

**Post-implementation  
Review of GRAP 109  
*Accounting by Principals  
and Agents*  
(ED 200)**





# Disclaimer

***The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.***



# Overview of session

1. Background to the post-implementation review
2. Objective of reporting on principal-agent arrangements
3. Identifying principal-agent arrangements
4. Identifying roles of parties to a principal-agent arrangement
5. Applying materiality to principal-agent arrangements
6. Applying GRAP 109 with other Standards of GRAP
7. Disclosure in the financial statements



# Background to the post-implementation review





# Background to the post-implementation review

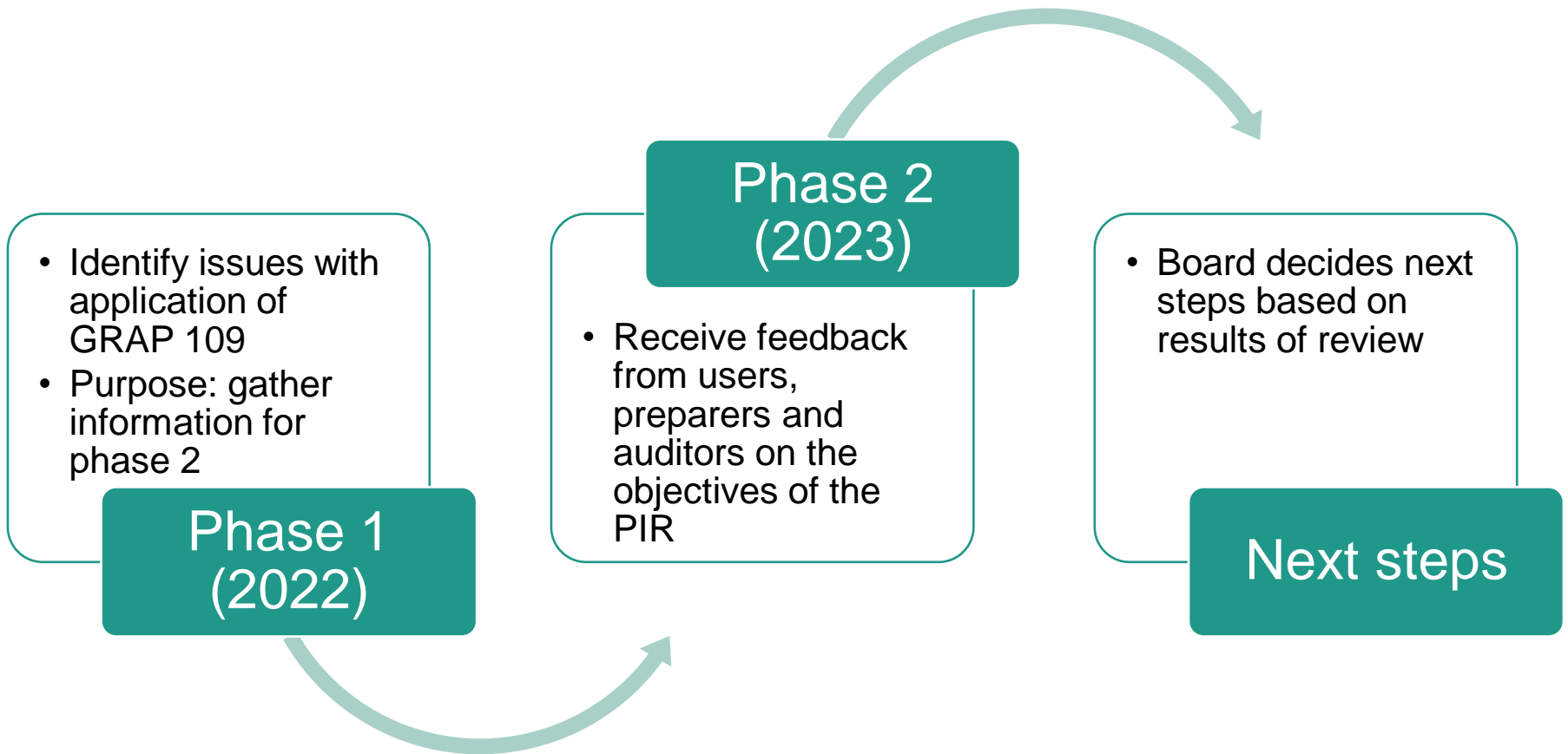
- GRAP 109 became effective 1 April 2019
- Transitional provisions:
  - Retrospective application for all arrangements in progress at the effective date
- Available guidance to assist with implementation:
  - Secretariat's FAQs (<https://www.asb.co.za/frequently-asked-questions/>)
  - Presentation by the OAG ([Technical Support website](#))

# Objectives of the post-implementation review

- Board agreed with stakeholders to do a post-implementation review to:

Users	<ul style="list-style-type: none"> <li>• Determine extent to which GRAP 109 provides relevant &amp; useful information to users of financial statements</li> <li>• Identify what other information users require on principal-agent arrangements in financial statements</li> </ul>
Preparers	Understand implementation challenges, and extent to which these challenges impair consistent application of GRAP 109
Auditors	Understand audit issues raised on accounting by principals and agents

# Phases of the post-implementation review



# Have your say on GRAP 109

- ED 200 *Invitation to Participate in PIR of GRAP 109* on website (<https://www.asb.co.za/ed-200/>)
- Supporting material on website with ED
- Participate through:
  - Questionnaires (on website) – submit responses to [info@asb.co.za](mailto:info@asb.co.za)
  - Any form of written submission to [info@asb.co.za](mailto:info@asb.co.za)
  - Stakeholder engagements – contact [info@asb.co.za](mailto:info@asb.co.za) to ensure you are invited
- Comment period closes **15 September 2023**



# Objective of reporting on principal-agent arrangements



# Objective of reporting on principal-agent arrangements

- Primary objective of public sector entities - provide services to citizens



- To meet government objectives, entities have activities executed by other entities, or undertake activities on behalf of other entities
- May result in principal-agent arrangements
- Public sector entities are accountable to those that provide them with resources, and those that depend on them to use those resources for service delivery
  - Accountability is cornerstone of financial reporting





# What are principal-agent arrangements?

A **principal-agent arrangement**...

...results from a **binding arrangement** in which **one entity (an agent)**, undertakes **transactions with third parties on behalf**, and for the benefit of, **another entity (the principal)**

# What are principal-agent arrangements?

## EXAMPLES

Collection of revenue (incl. taxes, fees and other charges) from specific parties

- Motor vehicle licence fees collected by municipalities for provincial government
- Taxes collected by revenue authority for national government

Construction of assets

Houses built for (a) beneficiaries of RDP, (b) national and provincial housing departments, and (c) organisations

Provision of goods and services to recipients

Provision of water to specific communities by municipalities on behalf of water service authorities

Property management services

Maintenance of properties and collection of revenue for DPW and municipalities



# Information on principal-agent arrangements in financial statements

- Purpose is to enable users to:
  - make decisions on whether principal-agent arrangements effectively meet their purpose in delivering services; and
  - hold entities accountable for use of public funds to deliver services in these arrangements
- Apply GRAP 109 *before* other Standards of GRAP to identify the transactions each party in arrangement accounts for
- Account for revenue, expenses, assets, liabilities i.a.w. other applicable Standards of GRAP

# Identifying principal-agent arrangements



# A binding arrangement exists

- A **binding arrangement** is necessary for a principal-agent arrangement to exist
  - Any arrangement that confers enforceable rights and obligations on parties to arrangement
  - May be in form of contract / legislation / common law / combination of these
- One binding arrangement may include multiple arrangements – may be combination of principal-agent arrangement(s) & other type of arrangements

# A binding arrangement exists

## Question P1

How do you experience identifying:

- a) whether a binding arrangement exists; and
- b) all the rights and obligations that may exist within a binding arrangement (including arrangements governed by both legislation and contracts, and multiple arrangements)?

Please describe your experience – whether positive or negative. If negative, indicate how, in your view, your challenges could be resolved.



# A binding arrangement exists

## Question P2

Are you aware of binding arrangements that contain multiple rights and obligations, which arise from principal-agent arrangements and other type of arrangements? If yes, please provide details and examples.

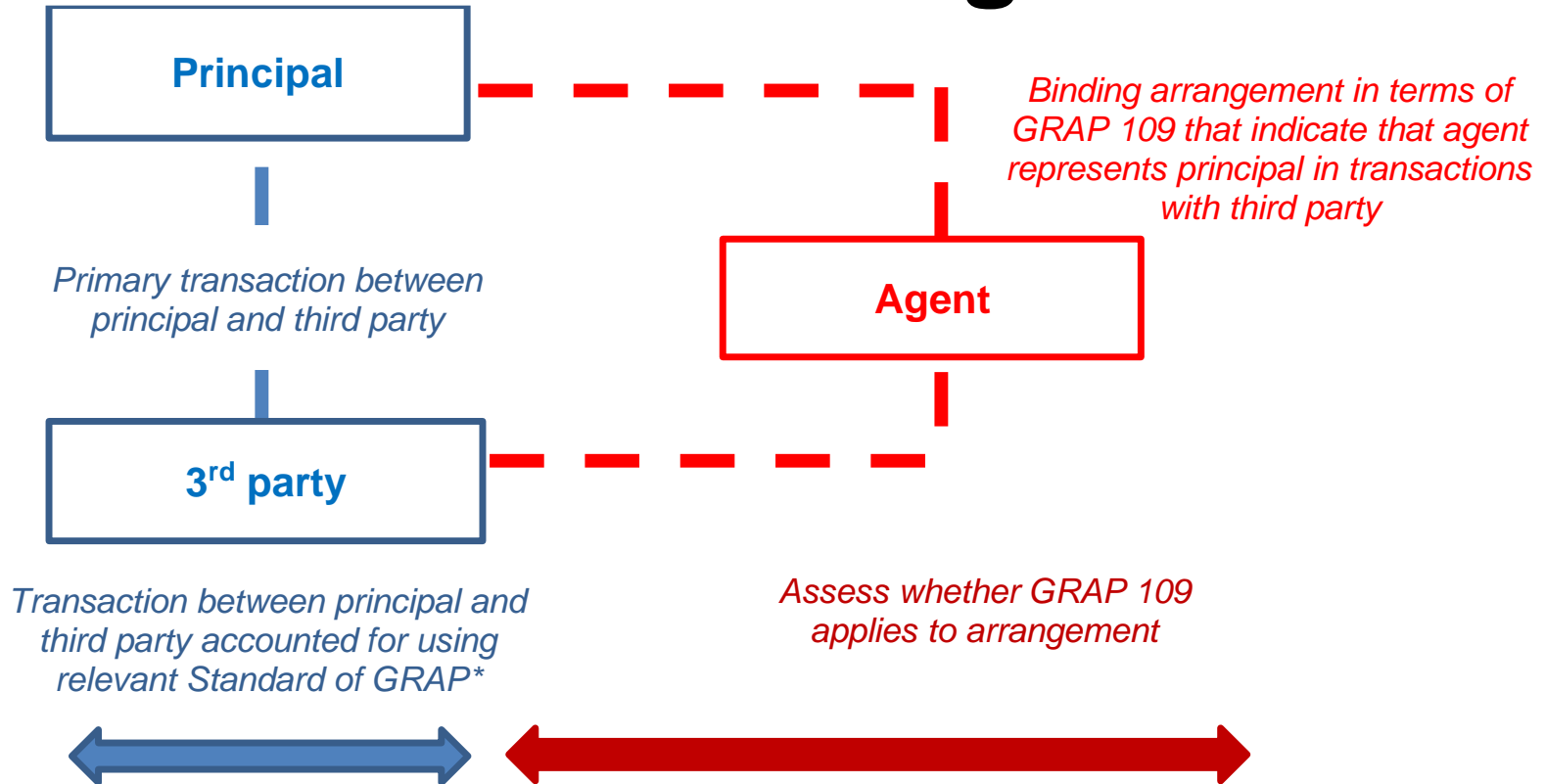


# Distinguishing principal-agent arrangements from other arrangements

- **Third parties are involved and the transactions with third parties are undertaken on behalf of and for the benefit of the principal**



# Distinguishing principal-agent arrangements from other arrangements



*\*Transaction between third party and principal will be governed by a separate binding arrangement.*



# Distinguishing principal-agent arrangements from other arrangements

## EXAMPLES where assessment of transactions with 3<sup>rd</sup> parties are key

Entities (e.g. national and provincial departments) are required by legislative arrangements to collect money from public entities or other agencies and to subsequently deposit the money into the relevant revenue fund.

Although departments seemingly undertake activities on behalf of the revenue fund, the arrangements do not provide specific direction in relation to transactions with third parties and may be administrative in nature.  
➤ May not meet the definition.

Control relationships mean the controlling entity is able to direct the activities of the controlled entity so that it benefits from those activities

Control relationship does not by itself indicate existence of principal-agent arrangement. Only principal-agent where controlling entity specifically directs controlled entity to undertake transactions with third parties for controlling entity's benefit.



# Transactions with third parties

## Question P3

How do you experience identifying whether:

- a) an arrangement includes transactions with third parties; and
- b) the transactions with third parties are undertaken (by the agent) on behalf of and for the benefit of another party (the principal)?

Please describe your experience – whether positive or negative, and provide examples where available. If your experience is negative, indicate how, in your view, your challenges could be resolved.



# Nature of transactions with third parties

- Linked to type of activities carried out by agent i.a.w. binding arrangement

## Specific financial transactions

- E.g. sale or purchase transaction

## Interactions with third parties

- E.g. negotiations with third parties

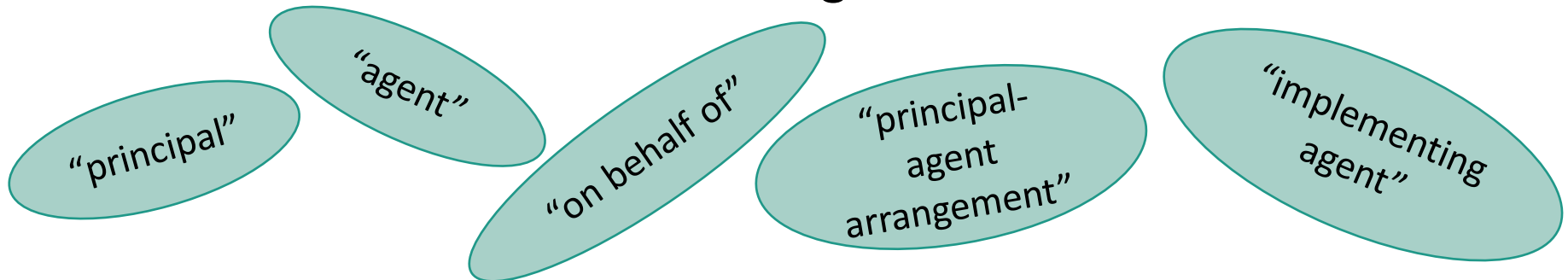
# Nature of transactions with third parties

## Question P4

In your experience, what type of transactions (financial transactions and transactions that represent the interests of the principal) are undertaken by an agent with third parties on behalf of and for the benefit of the principal? Please provide details and examples.

# Substance over form

- Assess **economic substance over legal form**
  - Assess if definition of principal-agent arrangement in GRAP 109 is met, irrespective of terminology used in binding arrangement or legal interpretation of arrangement
- E.g. terminology in binding arrangement may be used with different meanings to GRAP 109





# Substance over form

## Question P5

- a) How do you experience applying substance over form when assessing whether an arrangement meets the definition of a principal-agent arrangement? Please describe your experience – whether positive or negative. If negative, indicate how, in your view, your challenges could be resolved.
- b) Please provide details and examples of instances when you have applied substance over form in assessing whether an arrangement meets the definition of a principal-agent arrangement. Please describe how any challenges identified in (a) were overcome.

# Identifying arrangements that meet the definition

## Question P6

Please provide details of any other challenges you experience to assess whether an arrangement meets the definition of a principal-agent arrangement, and how, in your view, these challenges could be resolved.

# Identifying arrangements that meet the definition

## Question P7

How do you experience applying the definition of a principal-agent arrangement in GRAP 109 to assess whether GRAP 109 should be applied to an arrangement? Please describe your experience – whether positive or negative. If negative, indicate how, in your view, your challenges could be resolved.

# Identifying arrangements that meet the definition

## Question U1

Does the definition of a principal-agent arrangement in GRAP 109 result in information that is useful in the financial statements, i.e. does the definition align with the arrangements on which you need the information in the financial statements?

# Identifying roles of parties to a principal-agent arrangement



# Roles of parties to a principal-agent arrangement

- **Only if an arrangement is a principal-agent arrangement**
- Assess whether entity undertakes transactions for its own benefit (i.e. it is the principal), or for the benefit of another entity (i.e. it is the agent)
  - Criteria in GRAP 109.25
  - Substance over form



# Roles of parties to a principal-agent arrangement

.25 An entity is an agent when, in relation to transactions with third parties, **all three** of the following criteria are present:

- a) It does not have the power to determine the significant terms and conditions of the transaction.
- b) It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- c) It is not exposed to variability in the results of the transaction.

# Roles of parties to a principal-agent arrangement

## Question P8

- a) How do you experience applying the criteria in GRAP 109.25 to assess whether an entity is the agent in a principal-agent arrangement?
- b) How do you understand and assess criterion (c) *the entity is not exposed to variability in the results of the transaction?*

Please describe your experience – whether positive or negative. If negative, indicate how, in your view, your challenges could be resolved.



# Roles of parties to a principal-agent arrangement

## Question P9

In your view, are there any other criteria that should be included in GRAP 109.25 to identify whether an entity is an agent in a principal-agent arrangement? Please provide details.



# Roles of parties to a principal-agent arrangement

- **Exception** – regulatory powers
  - legislation grants powers to an entity to determine terms and conditions of particular transactions.
- Criterion .25(a) may not be useful; criteria .25(b) and (c) are more relevant

# Roles of parties to a principal-agent arrangement

## Question P10

- a) Please provide details of instances where you applied GRAP 109.26 to determine whether an entity is an agent in a principal-agent arrangement.
- b) Please indicate whether the guidance in GRAP 109 is helpful to identify whether an entity is the agent in a principal-agent arrangement in the circumstances described in GRAP 109.26. If not, please provide details on how the guidance could be improved.

# **Applying materiality to principal-agent arrangements**



# Applying materiality

- GRAP 1 on *Presentation of Financial Statements*
  - Present each material class separately
  - Specific disclosure requirements in a Standard need not be satisfied if the information is immaterial
- Guideline on *The Application of Materiality to Financial Statements*
  - Phases during reporting period when materiality is considered
  - Quantitative and qualitative considerations



**Materiality applies to principal-agent arrangements**



# Applying materiality

## Question P11

- a) How do you experience applying materiality to account for, and report on, principal-agent arrangements in the financial statements? Please describe your experience – whether positive or negative. If negative, indicate how, in your view, your challenges could be resolved.
- b) If you have not applied materiality to principal-agent arrangements, please provide the reasons why.



# Applying GRAP 109 with other Standards of GRAP





# Applying GRAP 109 with other Standards

- Apply GRAP 109 before other Standards of GRAP to identify transactions each party accounts for.

## Principal

- Transactions with third parties

## Agent

- Revenue and expenses associated with agency service
- Assets and liabilities in certain circumstances





# Applying GRAP 109 with other Standards

## Question P12

How do you experience applying other Standards of GRAP with GRAP 109?

Please describe your experience – whether positive or negative. If negative, indicate how, in your view, your challenges could be resolved.

# Recognising assets and liabilities as an agent



# Recognising assets and liabilities as an agent

- Both parties apply principles in applicable Standards of GRAP and Conceptual Framework
- **Agent:**
  - Indicators in GRAP 109 to assess whether should recognise receivable / payable
  - Examples:
    - Asset for resources held indistinguishable from agent's own assets such as homogenous inventory (and related liability)
    - Receivable for amounts required to collect that are owed to principal (and related liability)
    - Payable for amounts obligated to settle on behalf of principle (and related receivable)

# Recognising assets and liabilities as an agent

- **Indicators:**

- a) Debt is due to, or due by, agent (i.e. agent is counterparty in transaction with third party)
- b) Agent has legal right to enforce collection of debt, or legal obligation to settle debt.
- c) Agent determines amount that must be paid by, or to, third party based on policies determined by principal.
- d) Agent determines manner and timing of settlement.
- e) Agent has power & discretion to write off debts owing by third parties.
- f) Agent has obligation to undertake certain activities i.t.o. binding arrangement.

# Recognising assets and liabilities as an agent

## Question P13

How do you experience applying the requirements of GRAP 109 to recognise rights and obligations from principal-agent arrangements as assets and liabilities (under the circumstances explained in GRAP 109)?

Please describe your experience – whether positive or negative. If negative, indicate how, in your view, your challenges could be resolved.



# Recognising assets and liabilities as an agent

## Question P14

Are the indicators in GRAP 109.57 helpful to assess whether an agent should recognise a receivable or a payable?

If not, please provide details, and include information on the indicators that would be more helpful.

# Disclosing information about principal-agent arrangements in the financial statements



# Disclosing information

- **Purpose:** Information to users to make decisions on whether principal-agent arrangements effectively meet purpose of arrangement in delivering services
  - **General** information about principal-agent arrangements
  - Information provided by the **agent** in a principal-agent arrangement
  - Information provided by the **principal** in a principal-agent arrangement
- **Entity-specific** and **complete**



# Disclosing information: general

- Information on **nature and risks** of arrangement:
  - Entity's role in arrangement (principal / agent) and its judgements in making this assessment
  - Purpose, terms and conditions of arrangement, significant risks and benefits of relationship, and whether any changes occurred during reporting period
  - Transactions undertaken from arrangement

# Disclosing information: agent

- Information to help users assess **accountability** of agent in relation to **transactions undertaken with third parties** on behalf of principal:
  - Items recognised in agent's financial statements from arrangement, including:
    - resources held on behalf of principal that agent recognised, information on remittance thereof and risks transferred from principal to agent;
    - revenue recognised as compensation for transactions carried out on behalf of principal; and
    - description of liabilities incurred on behalf of principal that agent recognised and any corresponding assets



# Disclosing information: principal

- Information on the **resource implications** of arrangement:
  - Resources of principal under custodianship of agent and information on remittance of such resources
  - Fee paid as compensation to agent
  - Resource implications for principal if arrangement is terminated

# Disclosing information

## Question U2

Is the information required by GRAP 109 relevant and useful to hold an entity that is party to a principal-agent arrangement accountable, and to make decisions about the entity and the arrangement?

If yes, what decisions are made with this information?

If no, please provide reasons why the information is not relevant and useful, and indicate what information, in your view, will be relevant and useful.

# Disclosing information

## Question U3

What other information on principal-agent arrangements will you find relevant and useful to hold an entity accountable, and to make decisions about the entity? Please explain why this information will be relevant.

# Disclosing information

## Question P15

How do you experience providing the information required by GRAP 109 in the financial statements?

Please describe your experience – whether positive or negative. If negative, indicate how, in your view, your challenges could be resolved.

# Disclosing information

## Question P16

What other information on principal-agent arrangements do you think users will find relevant and useful for accountability and to make decisions?  
Please explain your response.

# Disclosing information: nature of transactions

- Where transactions with third parties are interactions (rather than financial transactions), not all disclosures may be relevant. E.g.

## Relevant in all instances

- General information about arrangements
- Information about resource implications for principal if arrangement is terminated

## May not be relevant where transactions are interactions

- Information on agent's disclosures about items recognised in its financial statements
- Information on financial transactions with third parties



# Disclosing information: nature of transactions

## Question U4

Is information (as may be relevant) useful in the financial statements of the principal and the agent respectively about principal-agent arrangements that do not result in financial transactions between the principal and third parties, but are interactions between the principal and third parties?

If the information required by GRAP 109 is not useful, please provide details of the information that is needed in the financial statements of the principal and agent respectively for accountability and decision making purposes, if any.



# Disclosing information: cash flows

- Where transactions with third parties are financial transactions, there are likely cash transfers between principal and agent
  - Disclosures on a principal's resources in custody of agent may be particularly relevant
- GRAP 2 requires information on gross cash inflows and cash outflows in the cash flow statement. In limited circumstances (e.g. principal-agent arrangements), entities are permitted to present the information on net basis

# Disclosing information: cash flows

## Question P17

- a) As a principal in a principal-agent arrangement, how do you experience accounting for, and disclosing information on, cash flows from the arrangement in the financial statements, as required by GRAP 2 and GRAP 109?
- b) As an agent in a principal-agent arrangement, how do you experience accounting for, and disclosing information on, cash flows from the arrangement in the financial statements, as required by GRAP 2 and GRAP 109?

Please describe your experience – whether positive or negative. If negative, indicate how, in your view, your challenges could be resolved.

# Disclosing information: cash flows

## Question U5

Is the information required by GRAP 2 and GRAP 109 on cash flows from a principal-agent arrangement useful in the financial statements of the principal and the agent respectively to hold both the principal and agent accountable, and for making decisions?

If the information required by GRAP 2 and GRAP 109 is not useful, please provide details of the information that is needed in the financial statements of the principal and agent respectively to hold them accountable and to make decisions.

# General comment

## Preparers and users

Comment on any other matter relating to GRAP 109 is welcome

# Stay informed



# Stay informed

- All information can be accessed on our website [www.asb.co.za](http://www.asb.co.za).
- Follow the ASB on LinkedIn, Facebook and Twitter.
- Subscribe to our YouTube channel.
- Subscribe to our Newsletter via our website.
- Translations of the Standards.

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