



**Western Cape
Government**

Provincial Treasury

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Reference: T7/2/7

TREASURY CIRCULAR MUN NO 9/2012

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THE MAYOR, SWARTLAND MUNICIPALITY: MR T VAN ESSEN
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THE MAYOR, KNYSNA MUNICIPALITY: MS J WOLMARANS
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THE MAYOR, LAINGSBURG MUNICIPALITY: MR W THERON
THE MAYOR, PRINCE ALBERT MUNICIPALITY: MR G LOTTERING
THE MAYOR, BEAUFORT WEST MUNICIPALITY: MR HD PRINCE

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THE HEAD OF DEPARTMENT: LOCAL GOVERNMENT
THE CHIEF DIRECTOR: LOCAL GOVERNMENT BUDGET ANALYSIS - NATIONAL TREASURY (MR J HATTINGH)
THE CHIEF DIRECTOR: MFMA IMPLEMENTATION – NATIONAL TREASURY (MR TV PILLAY)

The following has been issued with regard to GRAP implementation for review and comment by municipalities and municipal entities:

- **GOVERNMENT GAZETT(GG) 34670: GRAP 104 (FINANCIAL INSTRUMENTS)**
- **EXPOSURE DRAFT (ED)94: PROPOSED GRAP REPORTING FRAMEWORK FOR 2012/13 AND AMENDMENT OF DIRECTIVE 5**
- **EXPOSURE DRAFT (ED) 95: PROPOSED AMENDMENTS TO INTERPRETATION OF STANDARDS OF GRAP ON APPLYING THE PROBABILITY TEST ON INITIAL RECOGNITION OF EXCHANGE REVENUE (GRAP 1)**

1. Purpose

- 1.1 To inform the municipalities and municipal entities and all constitutional institutions and public entities per schedule 3(a) and 3 (c) that the Minister of Finance issued GG 34670 pertaining the applicability of financial instruments (GRAP 104) for the financial statements covering the period commencing on or after 1 April 2012
- 1.2 To inform municipalities and municipal entities that the Accounting Standards Board (ASB) has issued the following ED's for comment:
 - **ED 94** regarding the proposed reporting framework for the 2012/13 financial year and amendment to Directive 5,
 - **ED 95** regarding applying the probability test on initial recognition of exchange revenue

2. Background

- 2.1 The Accounting Standards Board (ASB) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, (PFMA), to determine Standards of Generally Recognised Accounting Practice (GRAP). In developing those standards, the ASB frequently consults with users of those standards as to their appropriateness for transactions undertaken in the South African public sector.

2.2 *Directive 5: Determining the GRAP Reporting Framework* comprises of pronouncements issued by the board and where relevant, other standard setters to be applied by entities when preparing their financial statements in accordance with the Standards of GRAP. The appendices to Directive 5 list the standards and pronouncements that form the GRAP Reporting Framework for a particular period.

3. The following is a brief outline of ED 94 and ED 95:

3.1 Exposure Draft 94

3.1.1 The purpose of this Exposure Draft is to outline the proposed reporting framework to be applied by entities for financial years commencing on or after 1 April 2012 and proposed amendments to Directive 5. Once finalised, Directive 5 will be updated with the proposed amendments, including the addition of the 2012/13 reporting framework as an appendix to Directive 5: ***Determining the GRAP Reporting Framework***.

3.1.2 The Minister of Finance announced that six new standards of GRAP would become effective from 1 April 2012. As a result of this announcement, entities are required to apply the following Standards of GRAP for the 2012/13 reporting period:

- *GRAP 21: Impairment of Non-cash-generating Assets*
- *GRAP 23: Revenue from Non-exchange Transactions (Taxes and Transfers)*
- *GRAP 24: Presentation of Budget Information*
- *GRAP 26: Impairment of Cash-generating Assets*
- *GRAP 103: Heritage Assets*
- *GRAP 104: Financial Instruments*

3.2. Exposure Draft 95

3.2.1 The board approved the Interpretation of Standards of GRAP (IGRAP) on applying the probability test on initial Recognition of Exchange Revenue.. IGRAP 1 provided

guidance on how an entity applies the probability test on initial recognition where credit is extended for the settlement of goods or services provided through a revenue transaction where uncertainty exists about the entity's ability to collect such revenue based on past history or because discretion about collectability is exercised subsequently.

3.2.2 With the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers) (GRAP 23) becoming effective on 1 April 2012, the ASB agreed that the principles in IGRAP 1 should also be extended to non-exchange transactions. This is to ensure that the probability test on initial recognition of exchange and non-exchange revenue is applied consistently.

3.2.3 The purpose of this Exposure Draft is to outline amendments to IGRAP 1 that will expand its scope to the initial recognition of non-exchange revenue.

4. Request for comment

The ASB requires that respondents express an overall opinion on the exposure drafts. Any correspondence on the exposure drafts must be supported and supplemented with detailed comment, whether supportive or critical, on the principles of the exposure draft.

The final date for the submission of comments to the ASB is:

- **ED94:** The due date is 15 February 2012
- **ED95:** The due date is 15 May 2012.

The municipalities are encouraged to send their comments direct to the ASB and inform Provincial Treasury of such communication via the email stated in this circular below.

These documents can be accessed via the following link <http://www.asb.co.za>

5. Enquiries

Any further enquiries in this regard may be directed to:

- Mr. Thobelani Madondile: Thobelani.Madondile@pgwc.gov.za - Cape Winelands & Eden Districts and Metro.
- Ms. Micheline Fortuin: Micheline.Fortuin@pgwc.gov.za - West Coast, Overberg & Central Karoo Districts.



L. NGXONONO

SENIOR MANAGER: LOCAL GOVERNMENT ACCOUNTING

DATE: 13 February 2012