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MINUTES OF THE MEETING OF THE ACCOUNTING STANDARDS BOARD'S PROJECT GROUP ON THE REVIEW OF GRAP 3, HELD VIRTUALLY ON 18 MAY 2020

IN ATTENDANCE

MEMBERS:

M Hempel	PwC
N Imamshah	EY
W Linden	EY
M Mentz	AGSA
M Mmutlana	Solugrowth
T Mohlala	Solugrowth
K Qwabe	W Consulting
D van Rooyen	RBI Chartered Accountants

SECRETARIAT:

A Botha

J Poggiolini

E van der Westhuizen

T Tshoke

Board Members: Mr V Ngobese (chair), Ms F Abba, Mr C Braxton, Mr K Hoosain,
Ms I Lubbe, Ms K Maree, Ms P Moalusi, Ms M Sedikela, Ms N Themba
Chief Executive Officer: Ms E Swart, Technical Director: Ms J Poggiolini

1. WELCOME AND APOLOGIES

1.1 Members were WELCOMED to the meeting. Apologies were NOTED from A van der Burgh.

2. TECHNICAL MATTERS

INTRODUCTION

2.1 The Secretariat EXPLAINED the background to the project with reference to the project brief.

2.2 The project group NOTED that the objective of the project is to (a) review the requirements of GRAP 3 in order to provide guidance on the appropriate accounting treatment of past materiality assessments and decisions on the application of accounting policies set out in the Standards of GRAP in the current and/or future periods and (b) consider any IASB amendments made to the definition of accounting policies and estimates or other related amendments.

PART A – THE REVIEW OF THE STANDARD OF GRAP *ON ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS* (GRAP 3)

Background

2.3 The Secretariat PROVIDED the background to the project and the two views expressed during the development of the Guideline.

Scope of the project

2.4 The Secretariat EXPLAINED that materiality is addressed in both GRAP 1 and GRAP 3. The project will focus on the requirements in GRAP 3 as they deal with materiality in relation to the application of accounting policies. Since GRAP 1 deals with materiality in relation to disclosure and presentation it will not be addressed in the project.

2.5 The project group AGREED with the scope of the project.

Secretariat

Initial engagements with stakeholders

2.6 The Secretariat EXPLAINED that to initiate the project, additional views were sought from a wide range of stakeholders (locally and internationally) on their interpretation of the requirements in GRAP 3 (or IPSAS3 for international stakeholders).

2.7 It was NOTED that the purpose of the additional views was to confirm that the two views expressed during the development of the Guideline on materiality were still relevant and to identify any other view or practice that emerged since the finalisation of the Guideline in 2018.

2.8 The Secretariat SHARED the feedback from both the local and international stakeholders.

2.9 The project group NOTED that the views from local stakeholders confirm the diversity in the application of the principle in GRAP 3, and that those stakeholders did not raise any new views not already heard by the Board during the development of the Guideline.

2.10 It was also NOTED that the international stakeholders found the issue expressed locally to be unique.

2.11 Some members NOTED that they appreciate the engagement with international stakeholders as it provided a broader view of the issues identified by stakeholders locally. It was noted that the observation that asset capitalisation thresholds should be set at an appropriately low level so that items can never be material cumulatively can be likened to the concept of amounts being regarded as "trivial" from an audit perspective.

Analysis of principle in GRAP 3

2.12 The Secretariat NOTED that the issues paper considers a number of questions heard during the development of the Guideline and in recent engagements with stakeholders. The issues paper responds to these questions with reference to existing principles in GRAP 3.

(a) What does the Standard require when accounting policies set out in the Standards of GRAP need not be applied when the effect of applying them is immaterial?

2.13 The Secretariat EXPLAINED that applying the principle in GRAP 3.07 means that:

- Entities are not required to recognise, measure, present or disclose transactions in accordance with the Standards when the effect is immaterial to the financial statements.
- The Standard permits the application of alternative accounting treatments when the effect of not applying the requirements in the Standards does not result in the financial statements providing less reliable and less relevant information to the users of the financial statements; and the basis for applying the alternative accounting treatment is not to achieve a particular presentation or result in the financial statements.

2.14 The project group AGREED with the analysis of what the principle in GRAP 3.07 means.

Secretariat

2.15 The Secretariat EXPLAINED that GRAP 3 does not provide guidance on how the alternative accounting treatment should be formulated when the requirements in the Standards are not applied.

2.16 It was NOTED that when formulating alternative accounting treatments, the principles in the Conceptual Framework should be considered.

2.17 The project group CONSIDERED the examples of when the requirements in the Standards were not applied due to materiality considerations. Members provided additional examples such as: recognising immaterial heritage assets as PPE and not as a separate asset category; not recognising immaterial impairment losses; and not recognising statutory receivables separately but including them as part of other contractual receivables.

2.18 The project group OBSERVED that grouping an immaterial asset class/classification with a material asset class/classification is usually done because the one class/classification is more prevalent.

(b) When the effect of applying an accounting policy becomes material, does it mean there is an error or change in accounting policy?

2.19 The Secretariat EXPLAINED that when there is a change in accounting treatment due to materiality it is important to assess whether such a change is a prior period error, a change in accounting policy or something else. This assessment is important as it will assist in determining whether adjustments are necessary, and if so, the type of adjustments required.

Is the change in accounting treatment due to materiality an error?

2.20 The Secretariat EXPLAINED that in applying the framework in GRAP 3 for errors in relation to the non-application of GRAP accounting policies, errors could arise when:

- there has been an *omission* i.e. immaterial transactions are not recorded in the financial statements;
- an *inappropriate accounting policy* is applied i.e. when the alternative accounting treatment has resulted from failure to use, or misuse, reliable information that was available or could reasonably be expected to have been used; or
- the alternative accounting treatment is an *immaterial departure from the Standards in order to achieve a particular presentation* in the financial statements. It is inappropriate to make, or leave uncorrected, immaterial departures from the Standards to achieve a particular presentation.

2.21 The project group AGREED with the analysis and suggested that a fourth scenario that indicates that an error will also occur when management's materiality assessment is found to be incorrect.

Secretariat

2.22 Some members QUESTIONED the reference to "immaterial departure" in the third scenario.

2.23 It was EXPLAINED that this is a direct reference from GRAP 3.07.

2.24 Members ACCEPTED that the phrase is taken directly from the Standards, and that the Standard is aimed at situations when entities make departures to portray a false picture. However they were of the view that if a departure immaterial then it should not influence a users' decision since that information would not be relevant to a user.

2.25 It was AGREED that while a change is not proposed to the Standard, the issues paper should explain why an immaterial departure to achieve a particular presentation is an error.

Secretariat

Is the change in accounting treatment due to materiality a change in accounting policy?

2.26 The Secretariat EXPLAINED that GRAP 3.17(b) explains that if an entity never had a transaction, or the transactions were immaterial in the past, the application of the GRAP accounting policy is considered a new accounting policy (i.e. initial application of the GRAP accounting policy). This means that a change in accounting treatment due to materiality will not be considered a change in accounting policy.

2.27 Some members NOTED that there will be a change in accounting policy if capitalisation thresholds are considered accounting policies. It was AGREED that capitalisation thresholds are not accounting policies.

Secretariat

2.28 Members CONSIDERED whether the Standards would allow a reassessment of initial recognition of items if there was no change in the use of the asset or operations of an entity.

2.29 The project group AGREED with the analysis that a change in accounting treatment due to materiality is a not a change in accounting policy but suggested that the issues paper should clarify that it is not a change in accounting policy but the application of a new policy.

(c) How should entities account for the adjustments on the initial application of accounting policies set out in the Standards of GRAP when the effect of applying those accounting policies is material?

2.30 The Secretariat EXPLAINED that based on its conclusion that the change in accounting treatment is the initial application of an accounting policy, the new accounting policy will be applied prospectively.

2.31 Some members NOTED that when an entity decides to expense an item rather than capitalise it, it is an assessment of initial recognition of an item and believed that it is inappropriate to reconsider their recognition when the new accounting policy is applied.

2.32 The project group AGREED with the analysis but noted that the rationale was not extensive enough. It was suggested that the issues paper should explain the application of the new policy in relation to new transaction as well as past immaterial transactions.

Secretariat

(d) How should the new GRAP accounting policy be applied once selected?

2.33 The Secretariat EXPLAINED the purpose of GRAP 3.12 and that the Standard requires that accounting policies once selected, should be applied consistently from one period to the next. This means that the new accounting policy will be applied to all similar transactions to avoid similar transactions being treated differently.

2.34 Members were CONCERNED that paragraph 62 of the issues paper precludes the subsequent assessment of materiality for recognition and measurement of new items. It was noted that while it is important that entities do not “flip flop” between accounting policies it would be difficult to achieve this practically.

2.35 The Secretariat EXPLAINED that GRAP 3 requires that accounting policies, once selected, should be applied consistently every year unless there is a change in accounting policy. Therefore, once the recognition and measurement requirements are applied for some transactions – it is not possible to go back to the alternative accounting treatment.

2.36 Members AGREED in principle that the new accounting policy should be applied consistently to all similar transactions.

Secretariat

2.37 Some members NOTED that consistency is key, and the benefit is that it resolves the issue preparers had about keeping track of past immaterial transactions.

2.38 Members OBSERVED that the issues paper will need to explain why materiality should be considered at initial recognition and not subsequently. It was added that this likely to be an issue of contention with stakeholders.

2.39 The Secretariat EXPLAINED that a distinction should be made between applying the alternative accounting treatment to immaterial transactions and applying the accounting policies set out in the Standards consistently to all similar transactions (irrespective of materiality). This could be illustrated with a flow diagram.

(e) What is the impact of past transactions and materiality decisions when assessing the effect of accounting policies in the current period?

2.40 The Secretariat EXPLAINED that there is no requirement to modify materiality judgements made for past transactions or to restate past transactions if the transactions were correctly accounted for in accordance with GRAP 3.07 in the prior period.

2.41 The project group AGREED with the analysis.

Secretariat

(f) Should materiality be considered in subsequent periods following the initial application of a GRAP accounting policy?

2.42 The Secretariat EXPLAINED that when the new accounting policy is applied, new transactions may not be subject to materiality considerations under GRAP 3. This means that the recognition and measurement requirements in the Standards need to be satisfied irrespective of the "materiality" of new transactions.

2.43 It was NOTED that the analysis should be considered alongside the project group's discussions in question (d).

(g) Is the non-application of accounting policies set out in the Standards a departure from the requirements described in GRAP 1?

2.44 The Secretariat EXPLAINED that the principle in GRAP 3.07 is not the same as when entities depart from the requirements in the Standards of GRAP as discussed in GRAP 1.21. GRAP 1 discusses material departures in the context of not applying requirements in the Standards when they are misleading and conflict with the overall objective of the financial statements.

2.45 The project group AGREED with the analysis.

Secretariat

Conclusion

2.46 The Secretariat EXPLAINED that based on its analysis in the issues paper it concluded that view #1 (i.e. apply the accounting policy prospectively from the date of change in the accounting treatment) provides the most appropriate treatment that is supported by various paragraphs in GRAP 3.

2.47 The project group members CONCURRED with the conclusion.

2.48 It was QUESTIONED whether an entity can consider a different asset classification once it has started applying the new accounting policy.

2.49 It was EXPLAINED that once an entity has decided to apply the requirements of a particular Standard, it would not be allowed to consider alternative classifications or other recognition and measurements requirements.

Recommendation

2.50 The project group RECOMMENDED the development of an Interpretation of the Standards of GRAP. Consequently, a review of the Guideline on materiality will also be undertaken to ensure consistency between the two sets of guidance.

Secretariat

2.51 Members AGREED with the list of matters that should be considered in the proposed Interpretation and added that the Interpretation should also clarify why the application of the accounting policy set out in the Standards is a new accounting policy and why an alternative accounting treatment is not an accounting policy as defined.

Secretariat

PART B – IASB AMENDMENTS

2.52 The Secretariat EXPLAINED that the IASB has issued a number of amendments since launching the Disclosure Initiative in 2013 which may be of relevance to the Board's project as they either deal with materiality or accounting policies.

2.53 The project group NOTED the objective and current status of the IASB amendments.

2.54 The Secretariat EXPLAINED that since the Board's project is aimed at addressing a specific local issue, the Board should not consider any of the IASB amendments at this time. Instead, the amendments should be considered separately in other projects.

2.55 The project group AGREED that the IASB amendments should be dealt with separately and that the Board should consider how the IPSASB will address the amendments.

Secretariat

3. WAY FORWARD

3.1 The Secretariat SHARED the next steps of the project based on the approved project brief.

3.2 Members were THANKED for their participation in the project group meeting.

Prepared by: **T Tshoke**

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