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MINUTES OF THE PROJECT GROUP MEETING OF THE ACCOUNTING STANDARDS BOARD ON THE POST-IMPLEMENTATION REVIEW OF THE STANDARD OF GRAP ON *ACCOUNTING BY PRINCIPALS AND AGENTS* (GRAP 109) HELD ON 13 OCTOBER 2022

Present:	S Abraham	SARS
	L Bodewig	National Treasury
	M Chauke	Limpopo Provincial Treasury
	J de Jager	Eden District Municipality
	K de Klerk	Sol Plaatje Municipality
	M Dullabh	National Treasury
	B Khambi	Armscor
	A Lekopa	Private
	L Maseko	Ethekwini Municipality
	A Matebese	Road Traffic Infringement Agency
	S Mokoena	Department of Higher Education and Training
	K Mosikare	National Treasury
	C Towsen	City of Cape Town
	J van Wyk	National Treasury
Secretariat:		
	N Imam-Shah	Project Manager
	J Poggiolini	CEO
	E van der Westhuizen	Project Manager

1. WELCOME AND APOLOGIES

Members were WELCOMED to the project group meeting. Apologies were NOTED from A Botha, I Engelmohr, S Treeby, T Shezi and Z Siwa.

2. TECHNICAL MATTERS

Proposed Invitation to Participate in the Post-implementation Review of the Standard of GRAP on *Accounting by Principals and Agents* (GRAP 109)

2.1 The following documents were TABLED at the meeting:

- Memorandum from the Secretariat
- Proposed Invitation to Participate in the Post-implementation Review of the Standard of GRAP on *Accounting by Principals and Agents* (GRAP 109)
- Questionnaire to preparers (for information purposes)
- Questionnaire to users (for information purposes)

Background to the project

2.2 The Secretariat NOTED the background to the project, and the phases of the project. The project group's role in the process was EXPLAINED.

Proposed Invitation to Participate

2.3 The Secretariat NOTED the process followed to develop the Invitation to Participate (the ED), and how the questions were developed.

2.4 The Secretariat NOTED the stakeholders that are classified as preparers and users of financial statements respectively.

Review of the ED

2.5 The project group REVIEWED the ED.

Introduction to the post-implementation review of GRAP 109

Issues specific to the application of GRAP 109 - Identification of principal-agent arrangements

2.6 A member NOTED the following with reference to the specific observation that uncertainty exists for functions assigned by national and provincial government to municipalities such as a provincial roads function, and "unfunded mandates" such as library services and health clinics that municipalities perform for provincial governments:

- It may be necessary to contextualise the assignment of functions as referring to the formal assignment of functions through legislation (e.g. the Constitution [specific sections apply such as section 238] and Municipal Structures Act).
- The observation may read as if the specific types of transactions referred to (provincial roads function, library services and health clinics) are clear examples of assigned functions. In reality, there are different scenarios. For example, there are often contractual service agreements between departments and municipalities for library services.

- It may be unclear how substance over form is applied with the assignment of functions – should entities only consider legally assigned functions, or also consider functions assigned in substance outside a legal framework?

2.7 The Secretariat AGREED that the ED could be amended to:

- Clarify the observation as relating to functions legally assigned to entities.
- Remove the examples. This will support the fact that the examples may also apply to other observations, e.g. difficulty distinguishing an agency service from other types of services.

Secretariat

2.8 A member ASKED for clarity regarding the observation that the classification of expenditure drives the assessment of whether an arrangement meets the definition of a principal-agent arrangement. The Secretariat EXPLAINED the observation was that entities may not apply GRAP 109 in the correct order in relation to other Standards of GRAP. GRAP 109 should be applied first, and thereafter an entity classifies expenditure according to the type of arrangement, and its role in the arrangement. The issue may also relate to the allocation of items in an entity's budget driving the classification of expenditure in the financial statements, instead of the Standards of GRAP. A member CONFIRMED the issue, and that it is linked to issues on the identification of third parties.

2.9 A member ASKED whether the issues identified by the treasuries via the queries they have received will only be considered during the public consultation process. The Secretariat NOTED that preliminary discussions were held with the National Treasury to inform the development of the ED. National Treasury, Provincial Treasuries and PAGs will be included in the detailed stakeholder consultations as part of the public consultation process.

The post-implementation review

The application of materiality

2.10 A member NOTED that the application of materiality to principal-agent arrangements is an area entities struggle with. It is unclear how the quantitative and qualitative assessment should be done for such arrangements. The member SUGGESTED that a question be included for preparers on their experiences in applying materiality to principal-agent arrangements.

Secretariat

Identifying principal-agent arrangements – third parties are involved and the transactions with third parties are undertaken on behalf of and for the benefit of the principal

2.11 A member NOTED a scenario where a service level agreement exists between an entity and a private sector counterparty, for the private sector counterparty to undertake transactions with third parties on behalf of the entity. The member ASKED whether such arrangements could be principal-agent arrangements, and NOTED that there is a view that principal-agent arrangements can only exist where the counterparty is a public sector entity. The Secretariat EXPLAINED that GRAP 109 should be applied to assess whether the arrangement is a principal-agent arrangement, irrespective of whether the counterparty is in the private sector or the public sector.

2.12 A member SUGGESTED that a question be included in the ED to ask whether it is necessary to define "third parties" in GRAP 109, and if so, how third parties could be defined.

Secretariat

Recognising assets and liabilities as an agent

2.13 Members ASKED what the purpose is of an agent recognising rights and obligations from principal-agent arrangements as assets and liabilities under the circumstances described in GRAP 109. The Secretariat EXPLAINED that an agent recognising assets and liabilities under the circumstances described in GRAP 109 ensures that useful information is provided to users to hold the agent accountable for those assets and liabilities, and to make decisions about the arrangement.

2.14 Members SUPPORTED the inclusion of a question for users to assess whether an agent recognising assets and liabilities under the circumstances described in GRAP 109 provides useful information to users. It was NOTED that this is an area where more guidance would be useful for preparers. If not in the Standard, it could be provided through a Frequently Asked Question.

2.15 The project group RECOMMENDED the ED to the Technical Committee for consideration.

Secretariat

Questionnaires

2.16 The Secretariat NOTED that separate questionnaires were developed for preparers and users of financial statements; auditors will be invited to respond to both questionnaires based on their experience. It was NOTED that the purpose of the questionnaires is to reach a wider audience during the public consultation on the ED.

2.17 The Secretariat NOTED that the proposed changes to the questions in the ED will also be considered for the questionnaires.

Secretariat

NEXT STEPS

2.18 The Secretariat NOTED the next steps, being that the ED will be considered by the Technical Committee and Board for approval in November 2022.

CLOSING REMARKS

Stakeholders were THANKED for their time to prepare for the meeting, and their participation and input during the meeting.

Prepared by: **E van der Westhuizen** **13 October 2022**

Reviewed by: **J Poggiolini**