Attachment 4(b)

ACCOUNTING STANDARDS BOARD

REVIEW REPORT

POST-IMPLEMENTATION REVIEW OF THE STANDARD OF GRAP ON *STATUTORY RECEIVABLES* (GRAP 108)

Issued by the
Accounting Standards Board

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Executive summary

The Standard of GRAP on *Statutory Receivables* (GRAP 108) sets out the accounting requirements for receivables that arise from statute. The correct application of GRAP 108 is important to ensure that financial statements provide clear information to users about statutory receivables, to enable them to evaluate the significance of statutory receivables on an entity's financial position and performance.

The Board undertook a post-implementation review (hereafter "the review") in 2023 to identify challenges with the Standard and agreed actions to address them.

Results of the review

The review highlighted support for the principles in GRAP 108. The following challenges were identified:

- distinguishing receivables as statutory or contractual;
- assessing whether a statutory receivable is impaired or whether it should be derecognised when certain events occur;
- presenting information on statutory receivables in the financial statements;
- understanding whether information disclosed in an accounting policy note should be repeated in other disclosure notes;
- the extent of information about statutory receivables disclosed in the financial statements;
- the timing of revenue recognition, and how adjustments to revenue impact the related statutory receivable; and
- the application of materiality.

The Standard of GRAP on *Financial Instruments* (GRAP 104) became effective for reporting periods commencing on or after 1 April 2025. As part of the review, the Board considered whether the expected credit loss (ECL) impairment model, which is applied to impair contractual receivables, should be adopted in GRAP 108. The Board also considered whether the current disclosures in GRAP 108 should be expanded to require more information on statutory receivables' exposure to credit risk, and whether disclosures on how liquidity risk is managed should be introduced in the Standard. Respondents had mixed views on these matters.

The Board's decisions and key actions

A key observation from the review was that stakeholders are unaware of the available guidance issued by the Secretariat and the Office of the Accountant-General (OAG) to assist with the application of GRAP 108. Through various communication initiatives, the Secretariat will raise awareness about this guidance, while developing more guidance in certain areas through Frequently Asked Questions (FAQs) and educational material. The GRAP Knowledge Hub will also be used to direct stakeholders to relevant guidance. More information on the available resources is included in the section on **Available resources** in this report.

The review highlighted that stakeholders support GRAP 108 without having any significant issues, that GRAP 108 generally meets its objectives, and that the information required to be disclosed under GRAP 108 is relevant and useful for users. In addition to raising awareness of available resources, the Board concluded that a combination of actions will be undertaken to address the challenges noted from the review. These include:

- Address revenue-related challenges as part of the Board's future Revenue project.
- Defer the decision on whether to replace the incurred loss impairment model in GRAP 108 with the ECL model until more information on the application of the ECL model is available following the implementation of the revised GRAP 104. The Board will, at that point, also consider introducing more disclosures on exposure to credit risk.
- In a future project, amendments will be proposed to GRAP 108 to consider (a) additional impairment indicators and (b) whether to introduce disclosures to enable users to evaluate the nature and extent of an entity's liquidity risk.

The outcomes of the review will be communicated with other role-players such as the OAG and the Auditor-General of South Africa.

More information on the key issues and actions arising from the review is included in the section on **Results of the review** in this report.

Introduction

Receivables in the public sector are classified into two main categories: statutory receivables and contractual receivables. Even though an entity's operations are regulated by legislation or similar means, it does not mean that all the transactions it undertakes arise from statute.

Statutory receivables arise from compulsory transactions that are governed by legislation or similar means. Common examples include property and other taxes, fines, penalties, appropriations, grants, and fees charged in terms of legislation or similar means.

Stakeholders indicated challenges with the application of GRAP 108, including making a distinction between contractual and statutory receivables. The Board agreed to undertake a review to:

(a) determine whether GRAP 108 provides relevant and useful information to users, and to identify what other information is required on statutory receivables; and

(b) understand preparers' implementation challenges and the extent to which these challenges may affect the consistent application of GRAP 108.

This Review Report summarises the findings from the review and the Board's responses to the challenges identified. A full analysis of verbal and written comments and the Board's responses can be found on the **ASB's website**.

Authority of this publication

The Board publishes Review Reports to communicate the results of reviews undertaken on the application of Standards of GRAP or any other topic the Board may deem appropriate.

Review Reports are non-authoritative pronouncements issued by the Board, and their application is not mandatory.

Results of the review

Difficulty with the classification of receivables as statutory or contractual

GRAP 108 requirements
Receivables in the public sector can arise from contracts or legislative requirements. Only receivables that arise from legislation or similar means are considered "statutory receivables" and are within the scope of GRAP 108. Receivables that arise from contractual arrangements are accounted for using GRAP 104 on *Financial Instruments*.
Key issues
Stakeholders are unsure whether a receivable is statutory or contractual in nature, based on whether it arises from legislation or similar means, or as a result of a contract. Examples of challenges experienced include: • classifying grants allocated through the Division of Revenue Act or Appropriations Acts and VAT receivables; • classifying receivables arising from transactions between the entity and the debtor that are governed by legislation or similar means and initiated by a contract; and • the incorrect classification of a receivable as contractual when the entity concludes, in error, that because the debtor has a choice to undertake a transaction with the entity, the receivable is contractual in nature.
Actions
Amendments to GRAP 108
The Board concluded that no amendments to GRAP 108 are needed. The Standard explains the difference between statutory and contractual receivables and that the legal form of the arrangement is considered to conclude on the nature of the receivable. The Standard also provides sufficient guidance to explain how a receivable is classified when a transaction is governed by legislation or similar means and initiated by a contract.
FAQs and Fact Sheets
FAQ 11.1 on *How do statutory receivables arise?* explains (a) the classification of receivables as statutory or contractual; and (b) clarifies that the transaction itself is assessed to conclude on the nature of the receivable and not the surrounding circumstances, such as whether the party undertaking a transaction has a choice. The FAQ also includes examples that illustrate the classification of a receivable when the transaction is governed by legislation or similar means and initiated by a contract. The GRAP 104 Fact Sheet #1 on *Applying the Definition of a Financial Instrument* explains when a receivable is contractual. The GRAP 104 Fact Sheet #11 on *Classification of VAT* explains when a VAT receivable is accounted for as a contractual or statutory receivable, based on whether an entity is registered on an invoice or payment basis for VAT.

Challenges to distinguish between the impairment and derecognition of statutory receivables

GRAP 108 requirements
Impairment of a statutory receivable Impairment involves the recognition of a loss of future economic benefits (or service potential) associated with the statutory receivable, but the entity retains control of the right to future economic benefits (or service potential). A statutory receivable, or a group of statutory receivables, is assessed for impairment at each reporting date to determine if there is a loss, or if the likelihood of collecting the amounts owed, has diminished. GRAP 108 lists, as a minimum, a number of indicators that can be considered to assess whether a statutory receivable, or group of statutory receivables, is impaired. Derecognition of a statutory receivable Derecognition is the removal of a previously recognised receivable from the statement of financial position because the entity no longer has control of the right to future economic benefits (or service potential). GRAP 108 prescribes the derecognition requirements for a statutory receivable.
Key issues
Stakeholders find it difficult to conclude when to impair and when to derecognise a statutory receivable in applying the principles in GRAP 108.
Actions
Amendments to GRAP 108
Stakeholders shared additional impairment indicators based on practical experience. These indicators will be considered in a future Board project for inclusion in GRAP 108, along with guidance on legal write-offs.
FAQs and Fact Sheets
A new FAQ will be developed to explain the difference, in general, between the impairment and derecognition of assets.

Uncertainty about the presentation of statutory receivables in financial statements

GRAP requirements
GRAP 108 The carrying amount of statutory receivables is disclosed separately in the notes to the financial statements, clearly distinguishing statutory receivables from contractual and other receivables. **Other GRAP Standards** GRAP 1 on *Presentation of Financial Statements* requires that the face of the statement of financial position includes line items that present, among others, the amounts for (a) receivables from non-exchange transactions (taxes and transfers), and (b) receivables from exchange transactions. It also requires an entity to disclose, either on the face of the statement of financial position or in the notes, further sub-classifications of the line items presented. These items are classified in a manner appropriate to the entity's operations. GRAP 23 on *Revenue from Non-exchange Transactions (Taxes and Transfers)* requires an entity to disclose, either on the face or in the notes, the amount of receivables recognised in respect of non-exchange revenue.
Key issues
• Entities do not always adhere to the disclosure requirements in the Standards of GRAP. Instead of providing information on statutory and contractual receivables in the notes, they include line items for contractual and statutory receivables on the face of the statement of financial position. The notes do 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. • Stakeholders questioned the requirement to only provide information about statutory receivables in the notes to the financial statements and not as a separate line item on the face of the financial statements. There is a misconception about the importance of information when it is only presented in the notes to the financial statements.
Actions
Amendments to GRAP 108
The Board concluded that no amendments to GRAP 108 are needed. The Standards of GRAP already set out the presentation requirements for statutory receivables in the financial statements.

FAQs
• FAQ 4.8 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*? explains how revenue and receivables should be presented in the financial statements based on the requirements in the Standard of GRAP. • FAQ 4.12 on *Is VAT receivable or payable an exchange or a non-exchange payable or receivable*? explains whether a VAT payable or receivable is an exchange or non-exchange payable or receivable.
Other actions
Education material will be developed to explain that information on the face of the financial statements should be read with the information in the notes as (a) information in the notes and on the face of the financial statements are equally important; and (b) the notes form an integral part of the financial statements.

Incomplete GRAP 108 disclosures and uncertainty about repeating information across notes

GRAP requirements
GRAP 108 sets out the minimum disclosures for statutory receivables. In addition, the presentation and disclosure requirements in GRAP 1, GRAP 9 on *Revenue from Exchange Transactions* and GRAP 23 should also be considered.
Key issues
• Not all the information required in the relevant Standards is disclosed in the financial statements. • Stakeholders are uncertain whether information that is presented in the accounting policy note should be repeated in the statutory receivables note, or whether information can be cross-referenced.
Actions
Amendments to GRAP 108
No concerns were noted with the disclosure requirements in GRAP 108 or other Standards of GRAP.
FAQs
FAQ 2.16 on *When and how entities develop accounting policies?* explains when and how accounting policies should be developed, while FAQ 4.2 on *How does an entity decide which accounting policies should be included in its financial statements?* explains how an entity decides which accounting policies to include in its financial statements.
Other actions
Developed education material to explain: • what to consider when preparing financial statements; • that disclosure requirements in the Standards apply to all material transactions and events; and • when the information required by a Standard needs to be disclosed in the financial statements.

Challenges with the recognition of revenue and the related statutory receivables

GRAP 108 requirements
<u>Initial recognition and measurement</u> Statutory receivables are initially recognised based on whether the transaction is an exchange transaction (using GRAP 9) or a non-exchange transaction (using GRAP 23). Both Standards require initial measurement at fair value. The fair value of statutory receivables that are determined in accordance with GRAP 9 or GRAP 23 is the transaction amount in GRAP 108. <u>Subsequent measurement</u> Statutory receivables are subsequently measured using the cost method. Under the cost method, the initial measurement of statutory receivables (i.e. the transaction amount) is adjusted to reflect interest or other charges levied on overdue or unpaid statutory receivables in terms of legislation or similar means, impairment losses, and any amounts derecognised.
Key issues
Stakeholders are unsure when and how to recognise grants, including multi-year grants and repayments of unspent conditional grants, along with the related statutory receivable. They are also unsure how revenue adjustments affect the statutory receivable and whether these adjustments result in a derecognition or impairment of the receivable.
Actions
Amendments to GRAP 108
The Board concluded that no amendments to GRAP 108 are needed. The Standard explains that the timing of when a statutory receivable is recognised is not specified in GRAP 108, but that the principles in GRAP 9 or GRAP 23 should be applied.
Other actions
The Board's future Revenue Project will consider challenges with the application of GRAP 9 and GRAP 23. In the interim, the challenges noted during the review will be shared with the OAG for their consideration.

Uncertainty about the application of materiality in accounting for statutory receivables

GRAP requirements
Materiality is applied when making accounting and reporting decisions about statutory receivables to ensure that the information provided in the financial statements is relevant for accountability and decision-making. GRAP 1 requires entities to present each material class of similar items separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial. If information is immaterial, specific disclosure requirements in a Standard of GRAP need not be followed.
Key issues
Stakeholders are unsure how to consider materiality in applying GRAP 108.
Actions
Amendments to Standards of GRAP
The Board concluded that no amendments to GRAP 1 or the Guideline on *The Application of Materiality to Financial Statements* are needed. The Board will re-assess the materiality guidance when the environment has matured.

Introducing a new impairment model for statutory receivables

GRAP 108 impairment model

GRAP 108 applies an incurred loss model for the impairment of statutory receivables. Applying the incurred loss model means that impairment is considered based on evidence that a statutory receivable is credit-impaired at the reporting date, or because a default occurred.

GRAP 104 impairment model

With the revised GRAP 104 effective for periods commencing on or after 1 April 2025, entities are required to impair contractual receivables using the ECL impairment model. This model adopts a forward-looking approach that requires estimation of impairment losses based on the difference between all contractual cash flows that are due in accordance with the contract, and all the cash flows that the entity expects to receive.

Adopting the ECL model to impair statutory receivables

The Board requested respondents' views on whether entities foresee any issues with applying two impairment models for contractual and statutory receivables, or whether the ECL model should replace the incurred loss model in GRAP 108.

Key responses

Respondents had different views on the application of two different impairment models, i.e.:

View 1: Entities support continuing to impair contractual and statutory receivables using the ECL and the incurred loss model, respectively. Respondents indicated that they are reluctant to adopt the ECL model to impair statutory receivables without understanding the impact of the model. They also noted that practice should evolve before the ECL model is considered as an impairment model for GRAP 108.

View 2: Entities in the municipal environment support the adoption of one model to impair contractual and statutory receivables. Respondents noted that applying one impairment model to assess the recoverability of a debtor's account will be more relevant for decision-making, as users will receive information about the recoverability of a debtor's account, irrespective of whether the debtor undertakes contractual or statutory transactions, or both.

View 3: Entities proposed adopting a dual impairment model in GRAP 108. This approach will allow entities a choice of adopting the ECL model under certain circumstances when undertaking both contractual and statutory transactions with an entity.

Actions

The Board concluded to delay its decision on whether the ECL model should replace the incurred loss model to impair statutory receivables until:

- practice has developed on the application of the ECL model; and
- more information is available on the impact and cost of applying the ECL model.

Until then, the Standards of GRAP require that entities apply two different impairment models to impair contractual and statutory receivables.

Introducing disclosures on credit and liquidity risk

GRAP 104 requirements The revised GRAP 104 requires qualitative and quantitative information about an entity's exposure to risk, primarily based on the information provided internally to management. This information enables users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed, and to understand the effect of credit risk on the amount, timing, and uncertainty of future cash flows. GRAP 104 also requires an entity to provide liquidity risk disclosures to explain how it intends to settle obligations (from financial liabilities) by delivering cash or another financial asset. For this purpose, an entity is required to disclose a maturity analysis of financial liabilities and of financial assets it holds for managing liquidity risk if that information is necessary to enable users to evaluate the nature and extent of liquidity risk. **GRAP 108 requirements** GRAP 108 requires an entity to disclose the key indicators, assumptions, and basis used to assess and test if statutory receivables are impaired, or an impairment loss is reversed. GRAP 108 does not require a maturity analysis to understand the timing of cash inflows associated with statutory receivables and how the liquidity risk is managed. The Board requested views on whether it should consider introducing similar disclosures on exposure to credit and liquidity risk as those required for contractual receivables.
Key responses
Some respondents noted that information on exposure to credit risk is already required in meeting certain legislative requirements. Where an entity undertakes transactions with a debtor, information on exposure to credit and liquidity risk will be required under the revised GRAP 104 for all contractual transactions undertaken with the debtor. If the entity also undertakes statutory transactions with that debtor, the information will be available and could be presented. Other stakeholders were unsure about the type of information that would be relevant to hold entities accountable and to make decisions about exposure to credit risk. They proposed that disclosures on exposure to credit and liquidity risk only be considered in future when entities are more familiar with the disclosures required by the revised GRAP 104.
Actions
The Board concluded that not all the disclosures on exposure to credit risk may be relevant for statutory receivables. However, only having information about a debtor's exposure to credit or liquidity risk for contractual receivables where the debtor undertakes contractual and statutory transactions may be insufficient to make informed decisions, especially when statutory receivables are material. The Board concluded that a decision to introduce:

- credit risk disclosures be deferred until a decision is taken on replacing the incurred loss model with the ECL model; and
- liquidity risk disclosures be considered when amendments to GRAP 108 are proposed in a future Board project.

In the interim, entities are encouraged to consider presenting additional information on how liquidity risk is managed and statutory receivables' exposure to credit risk, based on:

- the disclosure objective in GRAP 108; and
- the disclosure requirement in GRAP 1.

Available resources

Various resources are available to assist entities with the application of GRAP 108 and some of the other challenges noted from the review. These include:

Guidance on receivables
• The Standard of GRAP on *Financial Instruments* (GRAP 104) Fact Sheet #1 on *Applying the Definition of a Financial Instrument* (Fact-Sheet-1-Definition-of-a-financial-instrument-March-2022.pdf). • GRAP 104 Fact Sheet #11 on *Classification of VAT* (Fact Sheet 11 - Classification of VAT). • FAQs such as: - FAQ 4.8 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*? - FAQ 4.12 on *Is VAT receivable or payable an exchange or a non-exchange payable or receivable*? - FAQ 11.1 on *How do statutory receivables arise*? • The Office of the Accountant-General's GRAP Accounting Guideline on GRAP 108 (GRAP Knowledge Hub, Topic: GRAP 108 Accounting Guideline) • GRAP Knowledge Hub (GRAP Knowledge Hub, Topic: Focus on Financial Instruments and Statutory Receivables)
Revenue related guidance
• Educational material such as: - Difference between a condition and a restriction • OAG Guidance on the receivable, revenue and surplus to be surrendered (*NOTE to Technical Committee – this OAG guidance will be added if it is available at the time this report is published*)
Materiality guidance
• The Guideline on *The Application of Materiality to Financial Statements* provides guidance on applying materiality to financial statements (Materiality Guideline) • FAQs such as: - FAQ 1.3 on *What is the role of materiality in the reporting of information in the financial statements?* • Educational material such as: - Materiality Basic Principles

• GRAP Knowledge Hub (GRAP Knowledge Hub, Topic: Mastering materiality)
Other relevant guidance
• FAQs such as: - FAQ 2.16 on *When and how entities develop accounting policies?* - FAQ 4.2 on *How does an entity decide which accounting policies should be included in its financial statements?* • Educational material such as: - Improving the quality of financial statements; and - How to develop appropriate accounting policies and what information to disclose