



ACCOUNTING STANDARDS BOARD

DIRECTIVE

THE APPLICATION OF STANDARDS OF GRAP BY PUBLIC ENTITIES THAT APPLY IFRS® ACCOUNTING STANDARDS

(DIRECTIVE 14)



Directive 14

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Introduction

This pronouncement is set out in paragraphs .01 to .16. 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 Board has approved the application of IFRS[®] Accounting Standards issued by the International Accounting Standards Board (IASB) for public entities² (hereafter referred to as “an entity”) that meet the criteria to apply IFRS Accounting Standards as outlined in the Directive on *The Selection of an Appropriate Reporting Framework by Public Entities* (Directive 12).
- .02 Entities that apply IFRS Accounting Standards and operate in the public sector may need to formulate an accounting policy in the absence of an IFRS Accounting Standard that specifically applies to a transaction, other event or condition (hereafter referred to as “formulating an accounting policy”) using other sources. When formulating an accounting policy in the absence of an IFRS Accounting Standard, the entity needs to consider its users and their information needs. Users of financial statements prepared using the IFRS Accounting Standards are interested in information on the return on their investments, and/or the return of their investments, and to make decisions about providing resources to the entity.
- .03 The objective of this Directive is to explain when, and in what circumstances, an entity may consider the principles in a Standard of GRAP when formulating such an accounting policy.

Scope

- .04 This Directive is applicable to entities that apply IFRS Accounting Standards in accordance with Directive 12.
- .05 The IAS Standard on *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8) sets out the principles to be applied by an entity when formulating an accounting policy. This Directive should be read in conjunction with IAS 8.

Formulating an accounting policy in the absence of a specific IFRS Standard

- .06 Accounting policies are formulated by considering an IFRS Accounting Standard that specifically applies to a transaction, other event or condition. In the absence of an IFRS Accounting Standard that specifically applies to a transaction, other event or condition, paragraph .10 of IAS 8 allows management to “use its judgement in developing and applying an accounting policy that results in information that is:
 - (a) relevant to the economic decision-making needs of users; and
 - (b) reliable, in that the financial statements:

² Public entity means a national or provincial entity as defined in section 1 of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), including any entities under the ownership control of these entities.

- (i) represent faithfully the financial position, financial performance and cash flows of the entity;
 - (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
 - (iii) are neutral, i.e. free from bias;
 - (iv) are prudent; and
 - (v) are complete in all material respects”.
- .07 In formulating an accounting policy, paragraph .11 of IAS 8 requires that “management shall refer to, and consider the applicability of, the following sources in descending order:
- (a) the requirements in IFRS Accounting Standards dealing with similar and related issues; and
 - (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework.”
- .08 Paragraph .12 of IAS 8 requires that, in applying judgement when formulating an accounting policy, “management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that they do not conflict with the sources in paragraph .11”.
- .09 In formulating an accounting policy, an entity first considers the requirements of paragraph .11 of IAS 8. If an entity concludes that using the sources of information in paragraph .11 of IAS 8 does not result in information that:
- (a) meets the qualitative characteristics in the *Conceptual Framework for Financial Reporting*³ (hereafter referred to as “the IFRS Conceptual Framework”); and
 - (b) is relevant to the economic decision-making needs of users,
- an entity may consider the most recent pronouncements of other standard-setting bodies. The pronouncements of other standard-setting bodies may only be applied where they do not conflict with the sources in paragraph .11 of IAS 8.
- .10 In assessing whether the principles in the Standards of GRAP may be considered in accordance with paragraph .09, an entity needs to consider whether the principles in the Standards of GRAP and the *Conceptual Framework for General Purpose Financial Reporting*⁴ (hereafter referred to as “the GRAP Conceptual Framework”), are in conflict with either the existing IFRS Accounting Standards that deal with a similar and related issue, and/or the IFRS Conceptual Framework. An entity makes this assessment by

³ The *Conceptual Framework for Financial Reporting* was issued by the IASB in March 2018.

⁴ 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.

considering who the users are of its financial statements and what information they need to make economic decisions, as described in the IFRS Conceptual Framework.

- .11 When an entity concludes that the Standards of GRAP and the GRAP Conceptual Framework are:
- (a) in conflict with either the existing IFRS Accounting Standards and/or the IFRS Conceptual Framework, the principles in the Standards of GRAP cannot be applied when formulating an accounting policy. The principles in paragraphs .11 and .12 of IAS 8 should be considered; or
 - (b) not in conflict with either the existing IFRS Accounting Standards and/or the IFRS Conceptual Framework, the principles in the Standards of GRAP may be applied when formulating an accounting policy.
- .12 Entities that apply IFRS Accounting Standards shall not consider the pronouncements of other standard-setting bodies, including Standards of GRAP, when formulating an accounting policy in the following circumstances:
- (a) An IFRS Accounting Standard exists for the transaction, other event or condition, for example, impairment of assets and revenue.
 - (b) An IFRS Accounting Standard exists that deals with a similar and related issue.
 - (c) The definitions, recognition criteria, measurement concepts of assets, liabilities, income and expenses in the IFRS Conceptual Framework have not been considered.
 - (d) The pronouncement of another standard-setting body is applied to achieve a specific outcome, that will be different, had the principles in paragraph .11 of IAS 8 been applied.
 - (e) The pronouncements of another standard-setting body conflict with the sources in paragraph .11 of IAS 8.
 - (f) Applying the pronouncements of another standard-setting body will result in information that does not meet the qualitative characteristics in the IFRS Conceptual Framework and is not relevant to the economic decision-making needs of users.
- .13 Pronouncements of other standard-setting bodies should only be considered when formulating an accounting policy to recognise and/or measure a transaction, other event or condition in the absence of a specific IFRS Accounting Standard. In addition to the circumstances in paragraph .12, an entity does not apply the pronouncements of other standard-setting bodies that deal with the presentation and disclosure of information in the financial statements.
- .14 Where an entity considers the principles in the Standards of GRAP when formulating an accounting policy, the entity does not adopt the relevant Standard of GRAP.



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- .15 Where an entity has made significant judgements in formulating an accounting policy, the IAS Standard on *Presentation of Financial Statements* (IAS 1) requires the disclosure of a summary of these judgements.

Effective date

- .16 This Directive becomes effective for financial periods commencing on or after 1 April 2021. Earlier application is permitted.

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 use of Standards of GRAP by public entities that apply IFRS Accounting Standards. This basis for conclusions accompanies, but is not part of, this Directive.

Background and history

- BC1. As set out in the *Preface to the Standards of Generally Recognised Accounting Practice* (hereafter referred to as “the Preface”), the Board is required in terms of the PFMA to determine generally accepted accounting practice, referred to as Standards of GRAP, for public entities. The Board has approved the application of IFRS Accounting Standards for public entities that meet the criteria outlined in Directive 12.
- BC2. Entities that apply IFRS Accounting Standards and operate in the public sector may undertake transactions for which an IFRS Accounting Standard does not exist. As the Board has developed accounting standards for the public sector, an entity that applies IFRS Accounting Standards may want to formulate an accounting policy using a Standard of GRAP in the absence of an IFRS Accounting Standard that specifically applies to a transaction, other event or condition.
- BC3. Entities questioned when, and in what circumstances, the principles in a Standard of GRAP can be considered when formulating an accounting policy. It was also questioned whether a Standard of GRAP should be adopted, or whether the principles in the Standard should only be considered when formulating an accounting policy.
- BC4. Following the consultation on its 2017 to 2020 work programme, the Board agreed to develop guidance on the application of Standards of GRAP by entities that apply IFRS Accounting Standards when formulating an accounting policy.
- BC5. During the development of the Directive, stakeholders raised questions about whether the Board is the appropriate authority to issue the guidance. The Board agreed that it is the appropriate authority to issue the guidance given its mandate outlined in the PFMA (see paragraph BC1.). The Board also noted that, because of its mandate in legislation, any pronouncements it issues are secondary legislation that entities are required to apply. Entities that apply IFRS Accounting Standards need to consider the pronouncements of the Board in order to comply with their legislative reporting requirements. The Board also observed that entities that apply IFRS Accounting Standards have a level of accountability beyond the IFRS Framework as they are organs of state. As a result, they would need to consider guidance issued by the Board dealing with public sector issues.
- BC6. The Board agreed that it should provide guidance by way of a Directive, and that the Directive should:

- (a) provide guidance on what to do when an IFRS Accounting Standard does not deal with a specific transaction, other event or condition, rather than outline prescriptive guidance; and
- (b) only be applicable to those entities that meet the criteria in Directive 12 to apply IFRS Accounting Standards.

Formulating an accounting policy in the absence of a specific IFRS Accounting Standard

- BC7. An accounting policy comprises the principles, measurement bases, conventions, rules and practices that an entity applies to recognise and measure transactions, other events or conditions when preparing and presenting its financial statements. An entity develops accounting policies for the transactions, other events or conditions it undertakes using IFRS Accounting Standards, or in the absence of a specific IFRS Accounting Standard, the pronouncements of other standard setting bodies.
- BC8. The Board considered the requirements in IAS 8 in providing guidance on when, and in what circumstances, an entity that applies IFRS Accounting Standards, may consider the principles in the Standards of GRAP, in the absence of an IFRS Accounting Standard, when formulating an accounting policy. Paragraph .10 of IAS 8 requires an entity to use judgement in developing and applying an accounting policy that results in information that is (a) relevant to the economic decision-making needs of users and (b) meets the qualitative characteristics in the IFRS Conceptual Framework. In formulating an accounting policy in the absence of an IFRS Accounting Standard, paragraph .11 of IAS 8 requires an entity to consider the applicability of (a) the requirements in IFRS Accounting Standards dealing with similar and related issues; and (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the IFRS Conceptual Framework.
- BC9. The Board agreed that an entity first needs to consider the sources in paragraph .11 of IAS 8. The Board noted that these sources may not be considered if they result in information that does not meet the requirements in paragraph .10 of IAS 8.
- BC10. When the requirements in paragraph .10 of IAS 8 are not met, the Board noted that paragraph .12 of IAS 8 allows an entity to consider the pronouncements of another standard-setting body that uses a similar conceptual framework in developing accounting standards, other literature and accepted industry practices, unless these sources of information are in conflict with (a) the requirements in the IFRS Accounting Standards; and/or (b) the IFRS Conceptual Framework.
- BC11. The Board agreed to develop guidance on when an entity may consider a Standard of GRAP in formulating an accounting policy to address concerns that an entity considers the Standards of GRAP to achieve a specific outcome. The Board agreed that an entity may not consider the pronouncements of another standard-setting body, including the Standards of GRAP:

- (a) when an IFRS Accounting Standard exists that specifically applies to the transaction, other event or condition;
- (b) when an IFRS Accounting Standard exists that deals with a similar and related issue;
- (c) without considering the definitions, recognition criteria, measurement concepts of assets, liabilities, income and expenses in the IFRS Conceptual Framework;
- (d) to achieve a specific outcome that will be different had the principles in paragraph .11 of IAS 8 been applied;
- (e) if such pronouncements are in conflict with the sources of information in paragraph .11 of IAS 8; or
- (f) if applying these pronouncements does not meet the qualitative characteristics in the IFRS Conceptual Framework and are not relevant to the economic decisions-making needs of users.

BC12. During the consultation process, stakeholders questioned whether the Standards of GRAP dealing with presentation and disclosure should be considered when an equivalent IFRS Accounting Standard does not exist or is not applicable. The presentation and disclosure of information in the financial statements is designed to meet the information needs of users of the relevant reporting framework. As a result, the Board concluded that the pronouncements of other standard-setting bodies that deal with the presentation and disclosure of information should not be applied by an entity, whether in formulating an accounting policy, or otherwise. This means that the Standards that:

- (a) are not included in the IFRS entity's reporting framework, for example the Standard of GRAP on *Presentation of Budget Information in Financial Statements*; and/or
- (b) may not be applicable to the IFRS Reporting Framework, for example the Standard of GRAP on *Segment Reporting*

should not be considered by entities.

Differences between the two conceptual frameworks

BC13. The Board agreed that the principles that underpin general purpose financial reporting by entities that apply an accrual basis of accounting, as established in the GRAP Conceptual Framework, are similar to the principles in the IFRS Conceptual Framework. There are however differences that need to be considered by entities in assessing whether using a Standard of GRAP when formulating an accounting policy is appropriate. These differences are discussed below.

Service potential and the users of financial statements

BC14. The definition of an asset and liability in the GRAP Conceptual Framework includes the concept of service potential, which is not included in the IFRS Conceptual

Framework. Service potential refers to the capacity to provide services that contribute to achieving an entity's objectives. Service potential enables an entity to achieve its objectives without necessarily generating cash flows or other economic benefits. Economic benefits are cash inflows or a reduction in cash outflows. Cash inflows (or reduced cash outflows) may be derived from, for example (a) an asset's use in the production and sale of goods or services; or (b) the direct exchange of an asset for cash or other resources.

- BC15. Given the nature of the activities undertaken by entities in the public sector, assets are held primarily for their service potential, rather than their ability to generate cash flows or other economic benefits. Similarly, entities in the public sector incur liabilities related to their service delivery objectives. Assets and liabilities of profit- oriented entities are mainly held to generate returns on investments rather than to provide a service.
- BC16. As a result of the different nature of activities undertaken by entities in the public sector and profit oriented entities, the Board identified that the users of the financial statements prepared using Standards of GRAP and IFRS Accounting Standards may be different:
- The primary users of financial statements of public sector entities include service recipients, resource providers, and their representatives. These users need information on the entity's financial performance, whether funds were spent in accordance with the budget, and the extent to which the entity has achieved its performance objectives in delivering on its mandate.
 - The primary users of financial statements prepared using IFRS Accounting Standards include existing and potential investors, lenders and other creditors. These users need information on the return on their investments, and/or the return of their investments and to enable them to make decisions about providing resources to these entities.
- BC17. The Board agreed that, although the users of financial statements that are prepared using Standards of GRAP, is wider than those that apply IFRS Accounting Standards, there are similarities. This is particularly the case when the users of the financial statements want to make decisions about a return on their investments, and/or the return of their investments. When users are only interested in making decisions about the return on their investments, and/or the return of their investments, the service potential of an asset or a liability is unlikely to meet this information need.
- BC18. Due to the different information needs of the users of financial statements, an entity that prepares financial statements using IFRS Accounting Standards, should apply judgement to assess whether the principles in the Standards of GRAP and/or the GRAP Conceptual Framework, are in conflict with the existing IFRS Accounting Standards and/or the IFRS Conceptual Framework. In making this assessment, an entity needs to consider its users and what information they need for decision-making.

Accountability in the public sector

BC19. As noted in paragraph BC5, the Board acknowledges that public entities may have a level of accountability beyond that required by the IFRS Conceptual Framework. However, in preparing financial statements, entities should focus on whether a conflict exists between the two conceptual frameworks by considering who their users are and their information needs, in order to make the economic decisions described in the IFRS Conceptual Framework. The need for information about an entity's broader accountability may be met through reporting outside the financial statements.

Application of a Standard of GRAP when formulating an accounting policy

BC20. The Board concluded that, based on the principles in IAS 8, an entity will not be able to apply the principles in a Standard of GRAP when formulating an accounting policy if it concludes that the principles in the Standards of GRAP (a) are not relevant to the economic decision-making needs of users and do not meet the qualitative characteristics in the IFRS Conceptual Framework; and (b) a conflict exists between the principles in the Standards of GRAP, existing IFRS Accounting Standards, and/or the two conceptual frameworks.

BC21. The Board also noted that, in accordance with the requirements in IAS 8, when an entity formulates an accounting policy based on the principles in the Standards of GRAP, the entity is not required to adopt the Standard of GRAP.

First time adoption of the Directive

BC22. Any changes to an entity's accounting policies following the adoption of the Directive, should be accounted for in terms of IAS 8.