



**ANALYSIS AND RESPONSES TO WRITTEN COMMENT
RECEIVED ON**

**EXPOSURE DRAFT OF *PROPOSED TRANSITIONAL
PROVISIONS FOR THE FIRST TIME ADOPTION OF
THE STANDARD OF GRAP ON ACCOUNTING BY
PRINCIPALS AND AGENTS***

(ED 133)



RESPONSES TO THE WRITTEN COMMENT RECEIVED ON EXPOSURE DRAFT 133 ON PROPOSED TRANSITIONAL PROVISIONS FOR THE FIRST TIME ADOPTION OF THE STANDARD OF GRAP ON ACCOUNTING BY PRINCIPALS AND AGENTS

The Accounting Standards Board (Board) approved an Exposure Draft of Proposed Transitional Provisions for the First Time Adoption of the Standard of GRAP on Accounting by Principals and Agents in July 2015. A Notice was also published in the Government Gazette on the 21st of August 2015 (Notice 39127). The comment period closed on the 16th of October 2015.

The results of the formal comment process are summarised in this document, and include the Board's responses to the comment received.

The Board received comment letters from the South African Revenue Service (SARS), National Treasury (Office of the Accountant-General), and the South African Institute of Chartered Accountants (SAICA). A comment letter was also received from the Free State Provincial Treasury, which included comments from the following entities:

- Department of the Premier.
- Department of Education.
- Department of Treasury.
- Department of Co-operative Governance and Traditional Affairs.
- Department of Sports, Arts, Culture and Recreation.
- Free State Tourism Authority.

In addition to the comment letters received, the Exposure Draft was discussed with preparers, auditors and consultants at the October Public Sector Accounting Forum, and the Western Cape Technical Forum.

Comments raised at this session is summarised in a separate analysis.

ANALYSIS OF RESPONSES TO ED 133 PROPOSED TRANSITIONAL PROVISIONS FOR THE INITIAL ADOPTION OF THE STANDARD OF GRAP ON ACCOUNTING BY PRINCIPALS AND AGENTS

The following entities (listed under their relative representative categories) participated in the formal comment process:

No.	Name/Organisation	Preparers	Users	Auditors & Accountants	Other bodies
Formal comment process					
1	SARS	√			
2	National Treasury – Office of the Accountant-General	√			
3	SAICA				√
4	Free State Provincial Treasury, including: <ul style="list-style-type: none"> • Department of the Premier. • Department of Education. • Department of Treasury. • Department of Co-operative Governance and Traditional Affairs. • Department of Sports, Arts, Culture and Recreation. • Free State Tourism Authority. 	√			
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PROPOSED TRANSITIONAL PROVISIONS FOR THE
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COMMENTS ON ED 133 PROPOSED TRANSITIONAL PROVISIONS FOR THE INITIAL ADOPTION OF THE STANDARD OF GRAP ON ACCOUNTING BY PRINCIPALS AND AGENTS		
No.	Comments	Board's response
GENERAL		
1.	SARS	
1.1	SARS is in agreement with the proposed changes to Directive 6.	Noted. No further action required.
1.2	GRAP 109 in itself will not create transactions, it merely dictates the disclosure of transactions that are recognised in accordance with other GRAP standards. SARS will therefore have no difficulty to retrospectively apply GRAP 109. It is the underlying standards (GRAP 23) that we will have a difficulty in applying retrospectively.	Noted. No further action required.
2.	National Treasury (OAG)	
2.1	<p>The team felt that in the public sector most principal agent agreements happened between the different spheres of government, for this reason it was agreed that retrospective application would be onerous and may increase audit fees.</p> <p>It was agreed that all contracts should be accounted for prospectively from the applicable date. It was suggested that additional disclosure notes could be used to provide more information on the resulting differences in the reported figures. It was suggested that in the current year explanations should be provided for the differences in the reported figures i.e. the figures with</p>	Noted. GRAP 109 provides guidance on when to recognise revenue and expenses in the statement of financial performance. It would be inappropriate to report revenue and expenses differently over two reporting periods, as this does not provide relevant information to users of the financial statements to make decisions. The information provided in a particular year is either over- or under- stated, and



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	GRAP 109 and the figures without.	<p>because it may be potentially different, it has limited predictive value.</p> <p>Based on other comments received, the Board has revised the transitional provisions to make it clear that contracts that were completed on or before the effective date of the Standard.</p> <p>This issue has subsequently been discussed with the OAG on the MCS. It was confirmed that the MCS has been aligned with the principles in GRAP 109, and that these requirements will be applied prospectively from 1 April 2015. As the proposed effective date of GRAP 109 is 1 April 2017, there will be sufficient historical information for 2015 and 2016 to ensure that “symmetry” is achieved in the accounting for the periods in question.</p>
2.2	It was agreed that there is a need to consult the budget office on the potential impact on the budget. It was felt that there would be an impact if budgets were prepared using accounting information. It was also agreed that discussions should be held on how the ratios for FMCMM will be affected.	Noted. These issues will be raised at the Trilateral Meeting where the final transitional provisions are discussed.
2.3	It was agreed that since the standard is being applied prospectively for modified cash clients the same should be done for GRAP clients. It was felt that retrospective application would be very onerous. In the same vein most principle agent relationships are between different spheres of government and therefore the application should be consistent for all. The team felt that the impact of retrospective application should be closely scrutinized since the burden that it	Noted. For the reasons outlined in 2.1, no change is proposed.



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	would place on the municipalities may defeat the purpose and spirit of the standard, an example of this sort of scenario is GRAP 103 the team felt that lessons should be learnt from this.	
2.4	There was a concern about the timeframes for the implementation of the standard as it coincides with the implementation of SCOA, this would make the workload excessive for the municipality, it was proposed that the implementation date be moved to 2018.	The Secretariat works closely with the mSCOA team on new developments, including GRAP 109. No concerns have been raised about the proposed effective date of the Standards.
3.	SAICA	
3.1	<p>Reference: Page 6, Paragraph 02.</p> <p><i>The paragraph states that:</i></p> <p><i>When an entity initially adopts a Standard of GRAP, the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors requires an entity to apply the requirements of the Standard being adopted retrospectively</i></p> <p>It may be impracticable to apply the standard retrospectively especially for contracts or agreements that are not active in the year in which the standard becomes effective.</p> <p>The requirement to apply the standard retrospectively only be applicable to contracts and agreements that are active in the current and prior year i.e. The year in which standards becomes effective and the prior year.</p>	Noted and agreed. The Board has changed the transitional provisions to make it clear that the requirements of the Standard need not be applied to arrangements that are completed on or before the effective date of the Standard.
3.2	<p>Reference Page 7, paragraph .08 (h)</p> <p>The sentence reads as follows:</p>	Noted and agreed. The Board has amended the wording in ED 133 as suggested.



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	<p><i>Accounting by Principals and Agents, insofar as the Standard applies to the recognition of receivables and payables...</i></p> <p>Consideration should be given to adding the words “<u>assessment of the</u>” since GRAP 109 refers to other GRAP standards for the actual recognition and measurement of revenue, assets and liabilities from Principal and Agent relationships.</p> <p><i>Accounting by Principals and Agents, insofar as the Standard applies to the <u>assessment of the</u> recognition of receivables and payables...</i></p>	
4.	Free State Provincial Treasury	
4.1	<p>The departments and public entity agree with the proposed transitional provisions for the initial adoption of the Standard of GRAP on Accounting by Principals and Agents, except the Department of Education. This department is of the view that the standards should be implemented prospectively in order to develop and implement proper systems of reporting (par.01). Provincial Treasury is also of the opinion that retrospective implementation could pose challenges for departments which still reporting on the modified cash basis of accounting in terms of alignment of systems in this regard.</p>	<p>The Board will consider the implication on adopting GRAP 109 for departments once the planned implementation of Standards of GRAP for departments has been communicated by the OAG.</p>
4.2	<p>The departments and public entity agree with the proposal of an effective date of 1 April 2017 for the Standard of GRAP on Accounting by Principals and Agents, except the Department of Education and the Department of Sport, Arts, Culture and Recreation.</p> <p><u>Education</u></p> <p>This department indicated that if the standard is to be applied retrospectively, an effective date of 1 April 2017 might pose a challenge to obtain the necessary information from the current</p>	<p>Noted. The Modified Cash Standard has been updated to align with GRAP 109. These amendments are effective from 1 April 2015 and will be applied prospectively.</p> <p>When departments are required to implement</p>



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	<p>systems to disclose comparative figures, with which the Provincial Treasury agrees.</p> <p><u>Sports, Arts, Culture and Recreation</u></p> <p>The department basis its argument on the silence of GRAP 109 on private enterprises and recommends that a clear guideline should be provided to establish which entities/forms of companies should be allowed to enter into principal-agent relationship with government, which would cater for transversal contracts or departmental contracts such as travelling agencies and event managers.</p>	<p>Standards of GRAP, this issue will be considered.</p> <p>Noted. The use of principal-agent arrangements in an entity's operations is a business decision rather than an accounting related issue. As a result, no guidance can be issued in this regard.</p>
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