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TO: MEMBERS OF THE BOARD
FROM: AMANDA BOTHA
SUBJECT: ISSUES PAPER – POST-IMPLEMENTATION REVIEW OF GRAP 108 ON STATUTORY RECEIVABLES
DATE: 11 JULY 2023
FILE REF: ATTACHMENT 6(a)

BACKGROUND AND PURPOSE

1. GRAP 108 on *Statutory Receivables* became effective for financial years commencing on or after 1 April 2019 for all entities applying the Standards of GRAP, other than trading entities. Trading entities applied GRAP 108 for financial years commencing on or after 1 April 2021.
2. The Board granted transitional relief of three years for the classification and measurement of statutory receivables following the date of first adoption. When an entity elected to apply the transitional relief, it was not required to comply with the disclosure requirements until the statutory receivables were classified and measured in accordance with GRAP 108. The transitional period ended on 31 March 2022 for all entities other than trading entities. Trading entities can apply the transitional relief until 31 March 2024.
3. To assist entities with the implementation of GRAP 108, the Secretariat has developed the following guidance:
 - Financial Instruments Fact Sheet #1 on *Applying the Definition of a Financial Instrument* that clarifies, among others, whether a receivable should be classified as a statutory receivable using GRAP 108 or a contractual receivable using GRAP 104 on *Financial Instruments*;
 - Financial Instruments Fact Sheet #11 on *Classification of VAT* that clarifies when the VAT control account should be classified as a statutory or contractual receivable. This will depend on whether an entity is registered for VAT on the invoice (accrual) or payment (cash) basis;
 - A Frequently Asked Question (FAQ) on *When should an entity present revenue and receivables from exchange and non-exchange transactions on the face of the financial statements or in the notes* that explains whether a receivable or payable is exchange or non-exchange; and

Board Members: Ms P Moalusi (Chair), Mr C Braxton, Ms W de Jager, Mr D Dlamini,
Mr S Khan, Ms A Muller, Ms N Themba, Mr A van der Burgh
Chief Executive Officer: Ms J Poggiolini Technical Director: Ms E van der Westhuizen



- A FAQ on *How a statutory receivable arises*.
4. In addition, the Office of the Accountant-General (OAG) has developed a GRAP Accounting Guideline to assist with the implementation of GRAP 108.
 5. As part of its work programme for 2024 to 2026, the Board is undertaking a post-implementation review (hereafter “review”) of GRAP 108. This review is undertaken in two phases, i.e.:
 - Phase one – this phase has been completed and identified issues in the environment through various means.
 - Phase two – this phase will use the information from phase one to develop an Exposure Draft (ED) of the *Invitation to Participate in the Post-implementation Review of GRAP 108*. The ED will outline key questions that will be the subject of the discussions with various stakeholders.
 6. The approved project brief is included as attachment 6(b).

PURPOSE OF THIS MEMORANDUM

7. The purpose of this memorandum is to present to the Board a summary of the results of phase one.

PHASE ONE OF THE REVIEW

Approach to phase one of the review

8. To understand the practical challenges with the application of GRAP 108, the Secretariat consulted the Office of the Accountant-General (OAG) and the Technical Audit Support (TAS) unit of the Auditor-General South Africa (AGSA). These stakeholders provide technical support to preparers and auditors and have experience in dealing with queries on practical challenges with the implementation of GRAP 108.
9. The following additional sources were considered to identify issues:
 - The AGSA’s PFMA (2021/22) and MFMA (2020/21) General Reports.
 - Queries responded to by the Secretariat.
 - Matters discussed at the Public Sector Accounting Forum (PSAF).
 - Queries raised by auditors with the TAS unit of the AGSA.
 - Queries raised with the OAG, including the mSCOA team.
 - Issues raised by the GRAP 104 Reference Group.
10. There is an inherent limitation to phase one as not all the issues that may exist with the application of GRAP 108 can be identified.

Undertaking a desktop review of the latest available financial statements of entities applying Standards of GRAP

11. Phase one also included a desktop review of a selection of entities’ financial statements to understand how they apply the principles in GRAP 108, and what information they present and disclose in their financial statements on statutory receivables. Entities that apply Standards of GRAP and were considered likely to have statutory receivables were included in the sample selection.

12. The latest available audited financial statements from the 2021/22 reporting period were considered. Where the 2021/22 audited financial statements were unavailable (mostly for municipalities and municipal entities), the 2020/2021 financial statements were reviewed. The accompanying audit reports were also reviewed to obtain context for the financial statements, and identify further issues.
13. It was observed that a limited number of entities applied the three-year transitional relief. From the 2020/2021 financial statements that were included in the desktop review, only three entities applied the transitional relief.
14. The number of financial statements selected for each category of entity is summarised in Annexure A.

Sufficiency of the review

15. The Secretariat is of the view that the number of financial statements reviewed was sufficient to identify pervasive issues relating to GRAP 108, and that it is unlikely that any additional issues will be identified from reviewing more financial statements.

ACTION REQUESTED #1

Board members are requested to NOTE the approach followed for phase one.

RESULTS OF PHASE ONE

16. This phase identified general issues with the preparation of financial statements, and specific issues related to the application of GRAP 108. The findings were pervasive and not specific to any province, or any type of entity.
17. The matters identified in phase one will be included in the ED and will form the basis for engaging stakeholders as part of phase two of the project.

General issues with the preparation of financial statements

18. The desktop reviews identified the following general issues on the preparation of the financial statements:

Issue	Specific observation
<p>Using boilerplate information in accounting policies and notes</p>	<p>Accounting policies (policies) and/or notes often include boilerplate information, instead of explaining how the specific principles in GRAP 108 apply to the entity’s circumstances, and/or what legislation, supporting regulations or similar means (hereafter legislation or similar means) give rise to the statutory receivable.</p> <p>Examples of boilerplate information included in policies are:</p> <ul style="list-style-type: none"> • generic descriptions of a statutory receivable using the definition from GRAP 108; • definitions from GRAP 108 for carrying amount, nominal interest rate, transaction amount and cost method; • general asset recognition principles; • the initial and subsequent measurement principles of statutory receivables from GRAP 108;

	<ul style="list-style-type: none"> • generic explanations on: <ul style="list-style-type: none"> (a) how to calculate and measure an impairment loss or the reversal thereof; (b) what to consider in estimating future cash flows when calculating an impairment loss; (c) when an impairment loss should be reversed; (d) the minimum impairment indicators as listed in GRAP 108; and (e) the derecognition principles for statutory receivables from GRAP 108.
Application of materiality and inconsistent information in the financial statements	<p>Entities either:</p> <ul style="list-style-type: none"> (a) have a policy on statutory receivables, but no statutory receivables are reflected in their financial statements; or (b) do not have a policy on statutory receivables, despite presenting information on statutory receivables in the notes and/or on the face of the statement of financial position. <p>It was also observed that entities sometimes combine the policy on statutory receivables with the policy on contractual receivables.</p> <p>From these observations it appears that entities do not consider materiality when providing information on statutory receivables in the financial statements, including developing policies. Entities also provide inconsistent information in the financial statements.</p>

Specific issues with the application of GRAP 108

19. Phase one identified the following specific issues with the application of GRAP 108:

Issue	Specific observation
Awareness of GRAP 108 being effective	<p>Some stakeholders did not consider or apply GRAP 108, despite having material receivables arising from legislation or similar means. Their financial statements do not have a policy for statutory receivables, nor do the notes on receivables separately distinguish statutory receivables from contractual or other receivables.</p> <p>It appears as if some stakeholders are unaware that GRAP 108 is effective.</p>
Classification of statutory receivables	<ul style="list-style-type: none"> • Entities are unsure when a receivable should be classified as a statutory receivable using GRAP 108, or a contractual receivable using GRAP 104. • Different practices are applied to classify statutory receivables. For example:

	<p>(a) Some municipalities classify “availability charge debtors” as statutory receivables, while others classify these charges as contractual receivables.</p> <p>(b) The VAT receivable is classified differently by entities, for example some present the VAT receivable separate from contractual or statutory receivables on the face of the statement of financial position, while others include it as part of receivables from exchange or non-exchange on the face of the statement of financial position with an explanation to indicate if it is statutory or contractual in nature.</p>
Initial recognition and measurement	The policy indicates that the statutory receivable is initially recognised at fair value and measured at amortised cost that approximates fair value, instead of measuring the receivable at its transaction amount.
Presentation of statutory receivables	<ul style="list-style-type: none"> • Where statutory receivables are presented as a separate line item on the face of the statement of financial position, the relevant policy and/or note does not always indicate whether the statutory receivable arises from an exchange or non-exchange transaction. • Where receivables are classified on the face of the statement of financial position as either exchange or non-exchange, the relevant note does not always indicate which of the exchange and non-exchange receivables are statutory or contractual in nature.
Disclosure	<p>The GRAP 108 minimum disclosure requirements were not provided. Examples include:</p> <ul style="list-style-type: none"> • General information not included in either the policy or note: <ul style="list-style-type: none"> (a) how the statutory receivable arises, and how the transaction amount is determined with reference to the specific legislation or similar means; (b) the initial and subsequent measurement of the statutory receivable (i.e. at the transaction amount and using the cost method); (c) whether the statutory receivable and any accrued interest or other charges (i.e. penalties and fines) arise from an exchange or non-exchange transaction; (d) how accrued interest and other charges are levied, the basis and rate used to recognise these, and the legislation or similar means that gives rise to them; and (e) how and when a statutory receivable should be derecognised. • Information on the impairment of statutory receivables is not included in either the policy or note:

	<ul style="list-style-type: none"> (a) the basis used to assess and test if a statutory receivable is impaired, and/or how receivables are grouped and assessed for collective impairment; (b) whether the current risk free rate (or another rate) is applied to estimate the future cash flows (where applicable), and/or how the discount rate is determined to calculate impairment; (c) significant impairment losses recognised during the period, either in the statement of financial performance or in a reconciliation in the notes to the financial statements; (d) the main events and circumstances that led to the recognition or reversal of an impairment loss, in aggregate; and (e) key indicators and assumptions used to assess and calculate if a statutory receivable is impaired. <ul style="list-style-type: none"> • Information on the collectability of statutory receivables not included in the note: <ul style="list-style-type: none"> (a) an analysis of statutory receivables that are past due at the reporting date that have, or have not been impaired; and/or (b) factors considered in assessing these impairment losses.
Transitional provisions	<p>Entities questioned:</p> <ul style="list-style-type: none"> • if it is required to disclose an accounting policy that is aligned with GRAP 108 during the transitional period; and • what information to present in the financial statements where they applied the transitional relief.

20. The Technical Committee did not identify any other matters that should be considered during the development of the ED.

ACTION REQUESTED #2

Board members are requested to:

(a) NOTE the issues identified from phase one; and

(b) INDICATE if there are any other matters to be considered in developing the ED.

NEXT STEPS

21. The Secretariat will commence with phase two of the project and develop an ED. This ED will be considered by the Technical Committee and Board at their November and December 2023 meetings respectively.

Attachment A – Number of entities included in the initial review as part of phase one

Category of entity	Total number of entities	Number of entities to be reviewed	% selected
Constitutional institutions	9	1	11%
Public entities ¹ (2)	21	1	5%
National public entities (3A) ²	155	25	16%
National GBEs ¹ (3B)	21	2	10%
Provincial public entities (3C) ²	56	9	16%
Provincial GBEs ¹ (3D)	17	2	11%
Metro Municipalities ²	8	3	38%
District Municipalities	44	4	10%
Non-delegated local municipalities ²	205	35	16%
Municipal Entities	51	5	10%
Parliament	1	1	100%
Provincial Legislatures	9	1	11%
TVET colleges	50	5	10%
CET Colleges	9	1	11%
Total		95	

¹ Not all Schedule 2, 3B and 3D entities apply the Standards of GRAP.

² The sample selection for Schedule 3A and 3C, non-delegated local municipalities and metro municipalities were higher compared to other entities, as these entities were considered more likely to apply GRAP 108.