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MINUTES OF THE MEETING OF THE ACCOUNTING STANDARDS BOARD

DATE: 4 July 2019
TIME: 09:00 to 13:15
VENUE: ASB, Midridge Office Estate, International Business Gateway,
Cnr. New Road & 6th Road, Midrand

PRESENT:

CHAIRMAN V Ngobese

MEMBERS OF THE BOARD

F Abba
L Bodewig
C Braxton
K Hoosain
I Lubbe
P Moalusi
N Themba

BY INVITATION

Ms S Kubheka	Acting Accountant-General
Ms P Mzizi	Audit Committee Chair
Mr M Naidoo	Director Morar Inc

EX OFFICIO

E Swart	Chief Executive
J Poggiolini	Technical Director
A Botha	Project Manager

Board Members: Mr V Ngobese (Chair), Ms F Abba, Ms L Bodewig, Mr C Braxton, Mr K Hoosain,
Ms I Lubbe, Mr K Makwetu, Ms P Moalusi, 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 K Makwetu, M Sedikela, T Tshoke and E Van der Westhuizen.
- 1.2 It was NOTED that Ms S Kubheka was replacing Ms Z Mxunyelwa as Acting Accountant-General of the National Treasury, Ms P Mzizi was appointed the Chair of the audit committee from 1 July 2019, and Mr M Naidoo was responsible for the external audit of the ASB.
- 1.3 Confirmation of Ms Kubheka's appointment as Board member by the Minister of Finance is awaited.

2. DECLARATIONS OF INTERESTS

Members were REQUESTED to declare their interest in any of the agenda items being discussed. No new declarations were made at the meeting.

3. CONFIRMATION OF AGENDA

The agenda for the meeting was CONFIRMED.

4. PREVIOUS MINUTES

The minutes of the previous meeting were APPROVED with the following amendments:

- Replacing the words "open a credit card account" with "application for a credit card" in item 3.
- Replacing the word "guide" in item 14 with the word "guideline".

5. MATTERS ARISING

- 5.1 The Secretariat TABLED a schedule of matters arising from previous Board meetings.
- 5.2 It was NOTED that the matters arising from the meeting with the previous Acting Accountant-General held on 18 March 2019 were forwarded to the new Acting Accountant-General.
- 5.3 Ms Bodewig NOTED that a meeting was held with the Legal Unit in the National Treasury and comments were submitted on the first draft of the proposed amendments to the ASB Regulations and a Government Gazette Notice on the effective dates of certain Standards of GRAP for Trading Entities.
- 5.3 The Acting Accountant-General NOTED that she had discussed these issues with the Deputy Minister of Finance who has expressed his support for the proposed changes.

6. STRATEGIC PLANNING

- 6.1 It was NOTED that in accordance with the legal framework governing the ASB, the five year strategic planning process commences after the election of a new national government. In preparation for the development of the plan, the Secretariat TABLED a comparison of the Board's strategic objectives with those of other national and international standard setters and proposed amending the current strategic objectives. The Secretariat also TABLED a document linking the strategic objectives, both the existing and the proposed, to the legal mandate of the ASB, to illustrate the benefits of revising the objectives.

- 6.2 The Board APPROVED the revised strategic objectives but reconsider the sequence before including it in the draft Strategic Plan.
- 6.3 In drafting the situational analysis, the Board NOTED the following matters for inclusion:
- The role of the Board in relation to decisions by other ministries to adopt Standards of GRAP, for example the Minister of Higher Education and Training's adoption of Standards of GRAP for CET and TVET colleges.
 - The role of directives that provide guidance to IFRS adopters.
 - The relevance of international standards in the work of the ASB.
 - Unfunded mandate of the Board.
 - The Board's response to the National Develop Plan and the Medium Term Strategy being drafted at present.
 - The role and responsibilities of the Board to the adoption of a uniform reporting framework for all spheres of government as set out in the Constitution of South Africa.
 - Considering the Board's future role as the number of new standards required for a comprehensive reporting framework and the extent of maintenance needed to existing standards are declining.
 - The impact of uncertainty created by the number of changes in the Ministry of Finance and some key role players in the National Treasury and the length of time taken to fill vacancies such as the position of the Accountant-General and the time taken to approved Standards of GRAP issued by the Board.
- 6.4 In developing the activities arising from the Strategic objectives, it was NOTED that even though the work programme consultation had occurred around existing strategic objectives, most of the identified projects would fit under the new strategic objectives. The possible exception is the new strategic objective relating to research, but as the next work programme consultation falls within the five-year period, it will allow another opportunity to identify further projects. In addition, some of the outcomes of existing projects could result in research.
- 6.5 It was NOTED that the Secretariat would be drafting the Strategic plan and APP based on the Board discussions for review by the Operations Committee. A final draft will be submitted to the Board for approval in December and tabling in Parliament in March 2020.

Secretariat

TECHNICAL ACTIVITIES

7. FEEDBACK FROM THE TECHNICAL COMMITTEE MEETING

7.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Draft minutes of the Technical Committee meeting held on 6 June 2019.

7.2 The Chairperson of the Technical Committee EXPLAINED that the key actions for the Board arising from the meeting were as follows:

- Approval of the Exposure Drafts on *Improvements to Standards of GRAP (2019)* and *Proposed Transitional Provisions for GRAP 104 Financial Instruments*.
- Approval of projects for the 2021-2023 work programme.

7.3 The Secretariat INDICATED that the Technical Committee also agreed that the draft comment letter on the IPSASB's Consultation Paper on *Measurement* should be reviewed by the Board in September.

8. IMPROVEMENTS TO THE STANDARDS OF GRAP (2019)

7.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- The proposed Invitation to Comment (ITC) and Exposure Draft on *Improvements to Standards of GRAP (2019)*.

7.2 The Board NOTED the background to the development of the proposed Exposure Draft. Improvements to the Standards of GRAP comprise improvements resulting from amendments to the International Public Sector Accounting Standards, International Financial Reporting Standards and other general improvements to the Standards of GRAP.

7.3 It was NOTED that the proposed pronouncement was discussed at two project group meetings held during May 2019. The Technical Committee considered the ITC and the proposed Exposure Draft at its meeting held in June 2019 and recommended the documents to the Board.

Deletion of appendices outlining illustrative examples in Standards of GRAP

7.4 It was NOTED that appendices outlining illustrative examples for effective Standards of GRAP were deleted in previous Improvements Projects. The Technical Committee supported the project group's recommendation to delay the deletion of the appendices for newly effective Standards of GRAP and those becoming effective for financial periods commencing on or after 1 April 2020, until the Board's next Improvements Project. This will allow the National Treasury some time to complete its work on the Guidelines.

7.5 The Board AGREED with the Technical Committee's recommendation.

Secretariat

Proposed amendments to the definition of a related party and related disclosures

7.6 It was NOTED that the Exposure Draft proposes an amendment to the Standard of GRAP on *Related Party Disclosures* (GRAP 20) to include, within the definition of a related party, transactions that arises where management services are provided to a reporting entity.

7.7 It was NOTED that, as various interpretations of "management services" may exist, the Technical Committee agreed to the inclusion of (a) explanatory guidance in GRAP 20; and (b) a Specific Matter for Comment to request views on whether this guidance is appropriate and how it will be applied practically.

- 7.8 It was PROPOSED that the explanatory guidance in paragraph .27A should clarify that the amendment only applies to transactions where a fee is charged. It was NOTED that the summary of changes to GRAP clarifies that the proposed amendment only applies to management services provided by an entity outside of the economic entity. Management services provided by entities that are within the same economic entity, are already related party transactions and within the scope of GRAP 20.
- 7.9 It was AGREED that no additional explanation to paragraph .27A is required. The Board AGREED with the inclusion of the Specific Matter for Comment.

Secretariat

Proposed ITC and Exposure Draft on Improvements to Standards of GRAP (2019)

- 7.10 The Board APPROVED the ITC and proposed Exposure Draft for exposure with comment due by the end of October 2019.

Secretariat

9. TRANSITIONAL PROVISIONS FOR GRAP 104 FINANCIAL INSTRUMENTS

- 9.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Draft Exposure Draft on Transitional Provisions for *Financial Instruments*.
- Invitation to Comment.

Proposed transitional provisions

- 9.2 The Secretariat NOTED that the proposed transitional provisions for the amendments to GRAP 104 are retrospective, with the exception of certain principles related to the classification of financial assets, applying the effective interest method retrospectively, certain impairment provisions, and the disclosure of information related to changes in classification and measurement.
- 9.3 The Secretariat INDICATED that the Technical Committee debated whether additional relief should be provided for receivables. The Technical Committee agreed that sufficient relief was provided in the Standard itself.
- 9.4 The Board SUPPORTED the proposed transitional provisions.

Proposed effective date

- 9.5 The Secretariat EXPLAINED that, given the complexity of the amendments, entities should be afforded time to apply the amendments. Instead of allowing a three-year period to apply the recognition, measurement and/or other requirements, the Technical Committee proposed delaying the effective date.
- 9.6 The Board AGREED with delaying the effective date rather than proposing a three-year relief period.
- 9.7 The Secretariat NOTED that the proposed effective date is for financial years commencing on or after 1 April 2024. The Technical Committee supported this date as it allows entities three years to adopt the requirements, sufficient practice would have developed on IFRS 9 *Financial Instruments* in the public sector, and the National Treasury would have sufficient time to develop the guidance needed.

- 9.8 It was QUESTIONED whether the date should be delayed to 1 April 2024. It was indicated that, because entities are currently experiencing issues with GRAP 104, they are in the process of appointing consultants. It would be ideal if the old and the new requirements could be considered for implementation at the same time.
- 9.9 Other members INDICATED that based on the complexity of the changes and the related changes to systems, processes and policies, a sufficient period of time should be provided to entities.
- 9.10 The Board AGREED to the proposed effective date of 1 April 2024. Members NOTED that there is a need for ongoing communication of the changes to preparers leading up to the effective date.

Piloting the amendments to GRAP 104

- 9.11 The Secretariat INDICATED that the project group comprising the preparers (represented by municipalities and public entities) requested that the implementation of the amendments to GRAP be 'piloted'. The project group proposed that the National Treasury run the pilot programme.
- 9.12 The Secretariat EXPLAINED that the Technical Committee discussed the proposal and raised issues about whether this would be seen as an early adoption of the Standard, the production of parallel accounts using the new requirements in GRAP 104, and whether assurance would be provided by the auditors. The possibility of using a 'Transitional Resource Group' model was also discussed.
- 9.13 The Board AGREED that the Secretariat should explore various alternatives with the National Treasury and the AGSA (if needed), and consider the impact on the ASB work programme, and provide feedback to the Board.

Secretariat

Level of approval required

- 9.14 The Secretariat EXPLAINED that it had undertaken the analysis in terms of the Board's policy to assess whether the submission for approval of the amendments should be made to the Minister of Finance or the Acting Accountant-General. Based on the criteria, the analysis indicated that the submission should be made to the Minister of Finance given the changes to both the information made available to users, and the level of changes required to be made to systems, processes, policies etc. at entities.
- 9.15 The Board SUPPORTED the analysis. Members INDICATED that the submission should be made soon after approving the transitional provisions to ensure that the Minister approves the submission before 1 April 2021.

Secretariat

General comments

- 9.16 A member QUESTIONED why the higher education sector had until 31 December 2025 to apply the amendments to GRAP 104. The Secretariat EXPLAINED that the effective date is for financial years commencing on or after 1 April 2024. The first reporting period for the higher education sector commencing after this period is 1 January 2025.

9.17 The proposed Exposure Draft and Invitation to Comment were APPROVED for issue without amendment. The comment deadline is 29 November 2019.

10. WORK PROGRAMME FOR 2021-2023

10.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Analysis of written and verbal comments (for information purposes).
- Draft work programme for 2021-2023.

General

10.2 The Secretariat EXPLAINED the due process and which stakeholders provided comments. No specific issues were RAISED on the consultation process.

10.3 The Secretariat INDICATED that given the potential changes to the strategic objectives, the proposed work programme would need to be redrafted. There is no specific project allocated to the strategic objective related to undertaking research for the 2021-2023 period. This would be included in the next work programme consultation.

10.4 The Secretariat NOTED that when the Exposure Draft was issued for comment, it was anticipated that 13 projects could be undertaken. Based on analysis of staff time available, this has been reduced to 12.

10.5 The Secretariat NOTED that respondents indicated that the Board should not introduce too many new requirements over the 2021-2023 period given the number of reforms underway.

Projects for the 2021-2023 period

10.6 The Secretariat EXPLAINED that the Technical Committee proposed that the Board should add the following projects to the work programme for 2021-2023 as outlined in Table 1 of the memorandum. The Technical Committee however requested that the Board discuss the proposed actions related to:

- The adoption of Standards of GRAP by departments.
- The development of communication material for users of the financial statements.

Adoption of Standards of GRAP by departments

10.7 The Secretariat NOTED that respondents indicated that the Board should play a more active role in promoting the adoption of accrual accounting by departments. The Technical Committee indicated that more should be done, but that the specific actions should be discussed by the Board.

10.8 The Board AGREED the following:

- The annual report includes a strong statement indicating that accrual accounting should be adopted by departments. The report will be considered by the Standing Committee on Finance.
- There was a clear policy decision made by government in 1999 to move to accrual accounting. The lack of implementation of accrual accounting by departments is an

operational issue that should be addressed by the National Treasury. The Board has a duty to raise this issue with the Minister.

- The issue should be added to the agenda for the discussion with the Minister of Finance.
- Prior to meeting with the Minister of Finance, the Secretariat should meet with the officials in the OAG to understand the issues, challenges, policies, plans etc. so as to ensure that (a) a co-ordinated approach is adopted by the OAG and ASB, and (b) the Minister is adequately briefed of the issue prior to the meeting.

10.9 It was QUESTIONED whether this action is part of the work programme or a separate activity. It was AGREED that this activity was previously part of the work programme under 'promoting the adoption of Standards of GRAP'. Given that the proposals are likely to take time to action, it should remain as a separate project in the work programme.

Secretariat

Communication material for users of the financial statements

10.10 The Secretariat EXPLAINED that respondents both supported and disagreed with the Board developing 'educational material' for users of the financial statements. The Technical Committee supported the development of the material as this would ensure that users are empowered to use the information made available to them and would enhance the credibility of the Board's work and the adoption of the Standards. The Technical Committee also suggested that the material should be 'communication' rather than 'educational' material, and that it should focus on users within oversight structures.

10.11 The Board SUPPORTED the proposal. It was however AGREED to limit the users to members of oversight structures with financial responsibilities.

10.12 The Board AGREED that the timing of the project should be considered. For example, it might be ideal to have the material completed shortly in time for the next local government elections.

Secretariat

10.13 The representative from the National Treasury INDICATED that there may be EU funding available for this project. It was AGREED that the Secretariat and the National Treasury should discuss this further.

Secretariat

General

10.14 The Board QUESTIONED the Secretariat's approach to the desktop reviews and whether external parties will be used.

10.15 The Secretariat EXPLAINED that it does the reviews internally because there is insufficient skill and capacity at educational and other institutions to assist with the reviews.

10.16 Subject to the actions agreed above, the work programme for 2021-2023 was agreed.

Secretariat

11. EMERGING ISSUES

- 11.1 The Secretariat TABLED a memorandum outlining emerging issues related to the adoption of Standards of GRAP.
- 11.2 The Secretariat EXPLAINED the background to the exemptions provided on Directive 12, particularly why the exemptions are granted for a period of time.
- 11.3 A member QUESTIONED whether the Secretariat was provided an opportunity to comment on the exemptions. The Secretariat EXPLAINED that comments were provided to the OAG on the exemption requests. The decision to grant the exemption or not, and the reasons therefore, vests with the National Treasury.
- 11.4 The Secretariat PROVIDED an update on the adoption of Standards of GRAP by the CET colleges.
- 11.5 It was AGREED that the Secretariat should solicit feedback from the SAICA team for each of the milestones outlined in the Gazette and table this at the Board meetings.

Secretariat

12. GRAP IMPLEMENTATION

No new matters were NOTED.

13. AUDIT COMMITTEE (AC)

- 13.1 It was NOTED that the Audit Committee met on 28 May 2019 to review and approve the draft annual report for submission to be audited, and again on 27 June 2019 to review the External Audit Report and the Management Report.
- 13.2 It was NOTED that subject to some editorial corrections, the Reports were accepted.
- 13.3 It was NOTED that the Audit Committee acknowledged the commitment demonstrated by the staff of the ASB to ensuring a clean audit, no findings in the management report by the external auditors and no findings in the two internal audit reports issued during the year.
- 13.4 The Audit Committee Chair TABLED the Audit Committee Report for inclusion in the annual report.
- 13.5 Subject to some editorial amendments, the Report was adopted for inclusion in the annual report.

Secretariat

14. FEEDBACK FROM OPERATIONS COMMITTEE

- 14.1 The Feedback Report from the Operations Committee meeting held on 17 March 2019 and the draft minutes of the Operations Committee meeting were TABLED for consideration by the Board. It was NOTED that all the matters referred to the Board were included on the agenda.
- 14.2 It was NOTED that the social media statistics referred to in the draft minutes related to the number of followers, the number of messages posted, the number of retweets, etc and the detailed report is available for review.

ADMINISTRATION

15. WORK PROGRAMME 2019/2020

15.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Updated work programme for 2019/2020.
- Monitoring of convergence with IPSASB activities.

15.2 The Secretariat NOTED that there were no changes to the work programme other than those to align with the work programmes of the IPSASB and IASB.

16. MONITORING PERFORMANCE 2019/2020

16.1 The Secretariat TABLED a memorandum from the Secretariat outlining the performance against the targets for quarter 1 of 2019/2020.

16.2 The Secretariat INDICATED that the targets for the quarter were achieved. The translation of GRAP 104 has been completed in Sesotho, and the translation into isiZulu is expected to be completed by the end of July. The translation into Afrikaans is on hold until funding becomes available.

16. RISK REGISTER

16.1 It was NOTED that the Risk Register was reviewed by the CEO and the Technical Director for completeness, to respond to risks identified at the first Board meeting of the financial year and to respond to emerging risks.

16.2 It was NOTED that the Audit Committee considered the additional items added but had expressed the view that the restructuring of the public sector should not be added to the risk register as, other than the public announcement made by the president, no details were available.

16.3 It was NOTED that the re-appointment of the Minister of Finance meant that risks associated with the election can now be removed from the register.

16.4 After some discussion, it was AGREED to retain the risk of a potential restructuring of the public sector on the risk register. The Board also AGREED with the addition of a risk that addresses the lack of resilience of the ASB to any extended absences amongst staff.

16.5 Subject to these amendments, the Board APPROVED the risk register.

Secretariat

17. ANNUAL REPORT

17.1 The draft annual report was TABLED for review and approval.

17.2 It was NOTED that reference should be made to the recent publication of the Auditor-General's General Report on Municipalities for 2017/18 which reflected a deterioration in audit outcomes.

17.3 Subject to the inclusion of the Audit Committee Report, the External Audit Report and some editorial amendments, the Board APPROVED the report for submission to the Minister of Finance and for tabling in Parliament.

18. POLICIES

18.1 The following policies were TABLED for review and approval to be implemented:

- Risk management framework
- Risk management policy
- Business continuity
- Disaster recovery
- Risk Management Plan
- Risk appetite and tolerance
- Fraud prevention policy
- Retention of Records
- Non-compliance with laws and regulations
- Whistle blowing
- Emergency evacuation plan.

18.2 Subject to some editorial amendments, the policies were APPROVED.

Secretariat

19. FRAUD AND ETHICS

19.1 The Secretariat TABLED a report on Fraud and Ethics and NOTED that such a report will be tabled annually.

19.2 It was NOTED that the report was in response to the Board's decision to retain the responsibility for the management of ethics when it considered compliance with King IV Principles on Corporate Governance.

19.3 It was NOTED that the review of compliance with Fraud and Ethics meant that it was appropriate to review the Code of Conduct as well.

19.4 It was NOTED that the Code of Conduct should be read with some other policies of the Board and it would be useful to include a list of such links in the Code.

19.5 Subject to some editorial amendments, the Board APPROVED the revised Code for immediate implementation.

Secretariat

20. INTERNATIONAL STANDARD SETTING ACTIVITIES

20.1 The Secretariat PROVIDED the following feedback from the June 2019 IPSASB meeting:

- The proposed Improvements to IPSAS were approved for issue as an Exposure Draft. The IPSASB decided to only issue Part I of the proposed amendments and to deal with amendments to materiality in a separate project. The comment deadline is mid-September.

- The proposed amendments to IPSAS 41 on *Financial Instruments* related to guidance on public sector specific financial instruments was approved for issue as an Exposure Draft. The amendments deal with instruments held either by the SARB or the National Treasury. The comment deadline is end December 2019.
- Presentations were made at the meeting on two alternative approaches for lessor accounting. The IPSASB would decide in September 2019 which approach to follow.
- The discussions on revenue and non-exchange expenses are ongoing. The issue of the Exposure Drafts has been delayed to December 2019.
- The project brief on infrastructure assets was approved.
- There was a preliminary discussion of issues on heritage assets.

20.2 The Acting Accountant-General INDICATED that they have had several debates at the National Treasury about the instruments the ALM division manages on behalf of other entities and whether they should be recognised in the financial statements of the National Treasury. They also raised issues about the measurement of certain contributions made to other entities. There may be a need for the OAG and Secretariat to liaise on these issues.

21. GENERAL

20.1 The remaining meeting dates for 2019 were NOTED.

20.2 The Board meeting was CLOSED at 13:15.

Prepared by: Erna Swart 5 July 2019

Approved by: Vincent Ngobese 9 July 2019

Issued: 9 July 2019

Approved by Board: _____

Date: _____