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THE POST-IMPLEMENTATION OF GRAP 109 BY THE ASB: DETAILED IMPLICATIONS FOR THE SOUTH AFRICAN PUBLIC SECTOR

The Accounting Standards Board (ASB) has issued GRAP 109 to provide comprehensive guidance on accounting for principal-agent arrangements.

This standard is particularly relevant to the South African public sector, which frequently involves complex principal-agent relationships. This article provides an in-depth look at the post-implementation considerations of GRAP 109, with a focus on its impact on auditors and accountants within the South African public sector.

Understanding GRAP 109 in Detail

GRAP 109 applies to arrangements where one entity (an agent) undertakes transactions with third parties on behalf of another entity (the principal). The standard provides detailed guidance on determining whether an entity is a principal or an agent and how to account for these arrangements.

- **Principal Responsibilities:** The principal recognizes revenue and expenses that arise from transactions with third parties. The principal also recognizes assets and liabilities arising from the arrangement in accordance with other GRAP standards.
- **Agent Responsibilities:** The agent recognizes only the portion of revenue and expenses it receives or incurs in executing transactions on behalf of the principal.
- **Service Concession Arrangements:** GRAP 109 clarifies the interaction between principal-agent arrangements and service concession arrangements, stating that a service concession arrangement may also be a principal-agent arrangement. In such cases, an entity must assess whether it is a principal or an agent within the service concession.

Impact on the Public Sector in South Africa

The public sector in South Africa often involves intricate arrangements that fall under principal-agent relationships. These can include:

- Arrangements between a municipality and its municipal entities.
- Arrangements between a district municipality and its local municipalities.
- Ensure that the accounting treatment applied is appropriate.
- Identify and evaluate risks associated with principal-agent arrangements.

- Evaluate information in financial statements against GRAP principles to determine if the financial statements are materially misstated.

Implications for Accountants

Accountants in the public sector are responsible for the initial implementation of GRAP 109. This involves:

- Gaining a thorough understanding of the standard.
- Applying the standard to complex principal-agent scenarios.
- Establishing robust systems and processes to capture necessary information for GRAP 109 reporting.

Challenges and Considerations

The implementation of GRAP 109 may present challenges for public sector entities:

- **Training and Resources:** Entities may need to invest in training staff and acquiring resources to ensure proper application of GRAP 109.
- **System and Process Changes:** Implementing GRAP 109 may require changes to existing systems and processes, which could involve significant costs.

Entities should carefully consider these challenges and plan proactively to ensure successful implementation.

Conclusion

GRAP 109 is an important standard for the public sector in South Africa. It provides guidance on accounting for principal-agent arrangements, which are common in the public sector. The implementation of GRAP 109 has implications for both auditors and accountants. Auditors must ensure that financial statements are prepared in accordance with the standard, and accountants must ensure that they have the necessary skills and knowledge to apply the standard correctly. While there may be challenges associated with the implementation of GRAP 109, the standard is essential for ensuring transparency and accountability in the use of public funds.

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Issued by the Southern African Institute of Government Auditors

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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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