



Accounting Standards Board

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MINUTES OF THE MEETING OF THE ACCOUNTING STANDARDS BOARD

DATE: 29 November 2018
TIME: 09:00 to 12:30
VENUE: ASB, Midridge Office Estate, International Business Gateway,
Cnr. New Road & 6th Road, Midrand

PRESENT:

CHAIRMAN V Ndzimande

MEMBERS OF THE BOARD

C Braxton

K Hoosain

I Lubbe

ALTERNATE TO AGSA N Ngaka

EX OFFICIO

E Swart

Chief Executive

J Poggiolini

Technical Director

A Botha

Project Manager

T Tshoke

Project Manager

E van der Westhuizen

Project Manager

Board Members: Ms F Abba, Ms L Bodewig, Mr C Braxton, Mr K Hoosain, Ms I Lubbe, Mr K Makwetu,
Ms P Moalusi, Ms Z Mxunyelwa, Mr V Ndzimande, Ms N Themba,
Alternate: Ms M Sedikela
Chief Executive Officer: Ms E Swart, Technical Director: Ms J Poggiolini

1. WELCOME AND APOLOGIES

- 1.1 The Chairman welcomed the members to the meeting. It was NOTED that apologies were tendered by F Abba, K Makwetu, P Moalusi, Z Mxunyelwa, and N Themba.
- 1.2 It was NOTED that the meeting was not quorate, and that any decisions requiring the Board's approval would need to be circulated for round-robin approval.

Secretariat/Members

2. DECLARATIONS OF INTERESTS

- 2.1 Members were REQUESTED to declare their interest in any of the agenda items being discussed. No new declarations were made at the meeting.
- 2.2 The Register of Declarations of Interests was TABLED for noting. The CEO NOTED that one declaration was still outstanding and that a follow-up would be made with the relevant member.

Secretariat/Member

3. CONFIRMATION OF AGENDA

The agenda for the meeting was CONFIRMED without amendment.

4. PREVIOUS MINUTES

The minutes of the previous meeting were APPROVED, subject to adding page numbers on certain pages.

5. MATTERS ARISING

- 5.1 The Secretariat TABLED a memorandum on Matters Arising from previous meetings identifying any progress since the previous meeting.
- 5.2 Members QUESTIONED whether there is any timeline for completing the amendments to the ASB Regulations, and the implications of not finalising the Regulations. The Secretariat EXPLAINED the following:
 - There is no specific timeframe that needed to be adhered to in revising the Regulations.
 - One of the proposed changes to the Regulations is to allow alternates to be included as part of the quorum for the meetings. The implication is that without this revision, the Board meetings will not be quorate if members do not attend.
 - The Board is reliant on the Legal Unit at the National Treasury for finalising the amendments.
- 5.3 Members QUESTIONED whether there has been any response from the Acting Accountant-General on the submission of GRAP 34 to 38 on *Interests in Other Entities*. The Secretariat EXPLAINED that there has been no progress on the matter. More recently there has been no acknowledgment of the need for feedback on the status of the submission. It was AGREED that the matter should be escalated to the Director-General of the National Treasury.

CEO

6. FEEDBACK FROM THE TECHNICAL COMMITTEE MEETING

The Secretariat TABLED a memorandum outlining the key decisions taken at the Technical Committee meeting. The Secretariat NOTED that, based on the recommendations of the Technical Committee, the following actions were sought from the Board:

- Approval of the proposed Interpretation on *Adjustments to Revenue* and amendments to IGRAP 1 on *Applying the Probability Test on Initial Recognition*.
- Approval of an Exposure Draft on the transitional provisions for CET colleges.
- Approval of the actions arising from the review of the amendments to GRAP 16 *Investment Property* and GRAP 17 *Property, Plant and Equipment*.
- Note the progress on the proposed Directive on applying Standards of GRAP when entities apply IFRS Standards.
- Noting of changes made to the work programme, projected achievement of quarterly targets, emerging issues and the comment letter to the IPSASB.

7. ACCOUNTING FOR ADJUSTMENTS TO REVENUE

7.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- The proposed IGRAP on *Accounting for Adjustments to Revenue*.
- The proposed amendments to IGRAP 1 *Applying the Probability Test on Initial Recognition of Revenue*.

7.2 It was NOTED that the comment received on ED 164 and ED 165, along with the proposed amendments to the IGRAPs were discussed at two project group meetings held during October 2018. The Technical Committee reviewed the comment received and the proposed changes to the IGRAPs.

Consultation process

7.3 It was NOTED that the Technical Committee compared the stakeholders identified in the project brief to those consulted during the comment period and concluded that stakeholders were given sufficient opportunity to participate in the Board's due process.

7.4 The Board CONFIRMED the Technical Committee's conclusion on the sufficiency of the due process.

Application of the proposed IGRAP to revenue arising from contractual arrangements

7.5 It was NOTED that the Board initially agreed that the proposed IGRAP should provide guidance on the accounting for adjustments to exchange and non-exchange revenue that is charged in terms of legislation or similar means, following the completion of a review, appeal or objection process. A stakeholder questioned whether the guidance could also be applied to adjustments to revenue arising from contractual arrangements.

7.6 It was NOTED that the Technical Committee agreed that the principles in the proposed IGRAP can be applied, by analogy, to the accounting for adjustments to revenue

arising from contractual arrangements, particularly if disputes or other adjustments are resolved using similar mechanisms as those outlined in ED 164.

7.7 It was QUESTIONED whether the application of the principles in the proposed IGRAP were tested against specific examples of revenue arising from contractual arrangements. The Secretariat PROVIDED a few examples of where the application of the principles was considered.

7.8 The Board AGREED with the Technical Committee's recommendation that the principles in the proposed IGRAP can be applied to revenue arising from contractual arrangements. The Board also AGREED with the proposed amendments to the IGRAP clarifying the application of the IGRAP to these arrangements.

Secretariat

Effective date of the proposed pronouncements

7.9 The Board NOTED respondents' views on the effective date of the proposed IGRAP and the amendments to IGRAP 1. It was NOTED that the Technical Committee supported the recommended effective date of 1 April 2020 as (a) the principles in the proposed IGRAP are based on the principles in GRAP 3 that has been effective for a number of years; and (b) divergent practice needs to be addressed as a matter of urgency.

7.10 The Board AGREED with the proposed effective date of 1 April 2020.

Secretariat

7.11 The Board APPROVED the proposed IGRAP on *Adjustments to Revenue* and the amendments to IGRAP 1 as final pronouncements.

Secretariat

8. TRANSITIONAL PROVISIONS FOR CET COLLEGES

8.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Draft Directive on *Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges*.
- Invitation to comment.

8.2 The Secretariat PROVIDED an overview of the requirements of the Gazette issued by the Department of Higher Education and Training (DHET) in August 2018 regarding the application of Standards of GRAP to CET colleges. The following was NOTED from the discussions at the Technical Committee meeting:

- (a) There is a need to issue transitional provisions based on how the CET colleges were formed, as well as that historical information about the learning centres which were merged to form the colleges, is based on the modified cash basis of accounting.
- (b) Transitional provisions could be issued in time for the submission of the first set of financial statements if the Board's due process is shortened from 3 months.

- (c) GRAP 106 on *Transfer of Functions Not Under Common Control* would be an appropriate basis for the transitional provisions as the colleges were established through a transfer of function from the provincial Departments of Education to the national DHET.
- (d) The measurement period of two years in GRAP 106 could be extended to 31 December 2021 to accommodate the processes that still need to be undertaken to verify and measure assets and liabilities acquired on 1 April 2015.
- (e) No relief could be provided for transactions undertaken after 1 April 2015 as the financial statements would provide meaningless information to users.
- (f) The Technical Committee supported the technical proposals but raised significant concerns about the requirement of the Gazette. These concerns centred on whether retrospective application of the Standards is appropriate given the potential resource implications, the lack of credible data to produce the financial statements which would render them meaningless, the inability to improve the financial statements and audit outcomes over the next year for the financial statements for 2015 to 2019, and the potential implications to engage assurance providers.
- (g) The need for engagement between the Minister of Finance and the Minister of Higher Education and Training on the implications of the Gazette was identified by the Technical Committee.

8.3 The Board AGREED with the technical proposals and timelines proposed by the Technical Committee, but NOTED the following:

- (a) The quantum and extent of the issues at the CET colleges is unknown given the limited time to engage with the DHET and the colleges on the Gazette.
- (b) Ideally, the simplest form of a reporting framework should have been introduced to start to close the gap in accountability at these entities. Standards of GRAP could have been introduced after a period of time, or at least on a prospective rather than a retrospective basis.
- (c) The potential costs of complying with the Gazette, and how these will be funded, were concerning.
- (d) The engagement between the Ministers is critical and should happen as soon as possible. The Secretariat should ask to be included in any discussions on the matter.

8.4 A member NOTED that there is a broader discussion required with the DHET about the ASB's role, as well as the Department's role in providing guidance on the application of the Standards. As the National Treasury is not directly responsible for the colleges (TVET and CET colleges), the DHET should play an active role in ensuring that the Standards of GRAP are applied correctly.

Secretariat

8.5 The Board AGREED to issue the draft Directive as an Exposure Draft for comment until 8 February 2019.

Secretariat

9. REVIEW OF AMENDMENTS TO GRAP 16 AND GRAP 17

9.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Approved project brief (for information purposes).

9.2 The Secretariat PROVIDED the background and objective of the project. The Secretariat EXPLAINED that the review of the amendments included a desktop review of a representative sample of entities' financial statements and direct consultations with the stakeholders identified in the project brief. It was NOTED that the Secretariat also distributed a questionnaire to preparers and users of financial statements to supplement the review process.

9.3 The Secretariat EXPLAINED that, the Technical Committee considered the groups of stakeholders and total number of organisations represented in the project results and agreed that sufficient consultation was undertaken to allow the Board to make decisions about the project.

9.4 The Board CONFIRMED that sufficient consultation was undertaken.

9.5 The Secretariat NOTED that, generally, the results of the review indicate that entities have applied the amendments in the 2016/17 reporting period.

9.6 The Secretariat SHARED the key findings of the review as well as the Technical Committee's recommendations to the Board.

9.7 The Board AGREED to the following:

Amendments to clarify the distinction between investment property and PP&E

- Feedback from participants indicates that the amendments have enhanced preparers' understanding of the principles in GRAP 16, and no further action is required in this regard.
- Existing guidance in the Standards, when considered along with the asset decision tree, will assist with the distinction between inventory and investment property. Similarly, no additional guidance is necessary to assist with the classification of stadiums and airports.
- The IASB's narrow-scope Amendments to IAS 40 on *Investment Property* should be considered in the next Improvements project to address the need to clarify what triggers a change in use of assets when assets are transferred to/from investment property.

Amendments to introduce the indicator-based approach for reviewing useful lives and residual values

- Feedback from participants indicates that the amendments have been useful in alleviating the burden of undertaking detailed annual reviews.
- The increased occurrence of fully depreciated assets is the result of the lack of understanding of how to account for these assets when they are material. The Board NOTED some of the reasons for the increased occurrence and

CONCLUDED that preparers view the existence of fully depreciated assets as a technical exercise that leads to accounting adjustments rather than good asset management practice.

- It would be useful if preparers changed their mind set and consider that the guidelines establishing standard useful lives may not necessarily reflect how the use of assets changes over time and that their initial estimates need to be adjusted.

Amendments to clarify the use of external valuers

- Preparers raised concerns that the auditors may not place any reliance on valuations undertaken by internal experts. The Secretariat should follow up with the AGSA, as well as other firms involved in section 4(3) audits (i.e. through IRBA's Public Sector Standing Committee and SAICA's Public Sector Committees) in order to understand the basis of these concerns, and if any action should be undertaken.
- The Secretariat should confirm with the representatives of the AGSA's ARD unit whether any audit issues were raised about the use of internal experts in the current audit cycles.

Secretariat

- Educational material (e.g. standardised working papers) may need to be developed by stakeholders such as the National Treasury to assist preparers with performing valuations, and documenting the methodologies, assumptions and techniques applied by internal experts. This material will ensure that preparers provide sufficient documentary evidence when using internal experts.
- The material may also be appropriate to deal with guidance on assessing whether an internal expert has the requisite competence to undertake valuations as per the Standards.

Amendments to delete encouraged disclosures

- Feedback from participants indicated that there are some entities that continue to provide information on fully depreciated assets, but this can be attributed to the uncertainties noted about the accounting treatment of fully depreciated assets.
- In response to the recommendation of the reinstatement of a disclosure requirement for fully depreciated assets to enhance accountability, the Board was not supportive as this would contradict the principle to account for fully depreciated assets when they are material.
- Disclosing immaterial information on fully depreciation assets would also obscure the understandability of the financial statements.

Amendments to introduce additional disclosures on capital WIP

- While feedback from participants was positive, the Board did not support the participants' view that the disclosures should be standardised. Standardising the amendments would be too prescriptive and onerous for the entities involved in extensive capital projects.

- It was observed that at the centre of some of the corruption scandals in the public sector are the malpractices on capital expenditure. Consequently, the Board needs to determine how it can improve the disclosures so that the information reported in the financial statements provides information that identifies where there are potential problems. The Secretariat should review the disclosures made by entities again in a future reporting period to understand how practice has evolved. This review will be considered for inclusion in the work programme for 2021 to 2023.

Secretariat

- The FAQs should be reviewed to clarify that the % model used in the example is not the only way to determine what “significantly longer” means, but that other KPIs or metrics may also be considered.

Amendments to introduce additional disclosures on repairs and maintenance

- The challenges expressed by participants about allocating specific costs to different assets are an indication that the requirements in the Standards are misunderstood.
- The existing FAQ should clarify that GRAP 17 does not prescribe how repairs and maintenance should be determined.

Secretariat

9.8 The Board AGREED that none of the issues noted in the findings relate to the requirements in the Standards and concluded that the amendments have achieved their objective and that no further amendments are required to GRAP 16 and GRAP 17.

9.9 The Board CONCURRED with the Technical Committee’s recommendation that the next step of the project should be to communicate the findings of the review in a Research Paper. A stakeholder consultation plan will be developed that identifies key stakeholders with whom the results of the research should be shared with the objective of changing practitioners’ behaviour on the issues identified.

9.10 The Board AGREED that the Secretariat should make use of media such as articles and newsletters to raise awareness and address some of the issues identified in the review, such as the correct accounting treatment of fully depreciated assets.

Secretariat

9.11 The Board also INDICATED that the Secretariat to communicate and raise awareness about how disclosures required by the Standards enhance public accountability.

Secretariat

10. USE OF STANDARDS OF GRAP BY ENTITIES THAT APPLY IFRS STANDARDS

10.1 The Secretariat TABLED a memorandum that provided feedback to the Board on the process to engage with the Financial Reporting Standards Council (FRSC).

10.2 It was NOTED that, on the recommendation of the Chairman of the FRSC, the Secretariat engaged with the Financial Reporting Technical Committee (FRTC) on two occasions.

- 10.3 It was NOTED that the FRTC discussed the draft Directive at its November 2018 meeting. A high level comparison between the GRAP Conceptual Framework and the IFRS Conceptual Framework was also presented to assist in the debate on whether a conflict exists between the two conceptual frameworks. At this meeting the FRTC members noted that, even though there are some overlaps between the two conceptual frameworks, the users are a clear point of departure impacting the concept of service potential. The FRTC recommended that the proposed Directive should clarify that, in assessing whether a conflict exists, an entity needs to consider its users and their information needs in assessing whether a conflict exists between the two conceptual frameworks.
- 10.4 It was NOTED that the proposed Directive will be amended with the FRTC's input and will be circulated to them for final input.
- 10.5 The Secretariat EXPLAINED that there may be a delay in appointing the FRSC, and as a result, it may not be possible for the FRSC to review the draft Directive in the next quarter. The Board AGREED that if the FRSC is not constituted by the next quarter, the proposed Directive should be finalised and the FRSC consulted as part of the public consultation process.

Secretariat

- 10.6 It was AGREED that the DTI should also be informed of the proposed Directive once issued by the Board as an Exposure Draft.

Secretariat

- 10.7 It was NOTED that the Technical Committee recommended that the Board should consider how to progress the project if the FRTC and/or the FRSC do not publicly support the guidance. The Board AGREED to address this matter, if needed, based on the comment received during the project group discussions.

ASB

11. EMERGING ISSUES

- 11.1 The Secretariat TABLED a memorandum at the meeting outlining emerging issues regarding the application of the Standards.
- 11.2 The Secretariat EXPLAINED the issue raised during the consultation on the revisions to financial instruments regarding the request to re-instate all the requirements in IFRS 5 on *Non-current Assets Held for Sale and Discontinued Operations*. The Secretariat INDICATED that it had insufficient information as to how widespread the issue is, and whether a change would be justified. The Secretariat PROPOSED asking for respondents' views on the issue during the consultation on the work programme for 2021 to 2023.
- 11.3 The Board AGREED with the proposed approach, but suggested the following actions:
- (a) Reviewing the financial statements of entities (particularly banks, including DBSA) during the financial crisis to assess how these issues were addressed.

- (b) Separating the issues between (a) the need for different accounting for entities acquired with a view to resale, and (b) the consolidation of dissimilar activities. The consolidation of dissimilar activities could be addressed through FAQs or similar interventions explaining the requirements of the Standards and possible options for entities to consider.

Secretariat

11.4 The Secretariat NOTED the following regarding previous issues reported:

- (a) The OAG was working on developing a reporting framework for tribal authorities using the draft framework for school governing bodies issued by SAICA. The provincial accountants-general are engaging on the issue.
- (b) The AGSA indicated that only 2 of the 13 entities that report to the Department of Arts and Culture received modified audit opinions during the 2017/18 PFMA audit cycle.
- (c) Developments regarding a court case between the Department of Economic Development in the Western Cape and the AGSA regarding the interpretation of principal-agent arrangements under the modified cash basis is being monitored.

12. AUDIT AND RISK COMMITTEE (ARC)

- 12.1 It was NOTED that there was no ARC meeting since the last Board meeting. The upcoming meeting scheduled for December was also cancelled.
- 12.2 The revised Terms of Reference of the ARC were REVIEWED by the Board. It was NOTED that the revised Terms of Reference had not yet been submitted to the ARC given the cancellation of the recent ARC meetings. No changes were proposed to the Terms of Reference.
- 12.3 A member QUESTIONED whether the services in kind received by the ASB from the shared ARC are recognised in the financial statements. The Secretariat NOTED that the receipt of these services is explained in the notes to the financial statements, but are not recognised as they are not deemed to be significant.

13. FEEDBACK FROM OPERATIONS COMMITTEE

- 13.1 A report from the Secretariat outlining the key decisions taken at the Operations Committee meeting held on 14 November 2018 was TABLED at the meeting.
- 13.2 It was NOTED that the Operations Committee recommended the social media strategy, revised terms of reference and risk register to the Board for approval.
- 13.3 A member QUESTIONED whether the reference to “non-compliance with legislation” in item 6.1 in the minutes should be “compliance with legislation”. It was AGREED that the title of the report would be reviewed as only “non-compliance” is reported.

Secretariat

14. ADMINISTRATION

Work programme

- 14.1 The Secretariat TABLED a memorandum, along with the revised work programme to reflect the decisions taken at the September 2018 meeting and the document outlining monitoring of convergence with the IPSASB, at the meeting. The work programme was

updated to reflect the decisions at the last meeting on (a) the consultation with the FRSC on the draft Directive on the application of Standards of GRAP by entities that apply IFRS Standards and (b) the reporting of information to the public.

- 14.2 The Secretariat NOTED that the work programme would need to be updated to reflect the decisions at this meeting regarding the actions arising from the review of the amendments to GRAP 16 and GRAP 17 and the issue of the Exposure Draft on transitional provisions to be applied by the CET colleges.

Secretariat

Monitoring progress against the achievement of the quarterly and annual targets

- 14.3 The Secretariat TABLED a memorandum at the meeting outlining the ASB's achievement against the targets for the period 1 October to 31 December 2018. The Secretariat NOTED that 66% of the targets were met for Objective 1 because of the decision by the Board to provide constituents additional time to comment on the revisions to financial instruments. An additional document will however be issued and separately reported as an additional achievement under this objective. All other targets either were or are likely to be achieved.

Risk management

- 14.4 The Risk Register was TABLED at the meeting. It was NOTED that there were no changes made since the last meeting.

Social media strategy

- 14.5 The draft social media strategy was TABLED at the meeting.
- 14.6 The Secretariat NOTED the following:
- (a) The main objective of the strategy at this stage is to create awareness of the ASB and its activities.
 - (b) The success of the strategy would be measured against similar organisations such as IRBA, AASB, GASB, XRB and IPSASB.
 - (c) Content would be developed as part of the activities on each project.
 - (d) Expenditure will be monitored at the OPSCO meetings.
 - (e) Targets will be included in the APP for 2019/20.
- 14.7 The social media strategy was APPROVED by the Board.

15. INTERNATIONAL STANDARD SETTING ACTIVITIES

The Secretariat TABLED the comment letter on *Amendments to IPSAS 36 and 41* and indicated support for the proposed changes.

16. GENERAL

- 16.1 It was AGREED that the evaluation of the Board would be postponed to the next meeting.
- 16.2 The meeting dates for 2019 were NOTED.
- 16.3 The meeting was ADJOURNED at 12:30.

Prepared by: Erna Swart 5 December 2018
Approved by: Vincent Ndzimande 6 December 2018
Issued: 6 December 2018

Approved by Board: _____

Date: _____