

All Accounting Officers

All Chief Financial Officers

All Provincial Accountants-General

OFFICE OF THE ACCOUNTANT-GENERAL PRACTICE NOTE 5 OF 2005/06

GENERALLY RECOGNISED ACCOUNTING PRACTICE (GRAP) FOR PUBLIC

ENTITIES

Purpose

The purpose of this practice note is to inform government financial practitioners on the accounting frameworks relevant to public entities and the application of local and international pronouncements in the absence of a particular Standard of GRAP.

Accounting frameworks to be applied by public entities

Prior to the development of the Standards of GRAP all public entities prepared and presented their financial statements in terms of Generally Accepted Accounting Practices (GAAP). The establishment of the Accounting Standards Board (ASB) and the progress made in developing public sector specific standards has resulted in the need to clarify the use of GAAP and GRAP in the public sector.

Section 55(1)(b) of the Public Finance Management Act (PFMA), Act 1 of 1999 requires all public entities to prepare financial statements in accordance with GAAP unless the ASB determines that GRAP is a more relevant framework. The *Preface to the Standards of Generally Recognised Accounting Practice*¹ issued by the ASB documents the decision taken as to the types of entities required to comply with GAAP and those that must comply with GRAP.

Accordingly the following entities must prepare and present financial statements in accordance with GAAP:

- government business enterprises (as defined in the PFMA);
- trading entities (also defined in the PFMA);
- any other entity, other than a municipality, whose ordinary shares, or debt are publicly traded, or are potentially publicly tradable on the capital markets; and
- entities under the ownership control of any of the above entities.

All other public entities and entities under their ownership control must apply GRAP.

This change in the application of GAAP to GRAP must be applied for financial periods ending on or after 31 March 2006.

Application of accounting pronouncements in the absence of a Standard of GRAP

As mentioned above, from 1 April 2005 certain entities are required to comply with the first three Standards of GRAP including the Preface to the Standards of GRAP and the Framework for Preparation and Presentation of Financial Statements. These Standards do not however represent a core set of Standards.

This issue is addressed in GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, in that it provides guidance on the steps to be taken by management in developing their accounting policies in the absence of a Standard of GRAP. The guidance is contained in paragraphs 7, 11 and 12.

Paragraph 12 of GRAP 3 provides a hierarchy of public and private sector pronouncements for consideration when developing applying accounting policies in the absence of a particular Standard of GRAP.

During 2004 the international and local private sector accounting standards were amended to address concerns, questions and criticisms raised about the existing standards as well as to converge the South African standards with the international standards.

Applying the hierarchy embedded in paragraph 12 requires entities to consider the International Public Sector Accounting Standards (IPSAS). To date the IPSAS have not been amended with any of the improvements affected to the private sector standards. It is envisioned that this will only occur during 2006.

As a result this practice note provides public entities with a hierarchy to adhere to until a core set of GRAP Standards are effective. The hierarchy is as follows:

- a. An entity shall apply all effective Standards of GRAP (i.e. all standards promulgated by the Minister of Finance);
- b. In the absence of an effective standard, an entity shall consider an ASB approved Standard of GRAP with the approval of the OAG;
- c. Where no GRAP standard exists, entities shall consider an improved IPSAS approved by the IPSASB;
- d. In certain instances where an IPSAS dealing specifically with public sector specific issues (e.g. IPSAS 21, Impairment of Non-Cash Generating Assets) exists, an entity shall consider the IPSAS;
- e. Where no guidance is obtained from the above, an entity shall consider the SA GAAP Statements.

With regards to (b) – (d) above the OAG will publish the names and numbers of the Standards that will be relevant to the application of the hierarchy (Annexure A).

The above hierarchy does not replace the need to apply the provisions of paragraph 7 and 11 of GRAP 3.

The accounting standards are available from the following websites:

GRAP www.asb.co.za

IPSAS www.ifac.org

GAAP www.saica.co.za

Regards,

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Accountant-General

National Treasury

ANNEXURE A

GRAP Standards approved by the ASB but are not effective:

- GRAP 6 – Consolidated and Separate Financial Statements
- GRAP 7 – Investments in Associates
- GRAP 8 – Interests in Joint Ventures
- GRAP 12 – Inventories
- GRAP 13 – Leases
- GRAP 16 – Investment Property
- GRAP 17 – Property, Plant and Equipment
- GRAP 18 – Segment Reporting

Improved and effective IPSAS Standards:

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Public sector specific IPSAS recently issued by the IPSASB:

- IPSAS 21 – Impairment of non-cash generating assets*

* This Standard is only effective for annual periods beginning on or after 1 January 2006