



P O Box 7001
Halfway House
Midrand
1685
Tel. 011 697 0660
Fax. 011 697 0666
www.asb.co.za

**MINUTES OF THE TECHNICAL COMMITTEE MEETING OF THE
ACCOUNTING STANDARDS BOARD HELD VIRTUALLY ON 2 MARCH 2021**

CHAIRMAN C Braxton

MEMBERS OF THE COMMITTEE

BOARD REPRESENTATIVES

None

REPRESENTATIVE OF THE AGSA

M Mentz

REPRESENTATIVE OF THE OAG

L Bodewig

REPRESENTATIVE OF THE ASB

E Swart

BY INVITATION

W de Jager

D Dlamini

Dr P Masegare

A van der Burgh

EX OFFICIO

J Poggiolini Technical Director

A Botha Project Manager

T Tshoke Project Manager

E van der Westhuizen Project Manager

Board Members: Mr C Braxton, Mr D Dlamini, Ms W de Jager, Ms K Maree,
Dr P Masegare, Ms P Moalusi, Ms M Sedikela, Ms N Themba, Mr A van der Burgh
Chief Executive Officer: Ms E Swart, Technical Director: Ms J Poggiolini

1. WELCOME AND APOLOGIES

- 1.1 Members were WELCOMED to the meeting by the Chairman.
- 1.2 It was NOTED that the new Board members were invited to attend the meeting as part of their induction.

2. CONFIRMATION OF THE AGENDA

The agenda was CONFIRMED without additions.

3. DECLARATIONS OF INTERESTS

- 3.1 Members were ASKED to indicate if they had any amendments to their declarations of interests, and if they had an interest in any of the agenda items being discussed.
- 3.2 M Mentz NOTED that the ARD Unit has provided an opinion on the matter on GRAP 20 on *Related Party Disclosures* in the emerging issues paper.
- 3.3 It was OBSERVED that the Secretariat, the ARD unit and the OAG may have discussed certain matters prior to raising them with the Technical Committee. It was AGREED that if decisions will be sought on any of the emerging issues at the Technical Committee, then parties that have been involved prior to the discussion, should declare this and/or recuse themselves from any decisions relating to these matters.

Members

4. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meeting were TABLED at the meeting. The minutes were APPROVED without amendment.

5. MATTERS ARISING

- 5.1 The Secretariat TABLED a memorandum at the meeting of the matters arising from previous meetings. The Secretariat NOTED the following:
 - Composition of the Technical Committee – the composition of the Committee is assessed in relation to the work programme of the ASB. If specific skills are needed, then these are co-opted onto the Technical Committee,
 - The Secretariat should follow up with SAIPA about adding a link from their website to the ASB's.
 - A communication was sent to the CFOs of public entities that apply IFRS notifying them of the effective date of Directive 14. This item will be removed from the matters arising for the next meeting.
 - The project on the review of the cash flow statement has been paused pending the IPSASB's finalisation of the proposed IPSAS on revenue and expenses. This will be removed from the matters arising and added to the work programme.
 - The actions arising from the review of GRAP 103 were added to the matters arising. Meetings have been held with some of the identified

stakeholders, but some need to be rescheduled as a result of non-attendance of certain key officials.

Secretariat

- 5.2 The representative of the OAG INDICATED that there is no progress to report on the reconstitution of the FRSC.
- 5.3 A Board member in attendance ASKED for clarity on the matter and the reason why the ASB has interest in the constitution of the FRSC. It was NOTED that it is a legislated requirement for the FRSC to be constituted. There are ASB projects where it is necessary to consult with the FRSC, e.g. most recently when the Board developed Directive 14 on *Application of Standards of GRAP by Public Entities that Apply IFRS® Standards*. The Board consulted the APC in the absence of the FRSC, but the APC does not have the same authority as the FRSC.

TECHNICAL MATTERS

Results of the desktop review of GRAP 2 on *Cash Flow Statements*

- 6.1 The Secretariat TABLED the following at the meeting:
- Memorandum from the Secretariat.
 - Project brief on the Desktop Review on GRAP 2 on *Cash Flow Statements* (for information purposes).
 - Minutes of the stakeholder engagements held during February 2021.
- 6.2 The Secretariat EXPLAINED that the objective of the GRAP 2 review (the review) was to assess compliance with GRAP 2, and to identify practices and emerging issues relating to the preparation of the cash flow statement.
- 6.3 It was NOTED that the findings from the review were discussed with stakeholders involved in preparing the cash flow statement, as well as with auditors and technical specialists (hereafter collectively referred to as stakeholders).

Approach undertaken to select financial statements

Scope of the review

- 6.4 It was NOTED that the review focused on compliance with the requirements in GRAP 2, and how information is presented in the cash flow statement. The review did not consider:
- compliance with the requirements of GRAP 2 where the information was not apparent, or could not be derived from the financial statements;
 - the accuracy of the numbers presented in the cash flow statement;
 - the application of non-authoritative guidance issued by stakeholders on the application of GRAP 2; and
 - compliance with legislative disclosures applicable to cash and cash equivalents.

- 6.5 It was NOTED that the presentation of cash flow items on a net basis in principal-agent arrangements will be assessed when the Board undertakes a review of GRAP 109 on *Accounting by Principals and Agents*.

Secretariat

Sample selected and sufficiency of the review

- 6.6 The Technical Committee NOTED the approach to selecting financial statements for the review.
- 6.7 It was NOTED that during the stakeholder engagement, concerns were noted with reviewing only audited financial statements. It was NOTED that prior to the commencement of the audit, a number of entities experience issues with the preparation of the cash flow statement, but these are resolved by the time that the audit is completed. Stakeholders proposed that the management reports should also be reviewed to highlight challenges experienced with the preparation of the cash flow statement.
- 6.8 The Secretariat NOTED that it can only review publicly available information. Information about audit issues is considered through a review of the General Report issued by the AGSA, and/or the individual audit reports of entities included in the review. The Secretariat also NOTED that the issues raised in the management reports likely relate to a lack of skill and capacity, and poor internal control environments. These matters are not within the Board's mandate to resolve.
- 6.9 It was QUESTIONED whether the review considered the audit reports to identify pervasive issues in preparing the cash flow statement. It was NOTED that a high-level review of the audit reports was done as part of the review but that no pervasive issues were noted. It was NOTED that a detailed review of audit reports is unlikely to identify any additional matters concerning the preparation of the cash flow statement.
- 6.10 The Technical Committee AGREED with the recommendation to share the comment with the National Treasury that additional, and more pervasive issues could most likely be identified from management reports should they wish to do so.
- 6.11 The representative of the National Treasury INDICATED that they do not have access to management reports unless there is a specific intervention strategy identified for the entity.
- 6.12 It was QUESTIONED whether one-on-one engagements were held with entities whose financial statements were included in the review, or whether the results were only shared with groups of stakeholders. It was NOTED that the ASB is not a regulator, and the objective of the review was to identify pervasive issues in the preparation of the cash flow statement, rather than to focus on a specific entity's compliance with GRAP 2.
- 6.13 It was ASKED whether the Secretariat is comfortable with the results of the review and that the review was undertaken in the most constructive manner considering the ASB's capacity constraints.
- 6.14 The Secretariat NOTED that it was of the view that the number and range of financial statements reviewed was sufficient to identify pervasive issues and

areas where corrective action may be necessary. The Secretariat does not believe that any additional matters would have been identified from reviewing additional financial statements. As a result, the Secretariat is comfortable with the results of the review and that the review achieved its objective.

- 6.15 The Technical Committee AGREED with the sufficiency of the review. It was AGREED that a policy on conducting desktop reviews should be drafted that clearly explains the objective and output of desktop reviews undertaken by the Board.

Secretariat

- 6.16 It was NOTED that some stakeholders proposed that the sample should be expanded to consider financial statements where segment reports were prepared as none of the financial statements selected included segment reports.
- 6.17 The Secretariat NOTED that GRAP 2 only includes an encouraged disclosure of the amounts of cash flows arising from the operating, investing and financing activities of each reportable segment. Segment reports will mostly be prepared by municipalities. GRAP 18 only became effective for municipalities on 1 July 2020. It was also NOTED that it is difficult to know which entities have prepared a segment report prior to including them in the sample.
- 6.18 The Technical Committee AGREED with the Secretariat's recommendation to monitor the encouraged disclosure following the implementation of GRAP 18 by municipalities. If any concerns in this area are noted, these could be addressed by including a review of GRAP 18 as a potential project as part of the Board's next work programme consultation.

Secretariat

Approach to address the issues noted from the review

- 6.19 It was NOTED that the review highlighted similar issues to those noted in reports issued by regulatory bodies, such as the JSE's Report on the Proactive Monitoring of Financial Statements and the Public Inspections Report issued by the Independent Regulatory Board for Auditors (IRBA).
- 6.20 It was QUESTIONED if there are any issues noted from the JSE and IRBA reports that could be highlighted in the Research Paper in addition to the matters noted from the review. It was NOTED that the issues from the JSE and IRBA reports were considered during the review. Not all issues noted from these reports are relevant to the public sector review.
- 6.21 It was NOTED that the Secretariat will share the findings of the review with the Office of the Accountant-General (OAG) to enable them to consider the impact of these, if any, on the GRAP 2 Accounting Guideline. The findings will also be shared with IRBA, the JSE and the Public Sector Audit Committee Forum.
- 6.22 The Technical Committee also INDICATED that the results of the review should be shared with the CIPC as part of the GRAP XBRL project.

Secretariat

- 6.23 The Secretariat INDICATED that it intends to raise awareness of the issues noted from the review through writing articles, publishing social media posts,

etc. The Technical Committee SUPPORTED these initiatives to address the issues noted from the review.

Secretariat

- 6.24 The Secretariat PROPOSED that a Research Paper should be developed to outline the findings of the review along with the Board's actions. It was NOTED that this proposal was supported by the stakeholders who emphasised the need for the results to be shared so that entities can apply the lessons learned from the review when preparing their cash flow statements. The Technical Committee SUPPORTED the development of a Research Paper.

Secretariat

Results of the desktop review

- 6.25 It was NOTED that the areas of non-compliance are pervasive in all the financial statements reviewed. Non-compliance in any individual set of financial statements is not highlighted.

General observations and proposed actions

- 6.26 It was NOTED that stakeholders confirmed that the principles in GRAP 2 are appropriate, but that entities have challenges with the application of these principles. The Technical Committee NOTED that these challenges relate to:
- capacity constraints within entities;
 - lack of skills;
 - errors and mathematical mistakes;
 - inadequate adjustments processed by software programs or incomplete templates; and
 - behaviour changes needed among preparers to place a higher priority on the preparation of the cash flow statement.
- 6.27 The Technical Committee NOTED the identified issues and proposed solutions.
- 6.28 The Technical Committee DISCUSSED the development of an illustrative example and working template could drive the wrong behaviour and could discourage preparers from considering entity specific transactions and events when preparing the cash flow statement.
- 6.29 The Technical Committee RECOMMENDED that the comment to develop a detailed illustrative example should be shared with the OAG. L Bodewig NOTED that the illustrative example in the GRAP 2 Guideline has already been updated as part of the previous review of the Guideline, but that the OAG will reconsider the guidance based on the outcome of the review.
- 6.30 The proposal to re-instate the illustrative example in GRAP 2 was DEBATED. It was NOTED that this example is already included in the GRAP 2 Guideline and including it in the Standard will result in a duplication. It was therefore AGREED that the example should not be re-instated in the Standard.
- 6.31 It was PROPOSED that some of the principles that are incorrectly applied when preparing the cash flow statement could be illustrated with examples in

GRAP 2. It was AGREED that any additional application guidance should be included in the GRAP 2 Guideline.

- 6.32 A member SUGGESTED that it might be helpful for the OAG to work through each of the Standards of GRAP and identify which have transactions or events could have an impact on the cash flow statement. This could be included in the GRAP 2 Guideline.

Application of materiality in preparing the cash flow statement

- 6.33 It was NOTED that it was not evident from the review how entities apply materiality in preparing the different components of the financial statements, and whether different materiality thresholds are applied to the different components.
- 6.34 It was NOTED that stakeholders confirmed that most preparers are either (a) unaware of the role that materiality plays in preparing financial statements, despite guidance on materiality being available; or (b) are not applying the guidance to change past practices.
- 6.35 It was NOTED that some stakeholders indicated that materiality is not specifically considered when preparing the cash flow statement. Others indicated that they apply the same materiality threshold to the different components of the financial statements. It was also NOTED that the lack of knowledge, rather than the application of different materiality thresholds, is most likely the driver for inconsistent disclosures in the various components of the financial statements.
- 6.36 The Technical Committee NOTED that entities experience difficulties with the application of materiality. It was AGREED that:
- the Research Paper should emphasise the importance of the preparing the cash flow statement as a component of the financial statements; and
 - the Guideline on *The Application of Materiality in Financial Statements* (Materiality Guideline) should be expanded to explain that immaterial items that are aggregated may need to be disaggregated if the total amount is considered material or its description is unhelpful to users, e.g. combining immaterial items in a line item “other”.

Secretariat

Reconciliation of surplus/(deficit) to net cash flows from operating activities

- 6.37 The Technical Committee NOTED the areas of non-compliance.
- 6.38 It was NOTED that potential root causes for these non-compliance issues are (a) a lack of understanding the nature of the entity’s activities; and (b) a lack of adequate management processes to identify all the non-cash items or other adjustments needed to prepare the cash flow statement.
- 6.39 The Technical Committee AGREED with the recommendation to share these root causes with the OAG as it is not within the Board’s mandate to resolve them.

Secretariat

Operating activities

- 6.40 The Technical Committee NOTED the areas of non-compliance as well as emerging trends in the presentation of information.
- 6.41 The Technical Committee NOTED the different classifications of cash receipts and cash payments. It was also NOTED that preparers are (a) uncertain on the treatment of VAT as either a movement in working capital or whether it should be presented separately as an operating cash flow on the face of the cash flow statement; and (b) whether VAT should be included or excluded from cash receipts or payments.
- 6.42 The Technical Committee AGREED with the recommendation to share the need for guidance on the treatment of VAT with the OAG.

Secretariat

Investing activities

- 6.43 The Technical Committee NOTED the areas of non-compliance, potential root causes and proposed actions.
- 6.44 The Technical Committee AGREED with the recommendation to share the need for guidance on the treatment of insurance revenue with the OAG.

Secretariat

Financing activities

- 6.45 The Technical Committee NOTED the areas of non-compliance, and the different treatment of consumer deposits held by municipalities.
- 6.46 The Technical Committee AGREED with the recommendation to share the need for guidance to ensure the consistent classification of changes in consumer deposits from one year to the next, based on the entity's classification and utilisation of the deposits, with the OAG.

Secretariat

- 6.47 It was also PROPOSED that the classification of consumer deposits should be linked to GRAP 104 on *Financial Instruments*. It was NOTED that guidance on the treatment of consumer deposits is included in the Fact Sheet to GRAP 104 (2019). This will be converted into a FAQ for the current version of GRAP 104.

Secretariat

Cash and cash equivalents

- 6.48 It was NOTED that a number of entities do not have an accounting policy for cash and cash equivalents. For those entities that presented an accounting policy, the majority included the definition of cash and cash equivalents, but this was found to be generic as the policy does not explain the composition of the entity's cash and cash equivalents. It was also difficult to conclude on whether the cash and cash equivalents listed in the disclosure note met the three elements of the definition of cash and cash equivalents.
- 6.49 It was NOTED that some stakeholders agreed that they do not have an accounting policy for cash and cash equivalents as the information presented

in the disclosure note for cash and cash equivalent provides sufficient information to users.

- 6.50 The Technical Committee NOTED that the reason for not having an accounting policy could be that cash and cash equivalents are immaterial. It was AGREED that an explanation should be included in the Materiality Guideline to explain that an accounting policy will not be included in the financial statements for some items if these items are immaterial.

Secretariat

- 6.51 It was also NOTED some entities rigidly apply the three-month reference in the GRAP 2 example of when an investment qualifies as a cash equivalent. This then may result in highly liquid investments with a maturity of four months not being classified as cash and cash equivalents.

- 6.52 The Technical Committee AGREED with the recommendations to share the comment with the OAG.

Secretariat

Other GRAP 2 disclosures

- 6.53 It was NOTED that only a few entities included disclosures on significant cash and cash equivalent balances that are held by the entity, but not available for use. None of the entities included disclosures on undrawn borrowing facilities.

- 6.54 It was NOTED that none of the financial statements reviewed included disclosures of cash flows arising from the operating, investing and financing activities of each reportable segment.

- 6.55 The Technical Committee AGREED with the recommendation that the Board considers reviewing the encouraged disclosures in all the Standards of GRAP as part of its next Improvements Project.

Secretariat

- 6.56 It was QUESTIONED whether there was anything else that the Board could do to ensure that the same concerns on the preparation of the cash flow statement do not re-occur.

- 6.57 It was NOTED that the Secretariat intends to create awareness of the issues noted from the review through various communication initiatives. It was AGREED that stakeholders should continuously be reminded of these issues as well of the pronouncements that they can consider in improving financial reporting.

Secretariat

Review of the comments received on ED 184 on *Review of Employee Benefits*

- 7.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Analysis of written and verbal comment.
- Proposed Standard of GRAP on *Employee Benefits* (revised 2021).

- Proposed Interpretation of the Standard of GRAP on *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (revised 2021).
- Minutes of the Project Group meeting.

7.2 The background to the project was NOTED. It was NOTED that the objective was for the Technical Committee to consider the extent of the consultations, summaries of verbal and written comment received, the Project Group's proposed responses to comment received, and to recommend GRAP 25 and IGRAP 7 on *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* to the Board for approval.

Consultation process

- 7.3 The Technical Committee NOTED the two written comment letters received as well as the stakeholders' views expressed through virtual meetings. It was NOTED that the Project Group supported the Secretariat's view that all stakeholders in the project brief were given sufficient opportunity to participate in the Board's due process.
- 7.4 The Secretariat NOTED that it is unlikely that more comment would have been received if more engagements were held. This is because stakeholders supported the amendments when they were proposed by the IPSASB. Stakeholders also supported that the Board aligns GRAP 25 to IPSAS 39. Areas of departure from IPSAS 39 are to respond to local needs.
- 7.5 The Technical Committee AGREED that stakeholders were given sufficient opportunity to participate in the Board's due process. A member NOTED that he was encouraged by the Secretariat's participation in roundtable discussions, which leads to a thorough analysis of verbal comment received.

General comment

Alignment with international requirements

- 7.6 It was NOTED that a concern was raised about whether it is appropriate to align GRAP 25 and IGRAP 7 to international requirements. The information value of the changes to users was also questioned. The Secretariat NOTED that the Board has a policy of aligning Standards of GRAP with IPSAS when it is consistent with the mandate and strategy of the ASB. GRAP 25 is aligned to IPSAS 39, except for areas of differences based on past Board decisions and for newly identified local issues. The Board also considered the proposed amendments to be an improvement to the Standard through more comprehensive guidance and improved disclosure requirements.
- 7.7 It was NOTED that the Project Group supported the Secretariat's view that no amendments are necessary to the Standard based on the comment received. In line with the Project Group's suggestion, the Secretariat will raise awareness about the Board's process to set Standards, including when it aligns with international requirements.

Secretariat

Interaction with other requirements

- 7.8 It was NOTED that stakeholders were unsure how information should be presented where GRAP 25 has similar disclosure requirements to legislative requirements and other Standards of GRAP such as GRAP 20 on *Related Party Disclosures*. It was NOTED that the Project Group supported the Secretariat's proposal to develop two FAQs on the interaction of (a) legislative disclosure requirements with Standards of GRAP broadly, and (b) Standards of GRAP where two or more Standards have similar requirements.
- 7.9 The Technical Committee SUPPORTED the conclusion and proposals regarding the general comment received. A member ASKED if it would be feasible to delay the FAQ on the interaction of two or more Standards of GRAP that have similar requirements, in order to assess if the guidance can be combined with guidance that will be developed as an outcome of the review of the cash flow statement and materiality. After considering the potential timeline to develop guidance as an outcome of the review of the cash flow statement and materiality, members AGREED not to delay the FAQ.

Secretariat

Comment per type of employee benefit

Disclosure of short-term employee benefits

- 7.10 It was NOTED that a respondent questioned whether the disclosure on short-term employee benefits is sufficient for the public sector. The Secretariat NOTED that no changes to GRAP 25 are proposed at present, but that the Project Group supported the proposal that stakeholders be consulted on potentially including a project on the disclosure of short-term employee benefits on the Board's next work programme.

Post-employment defined benefit plan definitions

- 7.11 It was NOTED that respondents asked for guidance on how informal plans could meet the definitions in GRAP 25. The Project Group supported the Secretariat's proposal to develop a FAQ on the definitions in GRAP 25. The FAQ would summarise the guidance in GRAP 25 and could potentially include an example.

Secretariat

Amendments, curtailments and settlements of defined benefit plans

- 7.12 It was NOTED that stakeholders questioned the involvement of actuaries when defined benefit plans are amended, curtailed or settled, and how actuarial valuations in subsequent periods, that retrospectively impact financial statements, should be treated. The Secretariat NOTED that an existing FAQ on *Must an entity appoint an actuary at every reporting date to measure its defined benefit obligations* would be amended to add guidance, which the Project Group supported.

Secretariat

- 7.13 The Technical Committee SUPPORTED the proposed actions related to comment received per type of employee benefit.

Transitional provisions and effective date

- 7.14 It was NOTED that respondents agreed with the proposed transitional provisions and effective date of 1 April 2023. In response to a comment asking if the date could potentially be earlier, the Secretariat NOTED that 1 April 2023 is the earliest date. The Project Group supported the addition to GRAP 25 to allow early adoption with a related disclosure requirement.
- 7.15 A member NOTED that the National Treasury's legal unit indicated they would prefer transitional provisions and effective dates to be included in the Standards of GRAP, once promulgated by the Minister of Finance. This is for consideration in future projects.
- 7.16 The Secretariat NOTED that a discussion could be held with the National Treasury's legal unit to consider what can be done. The Board would need to ensure it remains compliant with its legislated mandate to consider capacity of entities in adopting the Standards. The Directives allow for this consideration per type of entity. It may, however, be feasible to also publish transitional provisions in the Gazettes.

Secretariat

- 7.17 A member QUESTIONED the status of the submissions to the Minister of Finance to approve the following effective dates:
- GRAP 104 on *Financial Instruments* (2019) – 1 April 2024
 - Improvements to Standards of GRAP (2020) – 1 April 2022
 - Amendments to GRAP 1 on *Presentation of Financial Statements* – 1 April 2022
- 7.18 The National Treasury NOTED that they are experiencing issues with the publication of Government Gazettes. As a 30-day comment period would still be required on the Government Gazette, it was AGREED that a paper should be presented to the Board on possibly writing to the Minister to postpone the effective dates for some or all of these pronouncements by one year.

Secretariat

Review of written and verbal responses and final pronouncements

- 7.18 The detailed written and verbal responses received, as well as the Project Group's proposed responses, were NOTED.
- 7.19 A member QUESTIONED if the National Treasury is accumulating specific areas of concern for departments to adopt Standards of GRAP, with reference to the comment raised by a department about the differences in the Modified Cash Standard and GRAP 25 in accounting for employee benefits. The representative of the National Treasury NOTED that they are assessing the impact on departments adopting Standards of GRAP. They have identified measurement to be a significant area of difference in accounting for employee benefits. However, the post-employment benefits for departments are a multi-employer plan and the liability would be accounted for by government centrally and would not impact each individual department.

- 7.20 The changes made to GRAP 25 and IGRAP 7 were REVIEWED by the Technical Committee, and the pronouncements were RECOMMENDED to the Board for approval.
- 7.21 A member ASKED about the history of the project and why it was necessary to amend GRAP 25. It was NOTED that the purpose of the review was to update GRAP 25 and align it to the latest international requirements. The impact of the changes is not as extensive as it was in IPSAS when IPSAS 39 was developed, because the Board had already made some decisions when GRAP 25 was originally developed that were only subsequently considered by the IPSASB, e.g. to not include the corridor approach.

Way forward

- 7.22 It was NOTED that the Board will consider the responses to ED 184 in March 2021 and if deemed appropriate, approve the changes to GRAP 25 and IGRAP 7. Thereafter, a submission will be made to the Minister of Finance to approve the proposed effective date of 1 April 2023.
- 7.23 Other initiatives as an outcome of the project were NOTED, including:
- The Secretariat will seek opportunities to inform stakeholders of the changes and will use various platforms and outreach mechanisms.
 - The Secretariat will inform the OAG of the changes so that the GRAP Accounting Guideline on GRAP 25 can be updated.
 - The Secretariat will communicate concerns relating to the budgeting process with the National Treasury.

Secretariat

Review of the Prefaces to the Standards of GRAP and related pronouncements

- 8.1 The Secretariat TABLED the following at the meeting:
- Memorandum from the Secretariat.
 - Project brief
 - [Revised] Preface to the Standards of GRAP.
 - Preface to the Interpretations to the Standards of GRAP.
 - Preface to the Directives.
 - [Revised] Introduction to the Standards of GRAP.

Issue #1: Whether a single Preface should be issued to replace the existing three Prefaces

- 8.2 The Secretariat CONSIDERED whether the three Prefaces for the Standards of GRAP, Directives and Interpretations of the Standards of GRAP should be retained or replaced with a single Preface.
- 8.3 The Secretariat PROPOSED that:
- A single comprehensive *Preface to the Standards of GRAP* should be issued to address the types of pronouncements that the Board is required to develop. This means that:

- the existing *Preface to the Standards of GRAP* should be revised and re-issued;
 - the *Prefaces to the Directives and Interpretations of the Standards of GRAP* should be withdrawn and relevant content should be relocated to the revised *Preface to the Standards of GRAP*; and
 - the revised *Preface to the Standards of GRAP* should not include content about standard setting and due process. This means that only information about the scope, authority and timing of the application of pronouncements should be retained.
- A new Board policy should be developed to document the standard setting and due process. The policy will be tabled at the September 2021 meeting as part of the annual review of policies.
- 8.4 The Technical Committee AGREED with the recommendation to merge the three Prefaces into a single comprehensive *Preface to the Standards of GRAP*, and to withdraw the other two Prefaces without public consultation.
- 8.5 The Technical Committee AGREED with the removal of information about standard setting and the Board's due process. However, members were of the view that a Board policy is not the most appropriate document to record the information as policies are not publicly available and are not subject to public consultation.
- 8.6 It was SUGGESTED that, instead of a Board policy, a document outlining the standard setting and due process (hereafter referred to as the "due process document") should be developed that can be accessed by stakeholders. Members noted that the Board is open to improving its standard setting processes, therefore the development of the due process document should be a transparent process that allows stakeholders to give input to its development.
- 8.7 The Technical Committee AGREED to the development of a due process document that will be subject to public consultation. The proposed document will be considered by the Board at the September 2021 meeting.

Issue #2: Whether or how the IPSASB's characteristics of public sector entities for which IPSASs are developed should be included in the Board's Prefaces

- 8.8 The Secretariat CONSIDERED whether, or how, the IPSASB's characteristics of public sector entities should be included in the Board's Prefaces.
- 8.9 It was NOTED that the IPSASB added these characteristics to its Preface, and the Board first considered the use of the characteristics when developing its Conceptual Framework. In the Conceptual Framework, the characteristics are used to explain that in the absence of a legislative requirement to apply Standards of GRAP, entities may consider these characteristics to determine whether the Standards are appropriate.
- 8.10 The Secretariat PROPOSED to include the characteristics in the revised Preface and that they should be used to set out for which entities Standards of GRAP are designed, rather than to only describe the limited circumstances as currently included in the Conceptual Framework.
- 8.11 The Technical Committee DISAGREED with the proposal.

- 8.12 It was NOTED that the PFMA sets out the Board's mandate to set Standards of GRAP for specific entities. Other legislation and regulations may also require entities to apply Standards of GRAP. In the absence of legislative requirements, entities may elect to apply the Standards of GRAP.
- 8.13 Members were CONCERNED that using the characteristics more broadly as proposed in the revised Preface expands the Board's mandate and may have unintended consequences on standard setting.
- 8.14 It was SUGGESTED that the use of the characteristics should be left in the Conceptual Framework. The revised Preface should include a reference to the Conceptual Framework explaining that in the absence of a legislative requirement, entities may apply the Standards of GRAP when they satisfy the characteristics of a public sector entity.
- 8.15 It was AGREED that the proposed due process document should clarify that the Board's legal mandate is to set Standards of GRAP for the entities identified in the PFMA..
- 8.16 Members AGREED that this issue should be flagged for discussion as part of the public consultation on the due process document.
- 8.17 It was AGREED that the proposed revision in paragraphs 2C and 4A should be deleted. A reference to the Conceptual Framework should be added in the revised Preface.

Issue #3: Whether to amend the Preface to the Standards of GRAP following the approval of the policy on Convergence with International Standards

- 8.18 The Secretariat CONSIDERED whether to amend the revised Preface to include the policy on *Convergence with International Standards*.
- 8.19 The Secretariat PROPOSED to retain three paragraphs from the existing Preface that deal with standard setting and convergence, and to amend them to reflect the policy requirements.
- 8.20 Members DISAGREED with the inclusion of content on standard setting in the context of convergence based on the overarching recommendation to remove content on standard setting and due process from the revised Preface. It was noted that the content is better suited in the due process document.
- 8.21 It was AGREED that paragraphs 8A to 8C should be deleted from the revised Preface.

Issue #4: Whether to include the basis for conclusions paragraphs from IPSAS or IFRS Standards in the Standards of GRAP

- 8.22 The Secretariat CONSIDERED whether to include the basis of conclusions from the international equivalents in the Standards of GRAP.
- 8.23 The Secretariat PROPOSED that the Board's policy for the development of basis for conclusions should be left unchanged. However, clarification should be added in the revised Preface and boilerplate introduction that, if a pronouncement is based on an international equivalent, it should be read in conjunction with the Board's basis for conclusions as well as that of the international equivalent. Other proposals included:

- Adding links on the ASB website to the basis for conclusions of the IPSASB.
 - Discussing with the OAG the possible inclusion of decisions by the IPSASB or IASB in arriving at the fundamental principles in their Standards, in the GRAP Accounting Guidelines.
- 8.24 The Technical Committee AGREED with the proposals. It was NOTED that it may be necessary to include a reference to the basis for conclusions of the international equivalent in each pronouncement, where applicable.
- 8.25 Members AGREED with the proposed revisions in the revised Preface and boilerplate introduction, subject to editorial amendments.

Issue #5: Whether public colleges applying Standards of GRAP should be included in boilerplate introduction to the ASB pronouncements

- 8.26 The Secretariat CONSIDERED whether public colleges applying Standards of GRAP should be included in the boilerplate introduction to the pronouncements.
- 8.27 In the light of the Technical Committee's deliberations on the Board's legal mandate to set Standards of GRAP for entities listed in the PFMA, members AGREED that no revisions should be made to the revised Preface and boilerplate introduction. No reference should be made to entities that apply Standards of GRAP based on other legislation and/or regulations as these are covered in paragraph 1.10 of the Conceptual Framework.

Issue #6: Other amendments to the boilerplate introduction to pronouncements

- 8.28 The Secretariat CONSIDERED the impact of the amendments to the revised Preface on the boilerplate introduction.
- 8.29 The Technical Committee AGREED with the proposal to issue a single introduction to the Standards of GRAP that is concise to avoid duplication of information between the introduction and the revised Preface.

Final review of the revised Preface

- 8.30 Subject to the editorial amendments, the Technical Committee AGREED in principle with the proposed revised Preface and boilerplate introduction.
- 8.31 It was AGREED that the proposed revisions should be discussed with a limited group of stakeholders representing the National Treasury, AGSA and other audit firms. This is to ensure a holistic review of the Preface is undertaken in light of the results of the review of Directive 12, in the next quarter.
- 8.32 As a consequence, the Technical Committee RECOMMENDED that the Board approves the revisions in principle at the March 2021 meeting, with final approval delayed until the June 2021 meeting.
- 8.33 Members also AGREED with the planned timelines for the publication of the revised Preface and withdrawal of the other two Prefaces in 2022/23.

EMERGING ISSUES

- 9.1 The Secretariat TABLED a memorandum at the meeting outlining a number of emerging issues.

Adoption of the Standards of GRAP

9.2 The Secretariat NOTED that requests were submitted by entities to the National Treasury to be exempted from the Standards of GRAP.

- Case #1 – A submission was made to allow the entity additional time to comply with the Standards of GRAP. The period requested was open-ended as it was indicated that compliance with the Standards would depend on available resources. The representative of the National Treasury indicated that open ended exemptions cannot be provided, and that an appropriate time period would need to be devised.
- Case #2 – The entity requested exemption from the application of the Standards of GRAP and to be allowed the continued application of IFRS Standards. The representative of the National Treasury indicated that there are potentially differing views about whether this continued exemption should be granted.

9.3 The Secretariat NOTED the progression in the audit outcomes of the CET colleges. The remaining issues relate primarily to the availability of historical data from the Departments of Education when they were responsible for the administration of the various centres, etc. that now comprise the CET colleges.

Application of the Standards of GRAP

9.4 The Secretariat EXPLAINED that it has for some time considered the appropriate accounting for entities that undertake “insurance-like” activities in the public sector. There has been a long-standing debate about whether these activities are insurance or social benefits. The entities affected include the RAF, UIF, Compensation Fund and the NHBRC. The history is as follows:

- In 2014, the social benefits project at the IPSASB was not progressing as planned. The Board discussed whether entities that operate schemes that are similar to insurance should apply IFRS 4 on *Insurance*. It was observed that IFRS 4 could be relevant, even though the schemes were generally not governed by individual contracts with beneficiaries. The Board agreed that a communication should be sent to these entities to indicate that they should consider whether IFRS 4 could be relevant to their activities and formulation of accounting policies.
- In 2016, the IPSASB recommenced its work on social benefits. In light of the new debates, another communication was sent to affected entities indicating that the status quo should remain, i.e. they should continue to apply their existing accounting policies until a Standard of GRAP on social benefits is approved.
- The RAF, UIF and Compensation Fund have been actively involved in the discussions on social benefits.

9.5 The Secretariat NOTED that one of the entities recently expressed their dissatisfaction with having to apply IFRS 4 and the fact that the ASB has taken a significant period of time to develop a Standard of GRAP on social benefits. A meeting was held with the entity to explain the process to develop the Standard as well as discussing the history of applying IFRS 4. A letter was also sent to the entity concerned.

- 9.6 The Secretariat EXPLAINED that similar issues seem to have been raised with the National Treasury by another entity. The Secretariat INDICATED that it may be appropriate to issue a letter to all entities explaining that they retain the status quo, i.e. continue applying their accounting policies and that changes should only be made if the requirements in GRAP 3 are met. While the current situation is not ideal, entities should not change their accounting policies from one period to the next when there is no clear accounting guidance on social benefits.
- 9.7 The Technical Committee AGREED with the Secretariat's position and that a communication with the other entities is appropriate. The Secretariat INDICATED that the letter will be premised on communicating the commencement of the social benefits project and again explaining the interim situation.

Secretariat

- 9.8 The Secretariat EXPLAINED that an issue was discussed between the OAG, the ARD unit at the AGSA and the Secretariat about whether constitutional institutions are controlled by national "government". A constitutional institution had recently sought legal advice on this matter as it relates to the provision of related party disclosures for entities that are under common control.
- 9.9 The Secretariat NOTED that the basis for conclusions in the Standards of GRAP on transfers of functions and mergers explains common control in the public sector. As the Standards of GRAP are themselves secondary legislation, the views expressed by the Board are authoritative and should be applied by entities.
- 9.10 The Technical Committee AGREED with the view expressed by the Secretariat. Some members OBSERVED that the entity previously provided the disclosures which are under dispute, and that the desire to no longer provide the disclosures may relate to a specific transaction rather than being conceptual.
- 9.11 The representative of the National Treasury INDICATED that the entity again pursued the matter with them. The OAG explained that the entity should contact the ASB for further resolution of the matter.
- 9.12 The Secretariat NOTED that because the Standards are clear, a simple letter explaining the status of the Standards and the requirements could be sent to the entity if the matter is referred by them.

Responding to the potential implementation of the Standards of GRAP

- 9.13 The Secretariat NOTED that the GRAP 104 "reference group" will be held on the 10th of March. Many stakeholders have expressed an interest to participate in the group. Feedback will be provided at the next meeting.

Secretariat

ADMINISTRATION

Work programme and monitoring performance

- 10.1 The Secretariat TABLED the updated work programme and projected performance for the fourth quarter and the year.

- 10.2 The Secretariat NOTED that there are no changes to the work programme, other than the discussion on the projects for 2022/23 that will take place at the next meeting to allow new members time to familiarise themselves with the ASB's work.
- 10.3 The Secretariat EXPLAINED that the performance for the year had been met with the exception of the following:
- The review of Directive 12 will only be completed in June 2021.
 - The remaining target from 2019/20 on the use of the cash flow statement has also not been met. The work on this project has been suspended pending the finalisation of the IPSASB's work on the revenue and expenses project.

INTERNATIONAL STANDARD-SETTING ACTIVITIES

- 11.1 The Secretariat NOTED that the IPSASB approved the following documents for comment at the December 2020 and February 2021 meetings:
- Proposed IPSAS on *Leases*.
 - Proposed IPSAS on *Non-Current Assets Held for Sale and Discontinued Operations*.
 - Amendments to IPSAS 17 on *Property, Plant and Equipment*.
 - Amendments to the Chapter on Measurement in the Conceptual Framework.
 - Proposed IPSAS on *Measurement*.
- 11.2 The Secretariat NOTED that the volume and complexity of the documents would make stakeholder engagement locally challenging.
- 11.3 It was AGREED that the dates for the education and roundtable discussions on leases would be shared with the members.

Secretariat

CLOSING REMARKS

Members were THANKED for their participation in the meeting. The meeting was ADJOURNED at 14:40.

Prepared by:	J Poggiolini	5 March 2021
Reviewed by:	C Braxton	8 March 2021
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