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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:**

L Bodewig	National Treasury
M Dullabh	National Treasury
I Engelmohr	Drakenstein Municipality
C Towsen	City of Cape Town

#### **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 P Nhlangothi.

## **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 the views from stakeholders.

### **Analysis of principle in GRAP 3**

2.10 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?**

2.11 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.

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

**Secretariat**

2.13 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.

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

2.15 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: not recognising statutory receivables separately but including them as part of other contractual receivables.

**Secretariat**

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

2.16 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?

2.17 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.

2.18 The project group AGREED with the analysis.

**Secretariat**

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

2.19 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.

2.20 The project group AGREED with the analysis that a change in accounting treatment due to materiality is a not a change in accounting 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?**

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

2.22 The project group AGREED with the analysis.

**Secretariat**

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

2.23 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.

2.24 The project group AGREED with the analysis.

**Secretariat**

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

2.25 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.

2.26 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?**

2.27 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.

2.28 The project group AGREED with the analysis.

**Secretariat**

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

2.29 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. It was noted that 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.

2.30 The project group AGREED with the analysis.

**Secretariat**

**Conclusion**

2.31 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.

2.32 The project group members SUPPORTED the conclusion.

**Secretariat**

**Recommendation**

2.33 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**

2.34 It was NOTED that in anticipation of the proposed Interpretation being developed, entities might ask what they should do when they have reached the threshold.

2.35 It was EXPLAINED that applying hindsight is not allowed, therefore entities will apply the requirements in the Standards prospectively.

**PART B – IASB AMENDMENTS**

2.36 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.

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

- 2.38 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.
- 2.39 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**

**Date issued: 22 May 2020**