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## **MINUTES OF THE VIRTUAL BOARD MEETING HELD ON 8 JULY 2020**

**CHAIRPERSON** V Ngobese

### **MEMBERS OF THE BOARD**

F Abba  
C Braxton  
K Hoosain  
I Lubbe  
K Maree  
P Moalusi  
N Themba

**BY INVITATION** P Mzizi (Chair of Audit Committee)

**OBSERVERS** L Bodewig  
N Ngaka

### **EX OFFICIO**

E Swart	Chief Executive Officer
J Poggiolini	Technical Director
A Botha	Project Manager
E van der Westhuizen	Project Manager

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**

Members were WELCOMED to the meeting. Apologies were NOTED from M Sedikela.

## **2. DECLARATIONS OF INTERESTS**

2.1 C Braxton DECLARED that a colleague was an expert witness in the Western Cape judgement that would be discussed under emerging issues.

2.2 No other declarations were NOTED by members.

## **3. CONFIRMATION OF THE AGENDA**

It was AGREED that there would be an in-committee discussion at the end of the meeting to discuss staff resources and the impact on the work programme.

## **4. MINUTES OF THE PREVIOUS MEETING**

The minutes of the previous meeting were APPROVED without amendment.

## **5. MATTERS ARISING**

5.1 The Secretariat TABLED a report on matters arising.

5.2 It was NOTED that a follow-up on the request for a meeting with the Minister of Finance and the submissions to him was made on 1 July 2020.

## **6. FEEDBACK FROM THE TECHNICAL COMMITTEE**

6.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Draft Minutes of the Technical Committee meeting held on 11 June 2020.

6.2 It was NOTED that C Braxton was appointed as the new Chair of the Technical Committee.

6.3 The Secretariat NOTED that the Technical Committee recommended the following:

- The issue of the proposed Exposure Draft on the revisions to GRAP 25 on *Employee Benefits*.
- Proposals for the way forward on the review of GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors*.

## **TECHNICAL MATTERS**

### **7. Proposed Exposure Draft on the revisions to GRAP 25 on *Employee Benefits***

7.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Proposed Exposure Draft and Invitation to Comment on the revision of GRAP 25.

7.2 The Secretariat NOTED the purpose of the project is to review the requirements of GRAP 25 and the Interpretation of the Standards of GRAP on *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7)*, following amendments made to international pronouncements on employee benefits.

The review also considered whether any other guidance is necessary in GRAP 25 to respond to local needs.

- 7.3 The Secretariat NOTED that the proposed amendments to GRAP 25 and IGRAP 7 were considered by project groups in three virtual meetings. It was NOTED that the project groups and Technical Committee supported the proposed amendments to GRAP 25 and IGRAP 7 and recommended them to the Board for approval.
- 7.4 The Secretariat NOTED that GRAP 25 will not be renumbered, but a new version of the Standard will be issued to replace the current version.

*Amendments to align GRAP 25 and IGRAP 7 to IPSAS 39 on Employee Benefits and IFRIC 14 on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

- 7.5 The Secretariat NOTED the changes made to align GRAP 25 with IPSAS 39, as well as to align IGRAP 7 with IFRIC 14.
- 7.6 The Board CONFIRMED the changes to align local pronouncements to international counterparts.

*Areas where GRAP 25 differs from IPSAS 39*

- 7.7 The Secretariat EXPLAINED areas where GRAP 25 differs from IPSAS 39, based on past Board decisions, being:
- the recognition of remeasurements in surplus or deficit, instead of net asset/equity as in IPSAS 39; and
  - other ongoing differences between Standards of GRAP and IPSAS, e.g. guidance on discount rates and the definition of “binding arrangements”.

7.8 The Secretariat further NOTED that guidance on disclosures was requested locally on other long-term employee benefits and termination benefits to ensure sufficient information is provided to users of the financial statements.

7.9 The Board CONFIRMED the areas where GRAP 25 differs from IPSAS 39.

*Other considerations in reviewing GRAP 25*

7.10 The Secretariat NOTED that the review assessed whether any additional guidance should be added to GRAP 25 by considering (a) recent improvements to IPSAS or IFRS on employee benefits, (b) IFRIC agenda decisions, (c) FAQs issued by the Secretariat, and (d) queries received by the trilateral parties. No need for additional guidance was identified, which was confirmed by the project groups and the Technical Committee.

7.11 The Secretariat NOTED that it will continue to monitor ongoing international projects that may impact GRAP 25 and the need for implementation guidance.

7.12 The Board CONFIRMED that no additional guidance is necessary in GRAP 25.

*Transitional provisions and effective date*

7.13 The Secretariat EXPLAINED that the proposed transitional provisions have been aligned to IPSAS 39. The appropriateness of this will be further assessed during the public consultation process. The Secretariat NOTED that an effective date of 1 April 2023 is proposed.

7.14 The Board CONFIRMED the proposed transitional provisions and effective date.

*Approval of Exposure Draft and related documents*

7.15 The Board APPROVED the Exposure Draft and Invitation to Comment.

7.16 The Secretariat NOTED an extended consultation period is proposed as a result of the impact of COVID-19 and other Exposure Drafts available for comment on stakeholder and the Secretariat's capacity.

7.17 The Board APPROVED a longer consultation period until 30 November 2020.

**Secretariat**

**8. Review of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors**

8.1 The Secretariat TABLED a memorandum at the meeting.

*Scope of the project*

8.2 The Secretariat EXPLAINED the proposal to limit the consideration of materiality in relation to GRAP 3 and specifically areas of recognition and measurement. Materiality in the context of presentation and disclosure is considered in GRAP 1 on *Presentation of Financial Statements*.

8.3 The Board SUPPORTED the proposed scope.

*Outreach to stakeholders*

8.4 The Secretariat NOTED that, in finalising the Guideline on *The Application of Materiality to Financial Statements*, the views that were expressed about the impact of past materiality assessments were limited to those of the project groups and the Board. To progress the review of GRAP 3, the Secretariat consulted with local and international stakeholders on their views about past assessments of materiality. Their views were as follows:

- Local stakeholders indicated that they had generally been required to apply retrospective changes to past materiality assessments and provided examples of the types of transactions.
- International stakeholders indicated that retrospective application was not applied in their various jurisdictions, unless there was an error.

8.5 The Board NOTED the views expressed by stakeholders.

*Views on the treatment of past materiality decisions*

8.6 The Secretariat EXPLAINED that it had analysed the requirements in GRAP 3 to determine whether past materiality assessments should be applied retrospectively or prospectively. The Technical Committee agreed that the principle should be that assessments of materiality are period specific and are based on facts and circumstances at a reporting date. This means that there should be no retrospective adjustments for past materiality assessments unless an error was made by an entity. An error would include an omission from the financial statements, immaterial errors made to achieve a specific outcome, the application of an inappropriate accounting policy or the application of an inappropriate accounting threshold.

- 8.7 The Secretariat NOTED that the Technical Committee also discussed whether:
- Any change in accounting treatment to one based on the Standards of GRAP is a change in accounting policy or the application of a new accounting policy.
  - Once an accounting policy based on Standards of GRAP is applied for the first time it should be applied to that class of assets consistently going forward, or whether materiality could again be assessed in subsequent periods.
- 8.8 The Secretariat EXPLAINED that while there was broad agreement on these two issues, two Technical Committee members did not agree with the proposals. It was agreed that the Secretariat should discuss these two members' concerns and include these and their proposals in the memorandum to the Board.
- 8.9 The Secretariat OUTLINED the majority and alternative views and proposals of the Technical Committee, as well as the proposed way forward. These are as follows:
- Based on GRAP 3.17(b), the majority of the Technical Committee members agreed that the application of an accounting policy to transactions that were immaterial in the past, is seen as the application of a new accounting policy. After discussion with the two members that expressed alternative views, they indicated that the wording in paragraph 3.17(b) should be amended as it may not be a "new" accounting policy. The accounting policy based on Standards of GRAP may not necessarily be "new", it just may not have been applied.
  - Most Technical Committee members supported applying the same accounting policy to all classes of transactions once adopted. Examples were however provided where this might not be the case. In discussion with the two members that expressed alternative views, it was observed that this issue may require further consideration in the context of the "unit of account" and whether materiality is applied at a transaction level or considering the financial statements as a whole. It was proposed that this be considered in the next phase of the project and explained by way of examples.
- 8.10 A member QUESTIONED what the issue was that needed to be resolved, and if it related to the application of entities' current accounting policies.
- 8.11 The Secretariat EXPLAINED the background to the project in the context of the discussions on the Guideline on materiality, as well as the practices heard from local stakeholders about retrospective application being required to adjust for past assessments of materiality. The potential retrospective adjustments meant that entities were required to maintain records to enable an ongoing assessment to be done. This seemed counterintuitive to the Guideline promoting materiality being applied in developing accounting policies.
- 8.12 A member QUESTIONED whether "trivial thresholds" and the requirement for auditors to assess the cumulative effect of misstatements were considered.
- 8.13 The Secretariat EXPLAINED that these two aspects were considered as follows:
- The issue of trivial thresholds was considered in the context of ensuring that thresholds set by preparers should be low enough to ensure that the items in question could never have a material effect on future financial statements.

- The assessment of materiality in a period is not seen as a misstatement. It is seen as an accounting judgement made in a particular reporting period. This will need to be communicated with auditors during the next phase of the project.

8.14 The Board members SUPPORTED the following principles and proposals:

- Past assessments of materiality are period specific and should not impact future periods.
- When an accounting policy based on Standards of GRAP is applied to transactions that were immaterial in previous periods, it is considered the application of a GRAP accounting policy for the first-time. This requires prospective application. Retrospective application will only be required when an error has occurred.
- Paragraph 3.17(b) should be considered for amendment.
- Examples should be used to illustrate the application of materiality to transactions/circumstances to resolve issues on “unit of account”.

**Secretariat**

8.15 The Secretariat NOTED that the Technical Committee recommended that the next step in the project should be the development of an Interpretation and a review of the Guideline. It was also agreed that any changes made by the IASB to the international equivalents should only be considered once the IPSASB has revised their Conceptual Framework and/or updated IPSAS.

8.16 The Board SUPPORTED these proposals.

**Secretariat**

## **9. EMERGING ISSUES**

9.1 The Secretariat TABLED a memorandum at the meeting.

*Application of GRAP 109 on Accounting by Principals and Agents*

9.2 The Secretariat EXPLAINED the potential implications of the Western Cape judgement on the trilateral parties. The ASB is not directly affected as the judgement relates to the application of the Modified Cash Standard (MCS). The principles in the MCS are however based on GRAP 109. As a result, the Secretariat would review the judgement to assess if there are any implications for GRAP 109 and/or its application. The outcome of the review would be discussed at the next Technical Committee and Board meetings.

**Secretariat**

*Amendment to Directive 6*

9.3 The Secretariat INDICATED that it was party to a discussion with the AGSA, OAG and the entity concerned regarding compliance with the Standards of GRAP by 2023. A request was made to amend Directive 6 to allow incremental application of the Standards, and to extend the transitional period past 2023. The entity would need to make a formal submission to the Board for any revision to Directive 6.

9.4 The Secretariat EXPLAINED that the Technical Committee had discussed the issues, even though a formal submission has not been received. Their proposal to the Board was as follows:

- An amendment is not needed for the incremental application of the Standards. Directive 6 allows this approach.
- The transitional period should not be extended. Sufficient time was granted, and the Board cannot be seen to be favouring some entities over others.
- Other avenues should be sought by the entity, which could include approaching the Minister of Finance to amend the Gazette requiring the application of the Standards of GRAP from a particular date.

9.5 The Board AGREED with the Technical Committee's proposals. They also observed that a lengthy period of time was granted to implement system and related changes.

*Adoption of Standards of GRAP by CET colleges*

9.6 A member QUESTIONED if the CET colleges are using BAS.

9.7 The Secretariat EXPLAINED that the historical transactions were processed by the relevant department on BAS. Since the formal establishment of the colleges, they are using their own accounting systems.

## **10. GRAP IMPLEMENTATION**

10.1 The member from the National Treasury NOTED that a GRAP disclosure checklist was published after several requests from stakeholders.

10.2 It was NOTED that requests had been received to extend the reporting deadline for municipalities. This was being considered by the National Treasury, but no decisions had been made.

## **11. TRILATERAL MEETING**

11.1 The draft minutes of the meeting held on 24 April 2020 was TABLED.

11.2 It was NOTED that a special meeting was held on 3 July 2020 to NOTE that an application was made for leave to appeal the Western Cape judgement and to establish an early warning mechanism and dispute resolution process to prevent the occurrence of such matters.

11.3 It was NOTED that the ASB would not become involved in the resolution of any disputes to maintain its independence as standard setter.

11.4 It was also NOTED that the matter would be discussed at the next meeting on 20 July 2020.

## **FINANCES AND ADMINISTRATION**

### **12. IMPACT OF COVID-19 PANDEMIC**

12.1 A paper setting out the impact of the lockdown and COVID-19 on the ASB was tabled for consideration.

12.2 It was NOTED that the impact of any staff member testing positive for COVID-19 is likely to result in delays in the completion of items on the work programme. Any impact

would need to be assessed on a case by case basis as the ASB has limited resources available to implement any corrective measures.

12.3 It was NOTED that a revised budget had been prepared based on the savings made to date and anticipated savings and increased costs going forward.

### **13. ANNUAL REPORT**

13.1 The draft annual report, Audit Report, Audit Committee Report and Management Report was TABLED for consideration by the Board.

13.2 It was NOTED that the Audit Committee had identified some editorial amendments to the draft annual report.

13.3 It was NOTED that the irregular expenditure did not result in a finding of non-compliance with legislation as condonement had been received prior to finalisation of the audit.

13.4 The clean audit result and lack of any audit findings by the external auditor was NOTED.

13.5 The annual report was APPROVED and the responsibility to combine all the reports and submit the report for TABLING in Parliament was delegated to the CEO.

**Secretariat**

### **14. AUDIT COMMITTEE**

14.1 The draft Audit Committee Report was TABLED and the reference to COVID-19 and its impact on the ASB was considered.

14.2 It was AGREED that the reference should be retained as the full impact is uncertain.

### **15. FEEDBACK FROM THE OPERATIONS COMMITTEE**

15.1 The feedback report and the draft minutes of the Operations Committee meeting held on 4 June was NOTED.

15.2 It was NOTED that all the matters referred to the Board was included on the agenda.

### **16. ADMINISTRATION**

#### **Performance against targets for the quarter 1 April to 30 June 2020**

16.1 The Secretariat TABLED a memorandum at the meeting outlining the projected performance for the quarter.

16.2 The Secretariat EXPLAINED that the targets were met based on the attendance of the virtual IPSASB meeting held in late June. The issue of the Exposure Draft on GRAP 25 would be reported in the next quarter as the meeting to approve the document was only held in July.

#### **Risk register**

16.3 The risk register was TABLED for approval.

16.4 It was NOTED that the risk register was updated to reflect current internal controls and the COVID-19 risk was added to the register.

16.5 The register was APPROVED.

### **Revised budget for 2020/2021**

- 16.6 A revised budget with a memorandum explaining the changes were TABLED for consideration and approval.
- 16.7 It was NOTED that the transfer payment remained unchanged after the recent emergency budget but may change during the process to develop the adjustment budget and medium-term expenditure framework.
- 16.8 It was AGREED to use the current savings to recruit an additional staff resource and the appointment of a consultant to assist the Secretariat to complete some items on the work programme arising from staff resource issues.
- 16.9 It was also AGREED to discuss the payment of bonuses at a later Board meeting as any bonus payments in the current economic environment would not be favourably received by stakeholders.

### **Succession planning for Board**

- 16.10A memorandum on succession planning was TABLED and the CV's received to date to fill those vacancies were considered.
- 16.11It was AGREED that as most of the vacancies that needed to be filled required a stronger technical background. Firms with technical skills should be approached to submit nominations.
- 16.12It was NOTED that the Minister is likely to need a longer period to consider the filling of vacancies and that the submission should be finalised as early as practical.

**Secretariat**

## **17. INTERNATIONAL STANDARD SETTING ACTIVITIES**

- 17.1 The Secretariat PROVIDED an oral report back of the IPSASB meeting held in June 2020. The key issues discussed are as follows:
- The IPSASB plans on issuing a revised IPSAS 17 on *Property, Plant and Equipment*. The revised IPSAS will include guidance on infrastructure assets and heritage assets. The guidance will be included as Application Guidance and will provide guidance on the unique characteristics of these assets that have potential accounting implications.
  - The measurement of assets and liabilities and the effect on the development of a proposed IPSAS on *Measurement* and the limited scope review of the Conceptual Framework. A key part of the IPSASB's deliberations was on measurement models, measurement bases, measurement techniques, and how this work together to achieve the various measurement objectives. Amendments would also potentially be required to IPSAS 17 related to the measurement of property, plant and equipment.
  - The IPSASB has agreed to align its proposed IPSAS on leases to IFRS 16 on *Leases*. To progress the project, the proposed IPSAS will be converged with IFRS 16. Public sector issues will be considered separately. A request for information will be published with the proposed IPSAS to solicit feedback on public sector leases and similar transactions that should be addressed.

- A project was approved to develop an IPSAS equivalent of IFRS 5 on *Non-current Assets Held for Sale and Discontinued Operations*. The project would focus on sales on commercial terms.

17.2 The Secretariat NOTED that the revised IPSAS 17, the proposed IPSAS on *Measurement*, the revisions to the Conceptual Framework and the IPSAS equivalent of IFRS 5 are due for issue in December 2020. This meant that a significant amount of time would need to be spent commenting on these documents to the IPSASB leading up to the meeting.

## **18. GENERAL**

18.1 It was NOTED that Tsholo Tshoke had been granted six months of unpaid leave that may be extended by a further six months.

18.2 It was NOTED that this would have a negative impact on the completion of projects for the year, one which would be completed by the Technical Director, one which could potentially be contracted to a consultant and the third project could be suspended pending the completion of international developments that may have an impact.

18.3 After some debate, it was agreed that a proposal should be drafted to recruit an additional staff resource and contract a consultant to complete one project, with an analysis of the impact on the budget and work programme for the current year and the next year.

**Secretariat**

18.4 It was AGREED that a decision would be made at the next meeting.

## **FUTURE MEETINGS**

Members NOTED the remaining meeting dates for 2020.

## **19. CLOSING REMARKS**

Members were THANKED for their participation and the meeting closed at 13:30.

**Prepared by:** E Swart 10 July 2020

**Reviewed by:** V Ngobese 10 July 2020

**Issued:** 10 July 2020