



ACCOUNTING STANDARDS BOARD

DIRECTIVE

TRANSITIONAL PROVISIONS FOR THE ADOPTION OF STANDARDS OF GRAP BY COMMUNITY EDUCATION AND TRAINING (CET) COLLEGES (DIRECTIVE 13)



Directive 13

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Introduction

This pronouncement is set out in paragraphs .01 to .09. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*¹.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

¹ In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

- .01 The objective of this Directive is to prescribe the transitional provisions for the adoption of Standards of GRAP by CET colleges.
- .02 Standards of GRAP set out the recognition, measurement, presentation and disclosure requirements for financial reporting in the public sector. As a result, this Directive should be read in conjunction with the applicable Standards of GRAP.

Scope

- .03 The Directive prescribes the transitional provisions to be applied by CET colleges established in terms of the Continuing Education and Training Act, Act No. 16 of 2006 (as amended).

Application by CET colleges

- .04 This Directive shall be applied by CET colleges in preparing their financial statements in accordance with Standards of GRAP from 1 April 2015, as prescribed in Government Gazette No. 41531 (issued 27 March 2018) and 41843 (issued 16 August 2018).

Transitional provisions for balances at acquisition date

- .05 When the CET colleges initially adopt Standards of GRAP, the Standard of GRAP on *Transfer of Functions Not Under Common Control* (GRAP 106) shall be applied. This Standard requires and/or permits the following:
 - (a) Entities that are acquirers are required to recognise the purchase consideration paid (if any) to the transferor, along with identifiable assets acquired and liabilities assumed in a transfer of functions, at the acquisition date. The assets acquired and liabilities assumed are recognised and measured using the principles in GRAP 106.
 - (b) If the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs, the acquirer reports provisional amounts in its financial statements for the items for which the accounting is incomplete. During the measurement period, the acquirer retrospectively adjusts the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances



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that existed at the acquisition date or learns that more information is not obtainable.

- .06 Instead of the two year measurement period in paragraph .71 of GRAP 106, the CET colleges are allowed a period until 31 December 2021, to recognise and/or measure assets acquired and liabilities assumed on acquisition date. The CET colleges are required to present financial statements that comply in all respects with Standards of GRAP as at 31 December 2021 (subject to paragraphs .07 and .08 below). The measurement period does not apply to transactions or other events that occur after the acquisition date.
- .07 The CET colleges apply the disclosure requirements in GRAP 106 as well as any other applicable Standard of GRAP. CET colleges apply the presentation requirements of the following Standards of GRAP to the extent that assets, liabilities and/or related transactions are recognised:
- (a) Standard of GRAP on *Presentation of Financial Statements*.
 - (b) Standard of GRAP on *Cash Flow Statements*.
- .08 CET colleges are not required to consider the application of the Standard of GRAP on *Segment Reporting* (GRAP 18) until 1 January 2024.

Effective date

- .09 This Directive shall be applied from 1 April 2015.

Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain proposals related to the transitional provisions for the initial adoption of Standards of GRAP by CET colleges. This basis for conclusions accompanies, but is not part of this Directive.

Background

- BC1. The Minister of Higher Education and Training is responsible for determining the reporting framework for CET colleges. The Minister determined that the financial statements of CET colleges should be prepared using Standards of GRAP, and that the first set of financial statements should be prepared for the nine months commencing on 1 April 2015.
- BC2. In order for the CET colleges to understand how they should apply Standards of GRAP for the first time, the Board identified the need to develop transitional provisions. The key assumptions made and issues considered by the Board in developing the transitional provisions are outlined in the paragraphs below.

Fundamental principles

Transfer of functions not under common control

- BC3. Transitional provisions for entities adopting Standards of GRAP for the first time usually indicate that the Standards should be applied retrospectively. The CET colleges did however not exist prior to 1 April 2015. The CET colleges were formed as new entities from 1 April 2015. These entities were formed by²:
- Transferring the function of adult education and training from the respective provincial departments of Basic Education to the Department of Higher Education and Training (a national department)(DHET). The transfer of function occurred on 1 April 2015.
 - Merging the Public Adult Learning Centres (PALCs) in each province into Community Education and Training Centres (CETCs) and bringing them under the control of a "Community Education and Training College Administrative Centre" (CETCAC). A CETCAC has been established in each province by the DHET. The CETCACs were established on 1 April 2015. The CETCACs are the legally established entities that are required to prepare financial statements in accordance with Standards of GRAP. These are the entities referred to as "CET colleges" in this Directive.
- BC4. The transfer of functions from the provincial departments of Basic Education to the DHET and the merger of the PALCs into CETCs and their acquisition by the

² The information outlined above is based on Government Gazette 38294 which outlines the National Policy on Community Colleges as well as the establishment notices for each CET college.

CETCAC, occurred on 1 April 2015. The Board has assumed that this is one transaction for accounting purposes.

- BC5. The Board believes that GRAP 106 is the appropriate starting point for the adoption of GRAP by CET colleges. This is because the transfer of functions occurred between provincial and national departments, which are not considered to be under common control. The Board also did not believe that the transaction was a merger, as the CETCACs are seen to gain control of the CETCs in each province. The majority of the Council and key management of each CETCAC are appointed by the Minister of Higher Education and Training and/or the Department, rather than being determined by the “merging” parties.

Relief only for balances at acquisition date

- BC6. When entities adopt Standards of GRAP for the first time, relief is usually only provided for the assets and liabilities that exist on adoption date. The Board debated whether relief should be provided from preparing financial statements using Standards of GRAP for a period of time rather than only for the existing assets and liabilities. As the Minister of Higher Education and Training has determined that financial statements should be prepared using Standards of GRAP from the inception of the CET colleges, the Board did not consider it appropriate to provide relief from preparing financial statements for a period of time. Relief has therefore only been provided for the assets acquired and liabilities assumed, at acquisition date, in the transfer of functions.
- BC7. GRAP 106 allows entities a period of two years, from the acquisition date of a transfer of functions not under common control, to recognise and/or measure assets acquired and liabilities assumed on acquisition date. Based on feedback from stakeholders about the potential implementation issues, the Board agreed to provide the CET colleges until 31 December 2021 to recognise and/or measure the assets acquired and liabilities assumed.
- BC8. In order for the accounting environment at the CET colleges to stabilise, the Board agreed that the assessment of whether GRAP 18 is applicable need not be undertaken until 1 January 2024.

Disclosure of information to users of the financial statements

- BC9. GRAP 106 requires the disclosure of information to the users of the financial statements when the initial accounting for the transfer of functions is incomplete, i.e. the entity has adopted the relief for recognising and/or measuring assets acquired and liabilities assumed on acquisition date. The CET colleges should provide this information for as long as the initial accounting is incomplete based on the relief provided in the Directive.