



# **ACCOUNTING STANDARDS BOARD**

## **PREFACE TO THE DIRECTIVES ISSUED BY THE ACCOUNTING STANDARDS BOARD**



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# Preface to the Directives issued by the Accounting Standards Board

## Objective

1. This Preface is issued by the Accounting Standards Board (the Board). It sets out the objectives, use and authority of Directives to the Standards of Generally Recognised Accounting Practice (GRAP), and shall be read in conjunction with the *Preface to the Standards of GRAP*.

## Use and authority of Directives issued by the Board

2. The Board is required, in terms of section 89 of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to:
  - (a) set Standards of GRAP for the annual financial statements of the institutions listed in section 89(1)(a) of the PFMA; and
  - (b) prepare and publish Directives, Guidelines and Interpretations of the Standards of GRAP.
3. In accordance with section 89(1)(a) of the PFMA, the Board must determine GRAP for:
  - departments (including national, provincial and government components);
  - public entities;
  - trading entities (as defined in the PFMA);
  - constitutional institutions;
  - municipalities, municipal entities and any other entities under the ownership control of a municipality and, boards, commissions, companies, corporations and funds;
  - Parliament and the provincial legislatures.
4. The above are collectively referred to as “entities” in this document and all the Directives, as well as in the Standards of GRAP.
5. The Board has approved the application of: The Board has approved the application of International Financial Reporting Standards (IFRS® Standards) issued by the International Accounting Standards Board® for:
  - (a) public entities that meet the criteria outlined in the Directive on *The Selection of an Appropriate Reporting Framework by Public Entities*; and
  - (b) entities under the ownership control of any of these entities.
6. Accordingly, Directives are only to be applied by those entities that apply Standards of GRAP.
7. Directives shall be read in conjunction with the applicable Standard(s) of GRAP, and have the same authority as those Standard(s).



8. A basis for conclusions may be published with a Directive, and should be read in conjunction with the basis for conclusions (where published). When a Directive is developed by the Board for which there is no international equivalent, the basis for conclusions outlines the Board's significant debates and conclusions. When a Directive is based on an international equivalent, the basis for conclusions explains significant departures that are made from the international equivalent.
9. Paragraph 10 of the *Preface to the Standards of GRAP* states that Directives may be used to set transitional provisions and transitional arrangements for the entities listed in paragraph 3. The Board is, however, not precluded from issuing Directives on other topics.
10. Paragraphs 11 to 23 deal with Directives prescribing transitional provisions for the Standards of GRAP, while paragraph 24 deals with Directives that prescribe other issues.

## **Directives prescribing transitional provisions**

### **Background**

11. When the Board began developing Standards of GRAP, it included transitional provisions in the text of the applicable Standard. The Board subsequently decided that it would revise the way in which it prescribed transitional provisions for the Standards of GRAP issued up to the end of June 2007, by issuing Directives rather than including transitional provisions in the text of each particular Standard.
12. As a result, all existing transitional provisions included in the Standards of GRAP are repealed. Minor consequential amendments are also proposed to these Standards of GRAP as a result of issuing transitional provisions by way of a Directive (refer to the Directive on *Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of GRAP*).

### **Purpose and application of transitional provisions**

13. The Board facilitates compliance with Standards of GRAP through the use of transitional provisions. Where transitional provisions exist, they may allow an entity additional time to meet the full requirements of, or provide relief from, certain requirements when initially applying a Standard of GRAP.
14. An entity may choose to take advantage of the additional time or specific exemptions granted in any transitional provision in any Standard of GRAP, although entities are generally encouraged to comply in full with the requirements of a Standard as soon as possible after its initial adoption.
15. Where additional time is granted to entities in order to meet the full requirements of a particular Standard of GRAP, on the expiry of the transitional provisions, the entity shall prepare its financial statements in accordance with all the requirements of the applicable Standard of GRAP.



16. Transitional provisions that provide entities with additional time to comply with the requirements of a particular Standard of GRAP, commence from the date that that Standard is first adopted.
17. For the periods in which an entity takes advantage of additional time or specific exemptions granted in any transitional provision, disclosure of this fact is required in the financial statements. The entity accordingly discloses that it has used the transitional provisions of a particular Standard of GRAP, the plans it has in place to comply with the requirements of that Standard, and progress made against those plans.

### **Transitional provisions for different entities**

18. Entities are in the process of migrating from different bases of accounting or financial reporting frameworks to Standards of GRAP, although not all entities are migrating to Standards of GRAP at exactly the same time. As the Board is required to consider the capacity of entities to implement the Standards of GRAP, the Board has deemed it appropriate to grant additional time to certain entities or types of entities that may not have sufficient capacity to implement the Standards of GRAP on their effective date.
19. As a result, the Board has developed transitional provisions for specific categories of entities established on the basis of the accounting and financial reporting framework previously applied by those entities, as well as whether or not those entities do in fact possess adequate capacity to implement the requirements of the Standards of GRAP.
20. Transitional provisions for departments will be developed as and when these entities migrate to the accrual basis of accounting.

### **Effective dates of Directives**

21. Where Directives prescribe transitional provisions for the Standards of GRAP issued by the Board, the Directives become effective when the applicable Standards of GRAP are approved for implementation by the Minister of Finance, in accordance with legislation governing those entities, or in accordance with the authority provided by another Minister (whichever is relevant).

### **Developing transitional provisions for newly issued Standards of GRAP**

22. Transitional provisions for any Standards of GRAP issued after June 2007 by the Board will be developed and issued as follows:
  - Once a final Standard of GRAP has been developed and approved by the Board, proposed transitional provisions will be developed.
  - The proposed transitional provisions will be issued as an Exposure Draft for a period of three months (although shorter or longer periods may be allowed, depending on the urgency of finalising a particular transitional provision).
  - Based on comment received, the final transitional provisions for a specific Standard of GRAP will be developed and issued.



- Any new transitional provisions will be included in the applicable Directives by way of a consequential amendment to that Directive.
23. It is the intention that once all entities have migrated to the accrual basis of accounting, existing transitional provisions will be revised and re-inserted into the text of the Standards of GRAP. At this future date, Directives will no longer be used to prescribe transitional provisions.

### **Directives prescribing other issues**

24. Directives may be used to prescribe other issues, such as specific accounting treatments, specifying the reporting frameworks for certain types of entities and their transitional arrangements to adopt Standards of GRAP, and other issues. The Board follows the same process as that outlined above in developing and issuing Directives that prescribe other issues, except that the Board determines the effective dates of these Directives.