information using IPSAS 20 or, it may consider GRAP 20 in formulating these disclosures.

PART II – AMENDMENTS TO DIRECTIVE 5

The Board proposes deleting the body of the text included in Appendices A to D included in Directive 5 *Determining the GRAP Reporting Framework* as follows:

B1. Delete the body of text included in Appendix A as follows:

APPENDIX A: 1 APRIL 2008

PUBLIC ENTITIES, CONSTITUTIONAL INSTITUTIONS, MUNICIPALITIES AND MUNICIPAL ENTITIES

Paragraphs A1 to A5 to be deleted.

B2. Delete the body of text included in Appendix B as follows:

APPENDIX B: 1 APRIL 2009

PUBLIC ENTITIES, CONSTITUTIONAL INSTITUTIONS, MUNICIPALITIES AND MUNICIPAL ENTITIES

Paragraphs A1 to A6 to be deleted.

B3. Delete the body of text included in Appendix C as follows:

APPENDIX C: 1 APRIL 2010

PUBLIC ENTITIES, CONSTITUTIONAL INSTITUTIONS, MUNICIPALITIES AND MUNICIPAL ENTITIES

Paragraphs A1 to A8 to be deleted.

B4. Delete the body of text included in Appendix D as follows:

APPENDIX D: 1 APRIL 2010

PARLIAMENT AND THE LEGISLATURES

Paragraphs A1 to A7 to be deleted.