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MINUTES OF THE MEETING OF THE ACCOUNTING STANDARDS BOARD

DATE: 5 December 2019
TIME: 09:00 to 12:20
VENUE: ASB, Midridge Office Estate, International Business Gateway,
Cnr. New Road & 6th Road, Midrand

PRESENT:

CHAIRMAN F Abba

MEMBERS OF THE BOARD

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

EX OFFICIO

E Swart	Chief Executive
J Poggiolini	Technical Director
A Botha	Project Manager
E van der Westhuizen	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 V Ngobese, K Makwetu, M Sedikela, P Mzizi and T Tshoke.
- 1.2 It was NOTED that the Chairman had requested Ms F Abba to chair the meeting.

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

- 4.1 The minutes of the meeting held on 4 July 2019 were APPROVED with an amendment to paragraph 9.6: replace “higher education sector” with “TVET and CET sector”.

Secretariat

- 4.2 The notes of the meeting held on 19 September were TABLED at the meeting for noting.

5. MATTERS ARISING

General

- 5.1 The Secretariat TABLED a schedule of matters arising from previous Board meetings.
- 5.2 It was NOTED that no response had been received to the request to meet with the Minister of Finance, and that the OPSCO has requested the Chairman to write a letter to the Minister.

ASB Regulations

- 5.3 It was NOTED that the final Amendments to the ASB Regulations were published on Friday 29 November 2019 in the Government Gazette.
- 5.4 It was NOTED that the PEOU unit of the National Treasury would be writing to the Minister of Finance to appoint an ex-officio member to the Board with non-voting powers and the CEO would be writing to the AGSA to appoint an ex-officio member to the Board.

Secretariat

TECHNICAL ACTIVITIES

6. FEEDBACK FROM THE TECHNICAL COMMITTEE MEETING

- 6.1 The Secretariat TABLED the following at the meeting:
- Memorandum from the Secretariat.
 - Minutes of the Technical Committee meeting held on 28 August 2019.
 - Draft minutes of the Technical Committee meeting held on 19 November 2019.

6.2 The Secretariat NOTED that the items arising from the August 2019 meeting regarding the submission of comments to the IPSASB on *Improvements to IPSAS, 2019 and Measurement*, had been actioned.

7. INVITATION TO PARTICIPATE IN THE POST-IMPLEMENTATION REVIEW OF GRAP 103 ON HERITAGE ASSETS

7.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Draft *Invitation to Participate in the Post-implementation Review of the Standard of GRAP on Heritage Assets*.

7.2 The Board NOTED the background to the post-implementation review of GRAP 103. It was NOTED that the review comprises two phases. The first phase, which is already completed, involved a desktop review. The second phase will involve engagements with users, preparers and auditors on the implementation of GRAP 103.

Desktop review

7.3 It was NOTED that the objective of the desktop review was to understand how entities apply the principles in GRAP 103, and what information on heritage assets they disclose in their financial statements. The Secretariat EXPLAINED the approach for selecting financial statements included in the desktop review.

7.4 It was NOTED that the Secretariat concluded that the number of financial statements reviewed was sufficient to obtain an understanding of the type of information entities report on heritage assets in their financial statements. It was NOTED that the findings of the review were pervasive throughout the financial statements.

7.5 The Board CONFIRMED the approach and NOTED the high-level observations from the desktop review.

7.6 The Board APPROVED the Invitation for exposure.

Secretariat

7.7 It was NOTED that the Technical Committee recommended a comment deadline of 31 May 2020. Due to changes on the work programme, the Secretariat proposed extending the comment period to 15 September 2020 to ensure that all affected stakeholders are consulted.

7.8 Some Board members QUESTIONED the longer comment period. It was NOTED that a longer comment period is necessary to allow for face-to-face engagements with stakeholders.

7.9 The Board SUPPORTED the extension of the comment deadline.

Secretariat

7.10 It was QUESTIONED whether the issues noted during the desktop review will be shared with the National Treasury and the Office of the Auditor-General. It was NOTED that on completion of the review, a report on the findings of the review is shared with these stakeholders.

- 7.11 It was NOTED that an engagement was already held with representatives of the Office of the Accountant-General to inform them of the results of the desktop review. Further engagements will be required after the completion of the review.
- 7.12 It was QUESTIONED whether some of the issues noted in the desktop review can be addressed through FAQs. It was NOTED that the Secretariat has developed a set of slides, which is currently included in all presentations, to highlight the need to declutter financial statements with unnecessary information. The slide presentation also informs stakeholders of the Guideline on *The Application of Materiality to Financial Statements*.

8. DRAFT RESEARCH PAPER ON REVIEW OF AMENDMENTS TO THE STANDARDS OF GRAP ON INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT

8.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Draft Research Paper.

8.2 The Secretariat EXPLAINED that the results of the research were reviewed in November 2018 and actions agreed by the Board. The draft Research Paper, and the accompanying stakeholder consultation plan, needed to be considered by the Board.

8.3 The Research Paper was APPROVED for issue.

Secretariat

8.4 The Secretariat NOTED the following:

- The actions agreed by the Board had been finalised, with the exception of the engagement with the AGSA and section 4(3) auditors on the use of valuers.
- The stakeholder outreach on the results of the research has commenced. In addition to the interventions indicated in the plan, the Secretariat will partner with SAICA to develop short YouTube videos on each of the areas where findings were noted.

Secretariat

9. DRAFT RESEARCH PAPER ON REPORTING INFORMATION TO THE PUBLIC

9.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Draft Research Paper.

9.2 Members of the Board NOTED the following regarding the Research Paper:

- Entities currently report a vast amount of information. The public is however unable to access and use it. A member NOTED this is mostly due to the public being unaware of the information available and where to access it.
- Public officials are overburdened by the current reporting requirements and are unable to report more due to resource constraints.
- It was agreed that information currently reported does not link an entity's financial statements to its actual performance.

- A challenge with reporting information to the public is that the media is unable to communicate the information to the public in a meaningful and accurate manner.
- The public sector should better communicate the information that is presently available to make it more understandable.
- The accessibility of the information seems to be an issue, rather than the type of information that is reported.

9.3 A member REQUESTED an editorial amendment to repeat headers in tables in the Appendices.

9.4 The representative from the AGSA NOTED that they found the results of the research useful in considering an approach to report on the audit of predetermined objectives. It was also useful to the Performance Information Task Team established between the National Treasury, the Department of Planning, Monitoring and Evaluation, the Department of Cooperative Governance and Traditional Affairs, and the Auditor-General South Africa.

9.5 The Board APPROVED the Research Paper for publication, subject to the editorial corrections proposed.

Secretariat

10. PROPOSED GRAP REPORTING FRAMEWORK 2020/2021

10.1 The Secretariat TABLED a memorandum at the meeting.

10.2 The Secretariat EXPLAINED both the changes to the composition and format of the GRAP Reporting Framework for 2020/2021.

10.3 The GRAP Reporting Framework for 2020/2021 was APPROVED.

10.4 The Secretariat EXPLAINED that when the Technical Committee considered the document, the publication of the Gazette Notice correcting the application of certain Standards for Trading Entities was imminent. As a result, the proposal was to delay the publication of the Reporting Framework until the Notice was published. As the Notice has not yet been published, the Secretariat PROPOSED issuing the Reporting Framework after the meeting.

10.5 Members SUPPORTED the proposal but indicated that there should be a communication explaining the situation with the Trading Entities. In particular, it should be clear in the communication that the content of the Directive would need to be read with any Notice published by the Minister of Finance.

Secretariat

10.6 Members INDICATED that it is urgent that the National Treasury issue the Notice for Trading Entities.

11. COMBINED FINANCIAL STATEMENTS

11.1 The Secretariat TABLED a memorandum at the meeting outlining preliminary issues for the Board's consideration.

11.2 The Secretariat EXPLAINED the following:

- The identification of the project by stakeholders, which was in part driven by the introduction of the “reporting entity” in the revised Conceptual Framework.
 - The types of “combined financial statements” that exist in practice, i.e. combined and carve out financial statements.
 - The existing guidance for combined and carve out financial statements, the key characteristics of the information, and challenges in its preparation.
 - Results of the discussions with local stakeholders.
- 11.3 The Secretariat INDICATED that, while local stakeholders identified merit in the project, it was not urgent given the different reporting framework applied by departments. The different reporting frameworks makes the preparation of whole-of-government consolidated financial statements, legislated consolidated financial statements, or sector reports for services that span national, provincial and local government, impossible. As a result, the Technical Committee PROPOSED delaying the project until 2024-2026.
- 11.4 Members SUPPORTED the proposal that the project deals with both combined and carve out financial statements, as well as delaying the project to the 2024-2026 work programme cycle. Members INDICATED that future reporting guidance for sectors such as water, would be helpful.

12. ED 174 ON THE APPLICATION OF STANDARDS OF GRAP BY PUBLIC ENTITIES THAT APPLY IFRS STANDARDS

- 12.1 The Secretariat TABLED the following at the meeting:
- Memorandum from the Secretariat.
 - Draft Directive on *The Application of Standards of GRAP by Public Entities that Apply IFRS® Standards*.

Consultation process

- 12.2 It was NOTED that two written responses were received. The Technical Committee compared the stakeholders identified in the project brief to those consulted during the comment period. It was also NOTED that, as the Financial Reporting Standards Council is still not constituted, a discussion on the proposed Directive could not be held. Instead, the Secretariat engaged with SAICA’s Accounting Practices Committee on the proposed Directive.
- 12.3 It was NOTED that the Technical Committee concluded that stakeholders were given sufficient opportunity to participate in the Board’s due process.
- 12.4 The Board CONFIRMED the Technical Committee’s conclusion on the due process.
- 12.5 The Board APPROVED the Directive as a final pronouncement with an effective date for financial periods commencing on or after 1 April 2021.

Secretariat

13. PROJECT BRIEFS FOR 2020/2021

- 13.1 The Secretariat TABLED the following at the meeting:
- Memorandum from the Secretariat.

- Project Brief on the Review of GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors*.
 - Project Brief on the Desktop review of the Standard of GRAP on *Cash Flow Statements*.
- 13.2 The Secretariat EXPLAINED that with the proposal to change certain timeframes in the work programme, it is proposed that the desktop review commence in 2020/2021. The commencement of the review of GRAP 3 was agreed in June 2019.
- 13.3 The Secretariat EXPLAINED the following:
- The review of GRAP 3 would focus on how to deal with assessments of materiality and whether they are made for a specific period or considered cumulatively, along with the potential accounting implications.
 - The desktop review would focus on compliance with the presentation requirements of GRAP 2. The review would primarily be a desktop review, but that there would be consultation with preparers on the findings to identify underlying root causes.
 - It was initially thought that there would be a link between the desktop review of GRAP 2 and the review of the usefulness of the cash flow statement. Based on initial discussions on the use of the cash flow statement, the issue relates to the availability of information on receivables and payables.
- 13.3 Members APPROVED the project briefs for 2020/2021.

Secretariat

14. USE OF THE CASH FLOW STATEMENT

- 14.1 The Secretariat TABLED an update at the meeting and EXPLAINED the following:
- The purpose of the project was to discuss with the Public Finance Unit at the National Treasury how they use the cash flow statement to reconcile to the cash budget prepared for public entities. The Unit had previously indicated issues with using the cash flow statements for this purpose.
 - The Secretariat met with the Unit to understand their issues. Issues were raised with the quality of the cash flow statements as well as the specific information they require to align the financial statements to their budget, which is aligned to the statistical requirements prescribed by the International Monetary Fund. While some of the information they require is available in the financial statements, some is not. The availability of the information may also depend on how entities have applied materiality in aggregating or disaggregating certain information.
 - Based on the current requirements in the Standards of GRAP, there is a need for information on:
 - receivables from non-exchange revenue - tax and non-tax revenue, as well as transfers received; and
 - expenses - payables for compensation of employees, goods and services, capital assets and transfers payable.

- Given the expression of a need for disaggregated information on receivables and payables, the Secretariat concluded that it may be necessary to consult with users such as the SARB, STATS SA and the Local Government Budget Analysis Unit at the National Treasury to understand if they have similar needs. Once the needs are established, a proposal can be developed for the Board's consideration.
- 14.2 The Secretariat INDICATED that the project is important because of the current view that the departmental budgets may remain on the cash basis even if accrual accounting is adopted. There will therefore be a need to properly reconcile the accrual financial statements to the cash budget. The additional information on receivables and payables may facilitate this process. The project is however not urgent.
- 14.3 Members INDICATED that there will naturally be differences between the needs of Public Finance and the financial statements and caution should be exercised about the resources expended on the project.
- 14.4 The Secretariat NOTED that other issues had already been raised by respondents about receivables and payables, so it was not limited to one user. It was also observed that the consultation on the information for receivables and payables may be a helpful input into the comments to the IPSASB on their current revenue and expense projects.
- 14.5 The Secretariat INDICATED that an update will be provided at the next meeting of progress and/or revised timeframes.

Secretariat

15. EMERGING ISSUES

- 15.1 The Secretariat TABLED a memorandum outlining emerging issues related to the adoption of Standards of GRAP.
- 15.2 The Secretariat NOTED the adoption of Standards of GRAP by entities as part of the implementation of Directive 12. Eleven entities had migrated from Statements of GAAP or IFRS to Standards of GRAP. There was only one regression in audit outcomes, although the issues existed in the prior year. The data would be updated to include Water Boards once their financial statements were available.
- 15.3 The progress on the adoption of Standards of GRAP by CET colleges was NOTED.
- 15.4 The Secretariat INDICATED that it had met with the Department of Public Works and confirmed the view expressed in the FAQ on the effect of illegal occupations on the control of land.
- 15.5 The representative of the National Treasury EXPLAINED that a recent change in legislation meant that the responsibility for traditional authorities now rests with the Premiers in each province. This may have an implication for progressing the reporting framework for traditional authorities. Feedback would be provided at the next meeting.

National Treasury

16. GRAP IMPLEMENTATION

The representative of the National Treasury INDICATED that the comments provided on the GRAP Guidelines are being actioned. There are no other matters to report.

17. AUDIT COMMITTEE

- 17.1 The CEO NOTED that the Audit Committee met on 4 December 2019.
- 17.2 The Committee NOTED the Second Quarterly Report and the Internal Audit Report on the Review of ERM, Fraud Prevention and Ethics Management. It was NOTED that the risk ratings identified in the report did not correspond with the risk assessment of the organisation and should be reviewed and that the benchmark against ISO 31 000 was inappropriate in an organisation of the size of the ASB.
- 17.3 It was NOTED that the Audit Committee directed the acting Chief Audit Executive to review the appropriateness of the ratings and resubmit the report to the Audit Committee.

Chief Audit Executive

18. FEEDBACK FROM OPERATIONS COMMITTEE

- 18.1 The Secretariat TABLED the following at the meeting:
- Memorandum from the Secretariat.
 - Minutes of the Operations Committee meeting held on 15 August 2019.
 - Draft minutes of the Operations Committee meeting held on 15 November 2019.
- 18.2 The request from the Operations Committee to reconsider the delegation of the responsibility to condone expenditure that exceeds the level determined in the Cost Containment Regulations was DEBATED.
- 18.3 It was AGREED that the responsibility would be delegated to the CEO, unless the CEO was a beneficiary of the expenditure incurred, where the Board itself would consider the issue and if deemed appropriate condone the expenditure or recover the excess expenditure from the CEO.

Secretariat

ADMINISTRATION

19. WORK PROGRAMME 2019/2020

- 19.1 The Secretariat TABLED the following at the meeting:
- Memorandum from the Secretariat.
 - Updated work programme for 2019/2020.
 - Monitoring of convergence with IPSASB activities.
 - Three-year work programme for 2021-2023.
- 19.2 The Secretariat EXPLAINED the need to change the timeframes for the projects on:
- Combined financial statements – delay until 2024-2026.
 - Review of Directive 12 – delay review by 2 quarters.
 - Review of GRAP 103 – allow an additional quarter for consultation and comment.
 - Review of GRAP 3 – add to work programme based on approval of the project brief.

19.3 The Secretariat EXPLAINED the need to re-prioritise the project on the desktop review of compliance with GRAP 2 and the effect on the three-year work programme.

19.4 Members SUPPORTED the proposed amendments.

Secretariat

20. MONITORING PERFORMANCE 2019/2020

20.1 The Secretariat TABLED a memorandum from the Secretariat outlining the performance against the targets for quarters 1-3 of 2019/2020.

20.2 The Secretariat EXPLAINED that the FAQ on land invasions had been issued at the end of November based on feedback received from PSAF members.

20.3 The Secretariat INDICATED that the targets would be met for the quarter, with the exception of the final results of the review of the usefulness of the cash flow statement.

21. RISK REGISTER

21.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Risk Register.

21.2 It was NOTED that no new risks were identified and that the only change to the register was the amendments to the Risk Response column of the Register.

21.2 It was NOTED that succession planning was addressed in the Report on Compliance with KING IV and not addressed as a specific risk in the risk register.

21.3 The Board APPROVED the risk register without any amendment.

22. TECHNICAL POLICIES

22.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Responses to Queries.
- Post-implementation Reviews.
- Use of Official Languages.
- Re-exposure of Proposed Pronouncements to be Developed.
- Approving Effective Dates of Standards.
- Selection and Approval of Projects.
- Nature of Pronouncements to be Developed.
- Terms of Reference of the Technical Committee.
- Setting Performance Targets and Measuring Progress.
- Improvements to the Standards of GRAP.
- Naming and Numbering Conventions.
- Convergence with International Standards.

Policy on responses to queries

22.2 The Secretariat EXPLAINED the need to formalise the policy on responses to queries.

22.3 Members SUPPORTED the proposed policy, subject to the following amendments to paragraph 4.1(c):

- The first part of the sentence should refer to queries from preparers.
- A similar sentence to the one for queries from the OAG should be included for auditors from the AGSA.

Secretariat

22.4 It was QUESTIONED whether this policy applies to consultations between the OAG, AGSA and Secretariat of the ASB as part of the Informal Technical Meetings.

22.5 The Secretariat EXPLAINED that these engagements are governed by separate Terms of Reference.

22.6 A member QUESTIONED if the FAQs were always preceded by a specific question or event.

22.7 The Secretariat EXPLAINED that the FAQs arise from common queries received; outcomes of discussions between the OAG, AGSA and Secretariat; feedback or questions from stakeholders at outreach sessions; the PSAF; and other interventions. It was also EXPLAINED that the process to agree on the FAQs is outlined in the preamble to the FAQs.

Other policies

22.8 A question was RAISED on the policy on *Setting Performance Targets and Measuring Progress*, particularly the weightings in the Annexure.

22.9 The Secretariat EXPLAINED that these would be discussed as a revision to the bonus policy. Any change will be updated in this policy.

22.10 Members AGREED that a reference should be added to paragraph 2.2(a) in paragraph 2.5 of the Terms of Reference of the Technical Committee.

22.11 Members EXPRESSED their concerns about having the Minister of Finance approve all amendments given the time taken to approve such requests. It was AGREED that this should be highlighted in the letter to the Minister.

Secretariat

23. OPERATING POLICIES

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

- Memorandum from the Secretariat.
- Leave.
- Bonuses.
- Long service awards.

Weighting of strategic objectives

- 23.2 It was NOTED that the formulation of new strategic objectives in the Strategic Plan for 2020-2025 meant that the weightings used in the evaluation of organisational performance for the determination of the bonuses needed to be re-assessed.
- 23.3 It was AGREED to revise Setting of Standards to 55% and Managing Resources to 20%, while retaining the ratings for the other three objectives proposed by the CEO.

Secretariat

Leave policy

- 23.5 It was NOTED that the Basic Conditions of Employment Act (the Act) was amended by introducing the concept of parental leave without referencing to the gender of the person, enabling either parent to use maternity leave of four months or paid parental leave of ten days.
- 23.5 It was QUESTIONED:
- whether employees could apply for paid sick leave in excess of the number of days sick leave determined in the Act;
 - where the four months referred to before qualifying for family responsibility leave came from; and
 - the number of days and the leave cycle referred to in unpaid leave came from.
- 23.6 It was AGREED that subject to the resolution of these matters by ensuring that the Act is complied with, the policy was APPROVED for implementation.

Secretariat

Long service awards

- 23.7 It was NOTED that the ASB did not have a policy to reward long service.
- 23.8 After some discussion, the policy was approved with immediate implementation. It was AGREED that a policy should be introduced.

Secretariat

- 23.9 It was NOTED that the introduction of the policy could have an impact on the ability of the staff to achieve their pre-determined performance objectives, but that it would need to be managed.

24. INTERNATIONAL STANDARD SETTING ACTIVITIES

- 24.1 The Secretariat TABLED the following at the meeting:
- Update from the September 2019 IPSASB meeting.
 - Exposure Draft on *Public Sector Specific Financial Instruments: Proposed Amendments to IPSAS 41, Financial Instruments*.
- 24.2 The Secretariat EXPLAINED that it had completed the consultation on public sector specific financial instruments. Stakeholders broadly agreed with the proposals as they are in line with current practice. The comment letter will be submitted by mid-December.

25. PROCUREMENT

- 25.1 The Secretariat TABLED a memorandum regarding aspects of procurement considered at the September 2019 Operations Committee meeting.
- 25.2 It was NOTED that the key project for approval was the office lease, which was expiring at the end of March 2020 and that, based on the procurement regulations and the supply chain management policy, the current market values of rentals available in the area was obtained.
- 25.3 It was NOTED that the landlord has submitted a proposal to reduce the rental by 16% and reduce the escalation rate from 5.5% to 5%. In addition to the saving in rental, no relocation costs or leasehold improvements would be required.
- 25.4 It was AGREED that subject to written confirmation from the Office of the Chief Procurement Officer that there is no need for a call for tenders, the Board APPROVED the renewal of the lease and authorised the CEO to sign the new lease agreement.
- 25.5 The Board AGREED that the Secretariat should consult the Office of the Chief Procurement Officer on the procurement of the remaining services noted in the memorandum.

Secretariat

26. BOARD EVALUATION

- 26.1 The results of the self-evaluation of the Board performance by Board members were NOTED at the meeting.
- 26.2 It was NOTED that a rating in excess of 90% was assigned to most of the aspects being considered, but that succession planning for the Board needs to be considered.
- 26.3 It was AGREED to identify suitable members for those members rotating off the Board in 2021 at all the meetings in 2020, to enable the ASB to submit a list of proposed members to the Minister of Finance by 30 September 2020.

Secretariat

27. GENERAL

- 27.1 The meeting dates for 2020 were NOTED.
- 27.2 The Board meeting was CLOSED at 12:20.

Prepared by: Erna Swart **10 December 2019**
Approved by: F Abba **3 January 2020**
Issued: **8 January 2020**

Approved by Board: _____

Date: _____