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TO: **MEMBERS OF THE TECHNICAL COMMITTEE**

FROM: **ELIZNA VAN DER WESTHUIZEN**

SUBJECT: **POST-IMPLEMENTATION REVIEW OF GRAP 109 ON *ACCOUNTING BY PRINCIPALS AND AGENTS*: INVITATION TO PARTICIPATE**

DATE: **18 OCTOBER 2022**

FILE REF: **ATTACHMENT 6(a)**

BACKGROUND AND OBJECTIVE

1. The Board considered feedback from the initial phase of the post-implementation review of GRAP 109 on *Accounting by Principals and Agents* at the June 2022 meeting. The feedback included the issues that exist in the environment with applying GRAP 109, identified from a desktop review and targeted stakeholder engagements.

2. The objective of this memorandum is to present to the Technical Committee, for consideration and recommendation to the Board:

   - the proposed Exposure Draft on *Invitation to Participate in the Post-implementation Review of GRAP 109* (the ED); and
   - questionnaires to preparers and users of financial statements.

EXPOSURE DRAFT ON *INVITATION TO PARTICIPATE IN THE POST-IMPLEMENTATION REVIEW OF GRAP 109*

3. The purpose of the initial phase of the PIR was to gather information to develop the ED in phase 2. The Board agreed that the issues identified in the initial phase should be included in the ED, and that they should form the basis of engaging stakeholders. The Secretariat developed the ED accordingly. The proposed ED is included as Attachment 6(b).

4. Questions to preparers and users of financial statements are included in the ED with the aim to obtain views from stakeholders on specific application and other matters identified through the initial phase of the PIR, and general questions on the principles in GRAP 109. Auditors will be asked to respond to the questions posed to both preparers and users, based on their experience.

5. Preparers and users are seen as comprising the following stakeholders:

   - users of financial statements include service recipients, resource providers, and their representatives; and

- preparers of financial statements include those that prepare information that is used in the financial statements and may be internal or external to an entity.

Discussions with project groups

6. The proposed ED was discussed with a project group of preparers and a project group of auditors and other technical specialists. The minutes of the meetings are included as Attachments 6(e) and 6(f). Both project groups recommended the ED to the Technical Committee for consideration.

7. The project groups confirmed the issues in the environment identified in the initial phase of the PIR. The project groups highlighted that the following areas would be particularly important to engage stakeholders on in the public consultation process, as these are the areas where the Standard may not be applied correctly:

   Identification of principal-agent arrangements

   - There is uncertainty about the role that an entity's mandate and functions play in assessing the arrangements that meet the definition of a principal-agent arrangement. An entity only assesses the roles, responsibilities, rights and obligations within a binding arrangement to assess whether it is a principal-agent arrangement, and if so, whether it is the principal or the agent.
   - Entities are unsure how to assess the rights and obligations in a binding arrangement together when the arrangement arises partly from legislation (or similar means), and partly from contracts.
   - There is a misconception that a principal-agent arrangement can only exist when the principal and the agent are both public sector entities.

   Nature of transactions with third parties

   - There is a misconception in practice that GRAP 109 is only applied when the transactions with third parties are financial transactions. Based on a project group recommendation, a question was added to the ED for users on whether information is useful in financial statements when transactions with third parties are not financial transactions, but rather interactions.

   Materiality

   - Entities are unsure about how to apply materiality to principal-agent arrangements.

   Recognising assets and liabilities as an agent

   - The two project groups had contradicting views about the guidance in GRAP 109 on when assets and liabilities should be recognised by an agent. Preparers questioned the usefulness of the information to users, and asked for further guidance on applying GRAP 109. Auditors and other technical specialists noted that because the guidance in GRAP 109 is based on the Conceptual Framework and circumstances in local legislation, users should not be asked whether the information is useful as the guidance in GRAP 109 should not be amended in this area.

8. The project group of auditors and other technical specialists also recommended that stakeholders should be consulted widely on their experiences with GRAP 109,

irrespective of their roles. This may provide balance to the responses to the public consultation process in light of the limited questions proposed for users.

Further matters for consideration

9. The Secretariat reviewed the appeals judgement in the Western Cape Court Case to identify any further matters the project may need to consider.

10. The Secretariat considered the issues emanating from the judgement, and concluded that they are sufficiently addressed in the ED. The issues include identifying principal-agent arrangements based on the legal form of the arrangement, instead of the economic substance, and a misinterpretation of the relationship that should exist between the principal and third parties.

Proposed comment period

11. It is envisaged that the ED will be published in December 2022, with a proposed comment deadline of 15 September 2023.

MATTERS FOR DISCUSSION #1

The Technical Committee is requested to:

(a) REVIEW the proposed ED;

(b) CONSIDER the proposed questions to preparers and users, and whether they are appropriate and complete;

(c) CONFIRM the proposed comment deadline; and

(d) if deemed appropriate, RECOMMEND it to the Board for approval.

SUPPORTING QUESTIONNAIRES

12. The Secretariat developed separate questionnaires for preparers and users of financial statements. The questionnaires contain the same questions included in the ED. They will be used as a means of reaching a wider audience during the public consultation on the ED. The questionnaires are included as attachments 6(c) and 6(d), for information purposes.

NEXT STEPS

13. The ED and related documents will be considered by the Board for approval in November 2022. The ED will be published for comment thereafter.