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In this edition, we talk about GRAP 106: Implications for South African Public Sector Accountants and Auditors.

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GRAP 106: IMPLICATIONS FOR SOUTH AFRICAN PUBLIC SECTOR ACCOUNTANTS AND AUDITORS

The Accounting Standards Board (ASB) in South Africa has issued the Standard of Generally Recognised Accounting Practice (GRAP) 106, which deals with the transfer of functions between entities not under common control.

This standard, effective from February 2024, is based on the International Public Sector Accounting Standard (IPSAS) 40 and provides guidelines on how to account for such transfers. While the standard itself has broad application, it has particular significance for the South African public sector.

Key Concepts of GRAP 106

GRAP 106 defines a “transfer of functions” as the reorganization or reallocation of functions between entities that are not under common control. This is distinct from transfers between entities under common control, which are covered by GRAP 105.

The standard stipulates the “acquisition method” of accounting for these transfers, which involves:

- Identifying the acquirer
- Determining the acquisition date
- Recognizing and measuring identifiable assets acquired or received, liabilities assumed, and any non-controlling interests
- Recognizing the difference between the assets, liabilities and consideration transferred.

Implications for the South African Public Sector

In South Africa, the public sector is structured into three spheres of government: national, provincial, and local. GRAP 106 has particular relevance when functions are transferred between these spheres or between entities that are not part of the same economic entity. For example, if a national department transfers a function to a provincial department, this would likely fall under GRAP 106.

This distinction is crucial because transfers within the same sphere of government are treated differently, under GRAP 105. This distinction acknowledges the unique structure of South African public administration and its accounting requirements.

Impact on Auditors and Accountants

GRAP 106 introduces specific requirements that will affect how public sector accountants and auditors in South Africa perform their duties:

- **Determining the nature of a transfer:** Accountants will need to carefully analyze transactions to determine if they constitute a “transfer of functions“ as defined by GRAP 106, or simply the acquisition of assets or liabilities. This requires a thorough understanding of the definitions and criteria outlined in the standard.
- **Applying the acquisition method:** Accountants will need to apply the acquisition method of accounting, which involves several steps, including identifying the acquirer, determining the acquisition date, and measuring the assets and liabilities transferred. This may require new skills and processes, particularly around fair value measurement.
- **Auditing for compliance:** Auditors will need to ensure that public sector entities have correctly applied GRAP 106. This will involve verifying the identification of the acquirer and acquisition date, the valuation of assets and liabilities, and the accounting for any differences.
- **Increased scrutiny:** Given the complexities of public sector transactions, auditors can expect increased scrutiny of transfer of function transactions. This may require more detailed audit procedures and documentation.

Conclusion

GRAP 106 represents a significant development in accounting for the transfer of functions in the South African public sector. It provides a framework for accounting for these complex transactions, ensuring greater consistency and comparability in financial reporting. Accountants and auditors in the public sector must familiarize themselves with the requirements of GRAP 106 to ensure accurate and compliant financial reporting.

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The Southern African Institute of Government Auditors is a non-profit professional body that certifies and develops finance and auditing professionals in the public sector. SAIGA represents a unique brand of professionals, the Registered Government Auditors (RGA) in the public sector and academia. SAIGA is the sole provider of the RGA, which is regarded as the highest professional qualification in public sector auditing.

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