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MINUTES OF THE TECHNICAL COMMITTEE MEETING OF THE ACCOUNTING STANDARDS BOARD HELD ON 12 JUNE 2018 AT THE ASB'S OFFICES IN MIDRAND

CHAIRMAN		L Bodewig
MEMBERS OF THE COMMITTEE		
	BOARD REPRESENTATIVES	
		F Abba
		C Braxton
		I Lubbe
		V Ndzimande
	REPRESENTATIVE OF THE AGSA	
		M Mentz
	SECRETARIAT	E Swart
EX OFFICIO		
	J Poggiolini	Technical Director
	A Botha	Project Manager
	T Tshoke	Project Manager
	E van der Westhuizen	Project Manager

1. WELCOME AND APOLOGIES

Members were WELCOMED to the meeting by the Chairperson of the Board.

2. DECLARATIONS OF INTERESTS

Members were ASKED to declare if they had any interests in any of the agenda items being discussed. No declarations were NOTED.

3. ELECTION OF CHAIRPERSON

L Bodewig was ELECTED chairperson of the Technical Committee and she took over chairing the meeting.

4. MINUTES OF THE PREVIOUS MEETING

4.1 The minutes of the previous meeting were APPROVED without amendment.

4.2 The Secretariat TABLED a memorandum outlining the decisions at the March 2018 Technical Committee meeting that required ratification given the late appointment of the Board members. The decisions were APPROVED by the Committee.

5. MATTERS ARISING

5.1 The Secretariat TABLED a memorandum at the meeting of the matters arising from previous meetings. It was NOTED that, while many of the items will be discussed at the June meeting, there are some issues that will be carried over and actioned as outlined in the memorandum.

5.2 The Secretariat NOTED that one of the standing items on the matters arising is the ability to co-opt members onto the Committee, particularly where certain expertise may be required on a topic. It is important to consider this at every meeting, particularly in relation to the Board's future projects.

TECHNICAL MATTERS

Proposed Guideline on The Application of Materiality to Financial Statements

6.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Minutes of the Project Group meeting held on 31 May 2018.
- Issues paper on materiality and accounting policies.
- Proposed Guideline on *The Application of Materiality to the Financial Statements*.
- Invitation to Comment on the proposed Guideline.
- Exposure Draft of Proposed Amendments to GRAP 1 *Presentation of Financial Statements.*
- Invitation to Comment on the proposed amendments.

Discussion of the issues paper

6.2 The Technical Committee NOTED the Secretariat's analysis of the use of capitalisation thresholds in practice, and agreed that capitalisation thresholds are not accounting policies as defined in GRAP 3. The Technical Committee CONFIRMED that when an entity has applied its capitalisation threshold, it has in fact applied GRAP 3.06.

6.3 The Technical Committee CONSIDERED whether accounting policies and similar decisions such as the use of thresholds should be applied to a particular period for transactions in that period or whether the cumulative effect of transactions on the financial statements should be considered.

6.4 Some members DISAGREED that the assessment should consider the cumulative effects of applying a particular accounting policy or similar decision because:

- By implication entities should keep track of costs incurred and expensed in the past, and this is onerous.
- Accounting policies should be applied to transactions in a particular period based on materiality considerations prevailing at that time. Therefore, past transactions should not be re-assessed based on changes in circumstances in the current period, provided that an entity has applied its materiality judgements correctly in the prior periods and no prior period error occurred. If new transactions are material in the current period, then the accounting policy is applied in the current period. There was some debate about whether the policy would be applied to all similar transactions going forward, or again, only when material.
- Concern was expressed that if the policy is not applied to all similar transactions going forward, similar transactions will be accounted for differently depending on whether it is material or immaterial in a particular period. This approach is inconsistent with GRAP 3 which requires entities to apply accounting policies consistently for similar transactions.
- A cumulative adjustment in the current period is not based on any existing principle in GRAP 3.

6.5 Other members AGREED that assessing the cumulative effect of applying accounting policies should not be ignored because:

- Materiality assessments consider the individual transaction or aggregate transactions. The cumulative effect considers the effect on the financial statements in their entirety – which can be seen to be an aggregated assessment.
- Keeping track of the effect of past transactions in the current period is necessary so that an entity is aware whether immaterial transactions have a material cumulative effect on its opening balances in the current period.
- The assessment should consider the useful lives of assets, so that the cumulative effect reflects the diminished value of the assets.

6.6 The Technical Committee CONSIDERED whether the effect of applying certain accounting policies and similar decisions should be applied retrospectively or prospectively.

6.7 It was EXPLAINED that the effects should be assessed for the current period and future periods, and that the IASB in its Practice Statement makes it clear that the assessment considers the effect of accounting policies on the current period and future periods.

6.8 It was NOTED that the issue is controversial and that the practitioners as well as auditors have not reached consensus as: (a) the decisions in each situation require judgement, (b) assessing both qualitative and quantitative considerations, (c) considering circumstances prevailing at a point in time, and (b) the unit of account.

6.9 It was NOTED that there does not seem to be a conceptual basis for an entity to change its accounting treatment if the materiality judgements made in the past were applied correctly.

6.10 Some members QUESTIONED whether the treatment of costs incurred in the past and expensed using a capitalisation threshold is different to the principle in GRAP 31 that expenditure incurred during the research phase and immediately expensed should not be subsequently capitalised during the development phase. As GRAP 31 does not allow the use of hindsight to capitalise costs, the scenarios are different.

6.11 It was NOTED that the issue of previous accounting treatments becoming material may be an indication that the thresholds set by an entity are not low enough to ensure that they can never be material to the financial statements, even cumulatively over time.

6.12 It was AGREED that the issue is a practice issue that could not be resolved, at various forums locally and internationally, and that the Technical Committee would not be able to reach consensus on how it should be resolved conceptually.

6.13 It was NOTED that while it would be useful to provide guidance to preparers on the matter, constituents' views on ways to resolve the matter should be solicited by way of a specific matter for comment in the Exposure Draft.

6.14 It was AGREED that since the issue has been debated internationally and no consensus views have been reached, requesting comments from constituents would not change anything.

6.15 It was AGREED that since the issue is a practice issue, and not a standard-setting issue, the proposed Guideline should be amended to reflect a neutral discussion about applying accounting policies in general. The discussion should explain that in assessing the effect of applying particular accounting policies, qualitative and quantitative considerations should be made, and an entity may consider the effect of the individual or aggregate transactions and effect of those transactions on the financial statements as a whole. The two examples dealing with capitalisation should be removed.

Secretariat

6.16 Some members NOTED that the IASB has been strongly criticised for including examples in the Practice Statement which were not exposed for comment, and unintentionally introduced new requirements that are not in line with any existing principles in the Standards. The Board should be mindful not to do the same in the proposed Guideline

Review of the proposed Guideline and the accompanying ITC

6.17 Some minor editorial comment was NOTED and it was AGREED that the following amendments should be made to the proposed Guideline:

Reference	**Proposed amendments**
Section 3	Expand the information provided in the background, so that the reader understands why some of the entity's accounting policies were not considered significant.
Section 5	Reorder the section so that it first addresses the nature of an item (and qualitative considerations) and then the size of an item (and quantitative thresholds).
	<u>Paragraph 5.7</u> Delete the bulleted list and link the discussion about the various levels on which thresholds are developed to paragraph 5.2.
	<u>Example 4</u> Change the example to a common example that readers can relate to as related party transactions are usually material by their nature.
Section 6	<u>Paragraphs 6.5 to 6.8</u> Amend the section on accounting policies such that the discussion is neutral and does not address the accounting treatment of items or transactions when it becomes material. Retain paragraph 6.5, amend paragraph 6.6 and link it back to paragraph 5.5, delete paragraphs 6.7 and 6.8 and delete examples 6 and 7.

6.18 Subject to these amendments, the Technical Committee RECOMMENDED the proposed Guideline to the Board for approval as an Exposure Draft.

Secretariat

6.19 No issues were NOTED on the page-by-page review of the accompanying ITC.

6.20 The Technical Committee CONSIDERED the duration of the comment period. It was NOTED that a comment period of three months is normally provided, however the Board will need to consider the stakeholders' availability and ability to participate in consultations, and the volume of other Exposure Drafts open for comment during that time. The Exposure Drafts dealing with landfill sites and financial instruments have longer comment periods ending in November and December, respectively.

6.21 It was AGREED that the comment period for this Exposure Draft should be consistent with the date recommended for the Exposure Draft dealing with financial instruments (i.e. 7 December 2018).

6.22 The Technical Committee RECOMMENDED the accompanying ITC to the Board for approval.

Secretariat

Review of the proposed Amendments to GRAP 1 and the accompanying ITC

6.23 Some members QUESTIONED whether, as a consequence of the proposed deletion of the references to "as a minimum" in the disclosure requirements, entities would be under the impression that the list of disclosures specified in paragraphs .79 and .96 should be provided at all times, without considering if the information resulting from those disclosures is material.

6.24 It was EXPLAINED that the proposed deletion is in line with the IASB's amendments, and that the proposed additions to paragraph .38 clarify that the disclosure requirements specified in the Standards of GRAP are not required in the financial statements if the information provided is not material.

6.25 It was AGREED that a cross reference to paragraph .38 should be added to paragraphs .79 and .96 so that the link to materiality considerations is made clearer.

Secretariat

6.26 No other issues were NOTED.

6.27 The Technical Committee RECOMMENDED the proposed Amendments to GRAP 1 to the Board for approval as an Exposure Draft.

Secretariat

6.28 No issues were NOTED on the page-by-page review of the accompanying ITC.

6.29 It was AGREED that the comment period for the Exposure Draft should be consistent with the date recommended for the Exposure Draft on the proposed Guideline.

6.30 The Technical Committee RECOMMENDED the accompanying ITC to the Board for approval.

Secretariat

Proposed Research Paper on Presentation of Information in the Statement of Financial Performance

7.1 The Secretariat TABLED the following at the meeting:

- A memorandum from the Secretariat.
- The proposed Research Paper on *Presentation of Information in the Statement of Financial Performance*.

Issue 1: Tone of the Research Paper

7.2 The Secretariat EXPLAINED that the purpose of the research was to identify transversal practice issues and not to report non-compliance in any individual set of financial statements. It was NOTED that the Board previously agreed that it did not want to be perceived as being punitive to any entity. The Research Paper should therefore rather present the outcome of the research in a proactive manner.

7.3 Given the Board's previous decision, the Secretariat REQUESTED the Technical Committee's view on the inclusion of Table 2 in section 2, which highlights the number of entities where issues were identified, along with the type of issues identified.

7.4 The Technical Committee AGREED that, to address the concern, Table 1 in section 1 and Table 2 in section 2 should be revised to present the information based on the level of government instead of per type of entity.

Secretariat

Issue 2: Placement of guidance

7.5 The Secretariat NOTED that the Board previously decided that all guidance developed as an outcome of the research explaining the application of the Standards should be included in the Research Paper.

7.6 The Secretariat NOTED that upon reviewing the Research Paper, this may need to be reconsidered based on the potential unintended consequences noted in the memorandum.

7.7 The Technical Committee AGREED with the Secretariat's proposal to remove the guidance currently in the proposed Research Paper, and include the guidance in the Secretariat's FAQ document with a cross reference in the Research Paper to the FAQ document.

Secretariat

Page-by-page review

7.8 The Secretariat ASKED the Technical Committee to provide comments on the Research Paper. The Technical Committee AGREED the following amendments to the proposed Research Paper.

7.9 Page 4 Executive summary

The term "quality" will be replaced with "relevance" throughout as the issue relates to both the quality and quantity of information included in financial statements.

7.10 Page 11 Nature versus function – consideration of issue

Since the ARD FAQ is only available to AGSA auditors, "AGSA" will be added before auditors to clarify this.

7.11 Page 13 Exchange and non-exchange classification – actions taken

A clarification will be added on whether the distinction between exchange and non-exchange revenue should be made on the face of the statement or in the notes.

7.12 Page 14 Reserves in the statement of changes in net assets – root causes

Presenting reserves to satisfy legislative requirements will be added as a root cause.

7.13 Page 16 Presentation of an appropriation statement – actions taken

An amendment will be considered to indicate that the applicability of GRAP 24 also depends on whether an approved budget that has been made publicly available is used to hold an entity accountable.

7.14 Page 17

- Quality of information (heading in the paper will be amended to Relevance of information).
- The term "irrelevant" in the second bullet will be replaced with "not applicable".

7.15 Subject to the amendments above, the Technical Committee RECOMMENDED the Research Paper to the Board for approval.

Secretariat

EMERGING ISSUES

8.1 The Secretariat TABLED a memorandum at the meeting outlining progress on emerging application issues reported at the last meeting.

Heritage assets

8.2 The Secretariat NOTED that it issued FAQs on the classification of heritage assets, and the treatment of replicas and items held for research.

8.3 The Secretariat TABLED a paper at the meeting outlining the application of Directive 11 *Changes in Measurement Basis Following the Adoption of Standards of GRAP* by the museums that report to DAC. As a result of the exemption granted by the Minister of Finance to the museums, questions were raised about the application of Directive 11, and whether these entities would be eligible to apply the Directive. Directive 11 may be applied within three years after the expiry of the transitional provisions or the effective date of the Directive (which was 1 April 2015).

8.4 The Secretariat NOTED that the exemption effectively gave the museums another three years, until 31 March 2018, to comply with the requirements of the Standards. The Secretariat INDICATED that, given the issues already experienced in applying the Standard, the exemption should be read as extending the transitional provisions. As a result, museums that took advantage of the exemption should be allowed to apply Directive 11 for three years from 31 March 2018.

8.5 The Technical Committee SUPPORTED the proposal. It was AGREED that this decision should be communicated to the Board and museums (if questions raised).

Directive 12 The Selection of an Appropriate Reporting Framework by Public Entities

8.6 The Secretariat NOTED that concerns were raised by the firms about the application of Directive 12 by some entities. Concerns were raised about the applicability of certain principles in the Directive, as well as the conclusions being reached. Based on this information, the ARD unit at the AGSA requested information from the auditors of affected public entities so as to understand the nature and extent of the issues. Based on the information received, a number of application issues were identified. The Secretariat issued a one page summary outlining the key issues that need to be considered when applying Directive 12. This summary was published on the ASB's website and circulated to the national and provincial accountants-general and public entities.

Accounting by Principals and Agents

8.7 The Secretariat NOTED that the current issues being raised on accounting by principals and agents related to the modified cash standard (MCS). The situation is however being monitored to assess if any GRAP-related issues arise.

8.8 The National Treasury INDICATED that, although the MCS is based on GRAP 109 *Accounting by Principals and Agents,* not all the explanatory text and commentary is provided in the MCS. A FAQ has been issued by the National Treasury to assist departments with the application of the MCS.

Reporting Framework for tribal authorities

8.9 The National Treasury INDICATED that the reporting framework to be applied by tribal trusts and authorities is again being deliberated. The departments of Co-operative Governance and Traditional Affairs (COGTA) and the provincial treasuries are seeking guidance on the reporting framework to be applied from the National Treasury.

8.10 The National Treasury QUESTIONED whether the OAG and the Secretariat could discuss prescribing the reporting framework/format of the financial statements if specific thresholds are met, e.g. tribal authorities that do not meet specific thresholds need only prepare an income statement and a balance sheet.

8.11 The Secretariat INDICATED that, based on its previous interactions on this issue, it is questionable whether the financial statements of these entities are general purpose financial statements. It is also unclear whether it is within the Board's mandate to determine a reporting framework for these entities.

8.12 The Technical Committee QUESTIONED whether these entities are audited by the AGSA and whether the Public Audit Act is applicable. The Act indicates that in the absence of a reporting framework, the AGSA determines the reporting framework. The default reporting framework is currently Standards of GRAP. It was NOTED that some entities are audited by the AGSA but many are not.

8.13 The Technical Committee QUESTIONED whether it may be appropriate for the National Treasury or COGTA to prescribe the reporting framework, similar to the Department of Basic Education and the reporting frameworks for schools.

8.14 The National Treasury NOTED that more information is being gathered about the oversight responsibilities of the provincial treasuries and COGTA to understand whose role it is to prescribe the reporting framework. Once this information has been obtained and analysed, the next course of action will be determined.

National Treasury

9. ADMINISTRATION

Work programme and performance to date

9.1 The Secretariat TABLED the updated work programme and the report on the achievement of the quarterly targets.

9.2 The Secretariat NOTED that the only changes to the work programme were those agreed at the last Board meeting.

9.3 The Secretariat INDICATED that based on progress to date, it is likely that the targets for the quarter will be achieved.

Technical policies

9.4 The Secretariat TABLED proposed amendments to the following policies at the meeting, along with a summary of the rationale for the proposed amendments:

- Post-implementation Reviews.

- Use of Official Languages.
- Re-exposure of Proposed Pronouncements Issued for Comment.
- Approving Effective Dates of Standards.
- Selection and Approval of Projects.
- Nature of Pronouncements to be Developed.
- Terms of Reference of the Technical Committee.
- Setting Performance Targets and Measuring Progress.
- Improvements to the Standards of GRAP.
- Naming and Numbering Conventions.
- Convergence with International Standards.

9.5 The Technical Committee QUESTIONED the following:

(a) Whether there was a more recent study undertaken by PANSALB on which to base the Board's language policy. It was noted that no new research was available.

(b) Whether the policy on *Naming and Numbering Conventions Used in Standards of GRAP* needed to be updated to cater for the different structure proposed in the revisions to GRAP 104 *Financial Instruments.* It was agreed that the policy only deals with the labelling of Standards and not their structure.

9.6 The Technical Committee AGREED that the requirements for a quorum at a Technical Committee meeting should be revised. The revised text should indicate the following: "A simple majority of Technical Committee members is required for a quorum". Subject to this change, the proposed amendments were RECOMMENDED to the Board for its approval.

Secretariat

10. INTERNATIONAL STANDARD SETTING ACTIVITIES

IPSASB's strategy and work plan for 2019-2023

10.1 The Secretariat TABLED the draft comment letter to the IPSASB on its strategy and work plan for 2019-2023. The Secretariat NOTED that the draft comment letter was developed based on consultation with a number of stakeholders.

10.2 The Secretariat NOTED that, since issuing the papers for the meeting, a comment letter was received from SAICA. SAICA suggests amending the strategic objective of the IPSASB to indicate the following: "Strengthening <u>accountability and transparency in </u>Public Financial Management globally through increasing adoption of accrual based IPSAS".

10.3 The Technical Committee SUPPORTED this proposed amendment. They QUESTIONED whether "stewardship" should also be added. The Secretariat EXPLAINED that in the IPSASB's context, accountability includes stewardship.

10.4 Subject to this change, the comment letter will be submitted to the IPSASB.

Secretariat

Proposed IPSAS on Leases

10.5 The Secretariat TABLED the memorandum outlining the IPSASB's proposals on lease accounting in the Exposure Draft, and the Secretariat's preliminary views on those proposals.

10.6 The Technical Committee CONSIDERED the Secretariat's preliminary views on the IPSASB's proposals.

10.7 The Technical Committee AGREED with the Secretariat's support for the proposed lessee accounting that is converged with IFRS 16, but shared their experiences of implementation of IFRS 16 in the private sector:

- The cost of implementation should not be underestimated. System changes will be required and special skills to implement the proposed accounting have been extensive in the private sector. As almost all entities will have a lease of assets ranging from property to office equipment, the potential system changes are pervasive.
- Transitional arrangements should be considered as obtaining the relevant information for the Right of Use (ROU) model has not been easy. When determining the effective date, the IPSASB should consider which other IPSASs will become effective at the same time.
- The change in lessee accounting has had an impact on lessors' businesses even though the lessor model in IFRS 16 remained unchanged.

10.8 It was NOTED that the proposed lessee accounting model will have budget implications on the local environment, particularly in budgeting for operational or capital expenditure.

10.9 The Technical Committee CONSIDERED the practical expedients, and whether materiality considerations would apply. It was EXPLAINED that the IASB's practical expedients are rules-based and materiality would not apply. For example, the election for low-value asset leases would be applied on a lease-by-lease basis without considering whether applying the practical expedient on a lease-by-lease basis is material in aggregate.

10.10 The Technical Committee DISAGREED with the proposed lessor accounting:

- The ROU model for lessors is complicated and not easy to understand conceptually.
- The proposed principles are not conceptually sound, as the accounting does not reflect the substance of the lease which is that the lessor has transferred the right of use of the underlying asset to the lessee.
- The IASB considered both the full derecognition and the partial derecognition approach by the lessor but many respondents disagreed with those proposals. The IPSASB should reconsider the model, and consider the IASB's reasons for rejecting

its earlier proposals to develop consistent and symmetrical accounting for lessees and lessors.

10.11 The Technical Committee NOTED that they would support the IPSASB if lessors are required to provide additional disclosures in their financial statements to deal with issues on consolidation as opposed to departing from the IFRS 16 lessor model.

10.12 The Technical Committee AGREED with the principles for accounting for concessionary leases by lessees, although some questioned what the proposed accounting aimed to achieve, for both lessors and lessees. It was noted that it is appropriate for the lessee to recognise the benefits received (day one gain) from the concessionary lease and that the treatment is consistent with existing principles for non-exchange revenue. The Technical Committee DISAGREED with the principle for accounting for concessionary leases by lessors. The following concerns were noted:

- The nature of the credit entry was questioned, particularly that the presentation of unearned revenue exceeding the lease receivable is not faithfully representative of the lessor's financial performance and financial position.
- The lessor should not recognise revenue that has not been earned on the concessionary lease (i.e. revenue foregone), as this is inconsistent with existing principles.

10.13 Some members NOTED that recognising the day one subsidy expense does not add any value and will result in understandability issues. It was noted that it may be more appropriate to provide disclosures in the notes to financial statements about the day one subsidy expense of the concessionary lease.

10.14 Some members NOTED that obtaining market values for concessionary leases may be difficult for both lessees and lessors as it is unclear whether the IPSASB intended the market to be a market for the public sector or the broader property market.

10.15 Some members QUESTIONED the reference to IPSAS 9 in paragraph 10 of the Exposure Draft. In particular, they noted that IFRS 16 requires consideration of leases to be allocated based on the principles in IFRS 15. The principles in IPSAS 9 and IFRS 15 should be compared.

10.16 It was EXPLAINED that while IPSAS 9 has not been converged with IFRS 15, the IPSASB believed it should rather refer to IPSAS 9 instead of IFRS 15 until it has considered whether the IFRS 15 model is appropriate for the public sector.

10.17 The Secretariat NOTED that the next step is to collate feedback received from stakeholders and draft the comment letter to be submitted to the IPSASB.

10.18 It was AGREED that the Secretariat would circulate the draft comment letter to the Technical Committee members for their input before it is submitted to the IPSASB.

Secretariat

CLOSING REMARKS

11. The remaining meeting dates of the Technical Committee for 2018 were NOTED. Members were THANKED for their participation and the meeting was ADJOURNED at 13:45.

Prepared by:	**J Poggiolini**	**14 June 2018**
Reviewed by:	**L Bodewig**	**14 June 2018**
Issued:		**14 June 2018**

Signed: ____