240 Madiba Street
Pretoria
0002
Tel. 011 697 0660
Fax. 011 697 0666
www.asb.co.za

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:	M Mentz	Auditor-General South Africa
	G Muchirahondo	SNG Grant Thornton
	L Pillai	KPMG
	K Sahadeo	W.Consulting
	B van der Merwe	Nexia SAB&T
	S van der Merwe	AdaptIT
	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, B Colyvas and S Koekemoer.

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

General issues when entities prepare financial statements

2.6 Members SUGGESTED the following amendments:

- Clarify the issue on materiality as "materiality is not applied <u>appropriately"</u>.
- Relocate the general issues to after the issues specific to the application of GRAP 109.

Secretariat

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

2.7 A member ASKED for clarity on the observation that "transactions with third parties" need not be financial transactions to meet the definition of a principal-agent arrangement. Members NOTED that this observation is contrary to practice. GRAP 109 is only applied in practice when the "transactions with third parties" are financial transactions. Including the observation may cause confusion in terms of when GRAP 109 is applied.

2.8 The Secretariat EXPLAINED that GRAP 109 describes “transactions with third parties” as both financial transactions and interactions with third parties e.g. when an agent is able to negotiate with third parties on the principal’s behalf. GRAP 109 should be applied in both instances. When the transaction with third parties is not a financial transaction, some of the disclosures required by GRAP 109 may not be relevant and need not be provided, and materiality should further be applied to decide what information is provided in the financial statements. Further examples of interactions that could be principal-agent arrangements were NOTED for municipalities, e.g. negotiating with suppliers on water infrastructure projects for Waterboards, and other infrastructure such as stadiums.

2.9 Members AGREED that this is an area that is misunderstood in the Standard, and QUESTIONED the usefulness of the information to users when the “transactions with third parties” are not financial transactions. Members AGREED that a question should be included in the ED for users, to test if the information is useful. The question can be included in the sections on the nature of the transactions, or the information disclosed in part 2 of the ED.

Secretariat

The post-implementation review

Identifying principal-agent arrangements – a binding arrangement exists

2.10 A member SUGGESTED that the background discussion in the ED includes that a binding arrangement may arise from various mechanisms, e.g. from legislation or similar means as well as from agreements. There may also be instances where both legislation and agreements exist, and should be read together in order to identify all the rights and obligations that arise from the arrangement. It was AGREED that a question should also be included in the ED to ask preparers about their experience in identifying the rights and obligations from arrangements when both legislation and other types of arrangements apply. A member NOTED that there could be various terms used in practice for arrangements similar to contracts, e.g. “memorandum of understanding” and “service level agreement”. These could be included as examples of mechanisms.

Secretariat

2.11 A member NOTED that there is a misconception that principal-agent arrangements only exist when the binding arrangement is between public sector entities, and that other Standards apply when private sector entities are involved, e.g. GRAP 32 on *Service Concession Arrangements: Grantors* applies to public-private-partnerships (PPPs). It was AGREED that the ED should clarify that the parties to the arrangement could be public or private sector.

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

2.12 With reference to the scenarios where the assessment of transactions with third parties may be particularly relevant in the public sector, a member NOTED the following regarding entities being asked to collect monies on behalf of the Revenue Fund:

The scenario indicates that “there is no specific direction given by the Revenue Fund in relation to the transactions with third parties” and therefore such arrangements may not meet the definition. The member NOTED that more context may be necessary. Such arrangements usually arise from legislation and there would not be specific direction given by the Revenue Fund. The arrangements could however still be principal-agent arrangements in some instances. The scenario should explain that the arrangements may be administrative and would then not be principal-agent arrangements.

Secretariat

2.13 A member SUGGESTED that a question be added for preparers on the second scenario where the assessment of transactions with third parties may be particularly relevant in the pubic sector, being control relationships. As this is an area where entities struggle to identify the different types of arrangements that may exist, the question could ask about their experiences in identifying principal-agent arrangements between parties that are in a control relationship.

Secretariat

Identifying principal-agent arrangements – economic substance over legal form

2.14 A member NOTED that another area where entities are unsure of how to apply substance over form is the functions that have been assigned to the entity. Functions are formally assigned to entities through legal processes. There may also be instances where an entity is responsible for certain functions in substance which have not been legally assigned to it. Roles and responsibilities in agreements may further be in conflict with the roles and responsibilities assigned to entities in legislation.

2.15 Members CAUTIONED against linking an entity's mandate and functions to whether an entity is in a principal-agent arrangement as it could lead entities to incorrect conclusions. For example, an entity may have a mandate to build houses. This does not mean that the entity is always building houses for itself; the entity could still be in a principal-agent arrangement to build houses on behalf of another entity as an agent.

2.16 It was AGREED that the ED should only refer to the roles and responsibilities, and rights and obligations in a binding arrangement for entities to assess whether they are in a principal-agent arrangement. The Secretariat NOTED this is aligned to the earlier thinking when the Standard was developed. This will be considered as part of the earlier comment that the ED should deal with how binding arrangements could arise.

Secretariat

Recognising assets and liabilities as an agent

2.17 A member QUESTIONED the need to ask users whether the information is useful when assets and liabilities are recognised under the circumstances described in GRAP 109. In their view, assets and liabilities should always be recognised under the circumstances described in GRAP 109 because it links to the recognition criteria in the Conceptual Framework.

2.18 The Secretariat NOTED that the question was added based on the guidance in the IASB's Conceptual Framework, and the changes proposed by the IPSASB to their Conceptual Framework, which could lead agents to conclude that rights and obligations (typically the principal's resources in the custody of an agent and a related liability) are not recognised by the agent.

2.19 A member NOTED that their research into the private sector circumstances revealed that the issue is mostly around who controls the principal's resources at a particular point in time. It was NOTED that the guidance in GRAP 109 reflects specific instances in legislation where rights and related obligations of an agent would meet the recognition criteria.

2.20 It was AGREED that the question to users on the usefulness of the information should be removed.

Secretariat

Questions in the ED

2.21 A member NOTED that it may be useful to add a question for preparers on their experiences with applying the definition of principal-agent arrangements and the appropriateness thereof.

Secretariat

2.22 A member NOTED that the ED predominantly includes questions to preparers and few questions to users. Members were ASKED to inform the Secretariat of any other questions to users that may be useful. The Secretariat AGREED that the public consultation process would seek feedback from stakeholders on all areas that they have experience in, irrespective of their roles.

2.23 A member ASKED whether the Secretariat will reconsider the current guidance in the revenue Standards as a result of this project, in light of new guidance internationally on revenue which may be useful in accounting for principal-agent arrangements. The Secretariat NOTED that it is following the IPSASB's project on revenue and will consider new guidance that may be relevant. It was NOTED that the likely re-exposure of the IPSASB's revenue guidance may mean that it can only be considered after this project is finalised.

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

Secretariat

Questionnaires

2.25 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.

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

Secretariat

NEXT STEPS

2.27 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**	**14 October 2022**
Reviewed by:	**J Poggiolini**	