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MINUTES OF THE TECHNICAL COMMITTEE MEETING OF THE ACCOUNTING STANDARDS BOARD HELD VIRTUALLY ON 6 JULY 2023

CHAIRMAN D Dlamini

MEMBERS OF THE COMMITTEE

BOARD REPRESENTATIVES

A van der Burgh

C Braxton

REPRESENTATIVE OF THE AGSA

M Mentz

REPRESENTATIVE OF THE OAG

L Bodewig

REPRESENTATIVE OF THE ASB

J Poggiolini

EX OFFICIO

A Botha Project Manager

N Imam-Shah Project Manager

S Nondlazi Project Manager

E van der Westhuizen Technical Director

Board Members: Ms P Moalusi (Chair), Mr C Braxton, Ms W de Jager, Mr D Dlamini,
Mr S Khan, Ms A Muller, Ms N Themba, Mr A van der Burgh
Chief Executive Officer: Ms J Poggiolini Technical Director: Ms E van der Westhuizen

1. WELCOME AND APOLOGIES

Members were WELCOMED to the meeting.

2. CONFIRMATION OF THE AGENDA

The agenda was CONFIRMED without amendment.

3. DECLARATIONS OF INTERESTS

Members were ASKED to indicate if they had any interests to declare. Mr C Braxton INDICATED a standing declaration that he is a staff member of the IPSASB.

4. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meeting were TABLED and APPROVED, subject to the following amendment:

- Paragraph 8.5 - the ASB's Procedure Manual should be updated to indicate that academic research should be identified as part of the initial steps of a project should consider whether any relevant academic research exists.

Secretariat

5. MATTERS ARISING

5.1 The Secretariat TABLED a memorandum on the matters arising from previous meetings.

5.2 A member ASKED for clarity on the standing item for discussion on the composition of the Technical Committee. The Secretariat EXPLAINED that the Technical Committee should consider if any specific skills are needed on the Committee for a particular meeting, based on the items on the agenda.

5.3 A member NOTED that it is concerning that stakeholders are unaware of the effective date of Standards of GRAP, particularly GRAP 104 *Financial Instruments* (revised 2019). The member ASKED for possible reasons.

5.4 The Secretariat EXPLAINED that not all stakeholders may receive communication from the ASB and may not visit the website. It was NOTED that the Secretariat intends to coordinate communication and awareness efforts on GRAP 104 and other Standards with the AGSA and OAG.

Secretariat

5.5 A member SUPPORTED the progress with the language project and the plans to debrief with the trilateral parties after each audit cycle.

6. TECHNICAL MATTERS

PROPOSED EXPOSURE DRAFT ON THE STANDARD OF GRAP ON SOCIAL BENEFITS

6.1 The following were TABLED at the meeting:

- Memorandum from the Secretariat.
- Minutes of the project group meetings held in March and June 2023.
- Proposed Exposure Draft on the Standard of GRAP on *Social Benefits* (the ED).

- Proposed Exposure Draft on the Standard of GRAP on *Social Benefits* (mark-up from IPSAS 42) (for information purposes).
- Proposed Invitation to Comment.
- Project brief (for information purposes).

6.2 The Secretariat EXPLAINED the background, status of the project and the two areas where further work was done with the project groups to develop the ED.

Distinguishing social benefits by type and definitions

6.3 The Secretariat NOTED the considerations and proposals to distinguish types of social benefits as social security insurance benefits and social assistance benefits.

6.4 Members SUPPORTED the distinction in types of social benefits in principle.

Definition of social security insurance benefits

6.5 A member NOTED that the understandability of the definition of social security insurance benefits would be enhanced if the definition is more robust. This could be achieved by incorporating the supporting guidance in paragraph .10 into the definition. Members AGREED this change should be made to the ED.

Secretariat

6.6 It was CONSIDERED whether a definition for “social risk event” should be added. Members AGREED the existing definition of “social risk” encompasses “social risk event”.

6.7 Members NOTED concerns with the use of the term “insurance contracts” in the definition of social security insurance benefits, being that users of the ED may not be familiar with the term and may not understand it. Furthermore, the term may have negative connotations with certain accounting practices, and the extent to which the ED deals with insurance contracts may be unclear. Members CONSIDERED options to address the concerns, including adding a definition for “insurance contracts” to the ED or removing the term from the definition. Members AGREED the following:

- Do not add a definition for insurance contracts because the ED does not provide guidance on accounting for insurance contracts and the Secretariat established that local social benefits would be unable to apply IFRS 17 on *Insurance Contracts*. The definition is included in the application guidance, with related guidance on how social benefits differ from insurance contracts and the context within which the term is used in the ED.
- Retain the term in the definition of social security insurance benefits because the intention is to distinguish benefits based on how they are managed, with the management model for some benefits resembling an insurance management model. If the term is not used the same concept would need to be explained using different wording. The application guidance mentioned above sufficiently explains the term and the context within which the term is used in the ED.

Therefore, no amendment is needed to the ED.

6.8 A member ASKED whether the term could be shortened to remove “security” so that it is “social insurance benefits”. The Secretariat NOTED that both terms were derived

from the Government Finance Statistics Manual and using it in the same way may enhance understandability among stakeholders. Members AGREED to retain the term as is.

6.9 Members NOTED that the guidance in paragraph .12 that an inconclusive assessment of whether the definition of a social security insurance benefit is met may lead entities to inappropriately conclude that benefits are social assistance benefits. The Secretariat AGREED the paragraph may be redundant because of how social assistance benefits are defined, i.e. *all social benefits other than social security insurance benefits*. Furthermore, legislation determines the nature of benefits and how they should be managed. Members AGREED on the following:

- Paragraph .12 should be deleted.
- Entities' ability to appropriately classify social benefits should be considered as part of developing transitional arrangements for the ED.
- A specific matter for comment should be added to ask whether stakeholders foresee any practical challenges with classifying social benefits.

Secretariat

Characteristics of social assistance benefits

6.10 Members AGREED the characteristics should be clarified as follows:

- Add that social assistance benefits are assessed, managed and funded by government on an ongoing basis. Government policy determines the benefits and the affordability of the policy is reviewed and balanced with the societal need for social benefits. The entities providing the social benefits are responsible for managing the benefits with the resources allocated to them by government on an ongoing, often annual, basis.
- Add to the characteristic in paragraph .14(c) that there may be no direct relationship between the funding of the social benefits and the social benefits paid.

Secretariat

6.11 A member NOTED the wording in paragraph .15 may be unclear and misinterpreted. The reference to an entity assessing whether both the definitions are met, or no longer met, could lead an entity to conclude that a social benefit meets neither definition. The Secretariat AGREED to reword the paragraph to only refer to meeting the definition of social security insurance benefits. If this definition is not met, the benefit meets the definition of social assistance benefits.

Secretariat

Recognition of social benefits

6.12 The Secretariat NOTED the considerations and proposals to recognise social benefits as social security insurance benefits and social assistance benefits.

6.13 Members SUPPORTED the proposed recognition points for both types of social benefits in principle.

General guidance

- 6.14 A member QUESTIONED the reference to the qualitative characteristics and the Conceptual Framework in the core text in paragraph .16(b). A concern was RAISED that preparers may interpret the paragraph to require them to determine the appropriate recognition point themselves. It was AGREED that the paragraph should be amended to refer to “the present obligation can be measured reliably”. The rest of the text should be reviewed for consistency with this change.

Secretariat

- 6.15 To ensure preparers are clear on the recognition points in the ED, members AGREED that paragraphs .20 and .21 should be moved to after paragraph .16. The subheadings should be deleted.

Secretariat

- 6.16 Members CONSIDERED the need for paragraphs .17 to .19. It was AGREED that these paragraphs should be retained to provide clarity on the requirements.

- 6.17 A member NOTED a concern with paragraph AG26. referring to an entity having a legal obligation when the past event occurs, as that may not always be the case. It was AGREED that the paragraph should be amended to “When the past event occurs, the entity has a *present* obligation to provide social benefits”.

Secretariat

- 6.18 A member NOTED the different liabilities illustrated in the diagram in paragraph AG28. may be unclear and could be seen as illustrating how the measurement uncertainty is resolved over time as a liability moves through its lifecycle. It was NOTED that the diagram intends to illustrate the recognition points and boundaries of each of the “pools” of liabilities that an entity would have at each reporting date. It was AGREED that this explanation should be added to the text and that the diagram should be linked to the presentation and disclosure requirements of an entity’s social benefit liabilities at the reporting date.

Secretariat

- 6.19 A member ASKED whether the ED proposes to separately present the liabilities even though the calculations and actuarial valuations may not be done in that manner. The Secretariat RESPONDED that the ED requires the separate presentation of social security insurance benefits and social assistance benefits. The Application Guidance indicates that entities would likely present each of the “pools” of liabilities separately because their risks and characteristics differ. Furthermore, the calculations need to be done separately.

Review of the ED

- 6.20 A member ASKED whether the ED may need to include a further boundary point for the liabilities, being a point beyond which the social benefit liability is no longer reliably measurable, or would the boundary of substantive eligibility criteria negate the need for such a further boundary point. This may apply for social assistance benefits in particular. The Secretariat NOTED that this was not specifically considered in developing the ED and could be asked as a specific matter for comment. Members AGREED that the matter should be considered as part of developing transitional

provisions as it relates to the availability of information to reliably measure the liabilities proposed in the ED.

Secretariat

- 6.21 A member ASKED whether the requirement in paragraph .26 to recognise any difference between the actual social benefit payment and related estimated liability in surplus or deficit is practical on an individual social benefit payment level. It appears onerous. The Secretariat EXPLAINED that the calculation need not be done for each social benefit payment. The reconciliation of the social benefit liability includes deducting all payments and remeasuring the best estimate of the remaining liability at the reporting date; the difference would be recognised in surplus or deficit as part of the remeasurement. A member CONFIRMED the calculation need not be done individually and that an entity would have presented the short-term portion of the liability at each reporting period. Further clarity was SOUGHT on whether the presentation would be required separately for each “pool” of liabilities. The Secretariat NOTED that separate presentation of the difference between actual payments and estimated payments is not required for each “pool” of liabilities and that each entity would need to decide the appropriate level of information to provide to meet the disclosure objectives.
- 6.22 A member ASKED whether the term “unwinding of discount” in paragraph .27 is well understood outside of financial instruments. It was AGREED that the Secretariat should consider the phrases used in other Standards of GRAP.

Secretariat

- 6.23 Members CONSIDERED whether the scope diagram in paragraph AG7. should be amended to include “other applicable Standards of GRAP” with GRAP 19 on *Provisions, Contingent Liabilities and Contingent Assets* in the block on the right. Members AGREED paragraph .04 should be amended to remove the reference to “other applicable Standards of GRAP” as GRAP 19 is the appropriate Standard to apply.

Secretariat

- 6.24 It was AGREED that Example 2 paragraph IE5. should refer to beneficiaries instead of employees.

Secretariat

- 6.25 Members RECOMMENDED the ED to the Board for approval.

Secretariat

Invitation to comment

- 6.26 Members RECOMMENDED the Invitation to comment to the Board for approval, with the change agreed to SMC 2.

Secretariat

POST-IMPLEMENTATION REVIEW OF GRAP 108 ON STATUTORY RECEIVABLES

6.27 The following were TABLED at the meeting:

- Issues Paper.
- Proposed revisions to the Project brief.

6.28 The background to the GRAP 108 post-implementation review (hereafter “review”) was NOTED. It was NOTED that GRAP 108 was effective for periods commencing on or after 1 April 2019 for all entities applying GRAP Standards, except for trading entities who applied it from 1 April 2021. GRAP 108 provided a three year transitional relief for the classification and measurement of statutory receivables.

6.29 It was NOTED that the review is undertaken in two phases. Phase one was completed and identified issues in the environment through various means. Phase two involves public consultation. For this purpose, an Exposure Draft (ED) of the *Invitation to Participate in the Post-implementation Review of GRAP 108* will be developed.

Phase one of the review

6.30 It was NOTED that the Secretariat consulted the Office of the Accountant-General (OAG) and the Technical Audit Support (TAS) unit of the Auditor-General South Africa (AGSA) to understand the practical challenges with the application of GRAP 108.

6.31 It was NOTED that this phase also involved a desktop review of the 2021/2022 or 2020/2021 audited financial statements. The objective of the review was to understand how entities apply the GRAP 108 principles, and what information they present and disclose on statutory receivables. It was also NOTED that the accompanying audit reports were reviewed to obtain context for the financial statements and identify further issues.

6.32 It was NOTED that the number of financial statements reviewed was sufficient to identify pervasive issues relating to GRAP 108.

6.33 A member QUESTIONED how many of the entities included in the review applied the transitional relief, specifically for those whose 2020/21 financial statements were reviewed. It was NOTED that additional issues could be noted if these entities did not apply the transitional relief until 31 March 2022.

6.34 The Secretariat NOTED that a limited number of entities indicated that they applied the transitional relief. Entities that adopted the relief indicated this in their accounting policy. These entities did not provide any of the GRAP 108 disclosures.

6.35 It was AGREED that this comment should be highlighted in the memorandum to the Board.

Secretariat

Results from phase one

6.36 The results from phase one were NOTED. It was NOTED that the findings were pervasive and not specific to any province or type of entity.

6.37 The following general issues were NOTED from the desktop review:

- Use of boilerplate information in accounting policies and notes – entities used generic descriptions that included the definitions from GRAP 108 to formulate accounting policies and notes instead of explaining how the GRAP 108 principles apply to the entity’s specific circumstances.
- Application of materiality – entities do not consider materiality when providing information on statutory receivables in the financial statements as (a) a policy is included without any statutory receivables reflected in the financial statements; or (b) the notes and/or face of the statement of financial position reflect statutory receivables without an accounting policy.

6.38 The following specific issues on GRAP 108 were NOTED from the desktop review:

- Awareness of GRAP 108 being effective – some stakeholders do not have an accounting policy or relevant note disclosures despite having material statutory receivables.
- Classification of statutory receivables – entities are unsure when to classify a receivable as statutory or contractual, and when to account for the receivable using GRAP 108 or GRAP 104 on *Financial Instruments*. Different practices in classifying the VAT control account and “availability charge debtors” were also noted.
- Initial recognition and measurement – some entities incorrectly:
 - (a) recognise statutory receivables at fair value; and
 - (b) initially measure statutory receivables at amortised cost that approximate fair value.
- Presentation of statutory receivables – entities either:
 - (a) present statutory receivables as a separate line item on the face of the statement of financial position but the relevant policy and/or note does not indicate whether the statutory receivable arises from an exchange or non-exchange transaction; or
 - (b) classify receivables on the face of the statement of financial position as either exchange or non-exchange, but the relevant note does not explain which of the receivables are statutory or contractual in nature.
- Disclosure – minimum disclosure requirements are lacking to explain:
 - (a) general information, i.e. how the statutory receivable arises, how the transaction amount is determined, how interest and levies are charged and how and when the receivable is derecognised;
 - (b) the impairment, i.e. the basis used to assess for impairment, events and conditions that gave rise to impairment, the rate applied to estimate future cash flows, and key indicators and assumptions applied to assess impairment; and
 - (c) the collectability, i.e. an analysis of receivables past due at the reporting date that have, or have not been impaired and the factors considered to assess these.

- Transitional provisions – entities questioned:
 - (a) whether an entity is required to disclose an accounting policy that is aligned with GRAP 108 during the transitional period; and
 - (b) what information should be presented in the financial statements where transitional relief is applied.

- 6.39 No additional matters were NOTED from members.
- 6.40 It was NOTED that the Secretariat considered if the roadmap could move a quarter earlier. It was NOTED that at this stage, it is not anticipated.
- 6.41 It was NOTED that the ED will be considered by the Technical Committee and Board at their November and December 2023 meetings respectively.

Secretariat

ENHANCING THE APPLICATION OF THE STANDARDS OF GRAP

- 6.42 The Secretariat TABLED a memorandum and plan of activities for the project on “Enhancing the Application of the Standards of GRAP”.
- 6.43 The Technical Committee NOTED the activities undertaken in the quarter in accordance with the plan.

PROPOSED RESEARCH ACTIVITIES

- 6.44 The Secretariat PROVIDED a verbal update on the work of the Research Group.
- 6.45 It was NOTED that the Research Group will meet on 14 July 2023. The purpose of the meeting will be to discuss potential research topics, as well as the work of the Research Fellow at UNISA.

7. MATERIAL ON CLIMATE-RELATED DISCLOSURES

- 7.1 The Secretariat TABLED a memorandum.
- 7.2 The Secretariat NOTED that, although the proposal is to issue a staff document, there are strategic issues to consider as the publication of the document could signal intent to the sector about the ASB’s role.
- 7.3 Members AGREED that a non-authoritative paper issued by the Secretariat on climate related disclosures using the existing Standards of GRAP would be helpful.
- 7.4 It was AGREED that the document should clearly indicate the ASB’s mandate and role in providing guidance on the preparation of the financial statements.
- 7.5 A member OBSERVED that issuing the document may mean that the ASB is perceived as the “champion” of climate-related reporting.
- 7.6 Members AGREED that publishing the paper may help ensure preparers and users start the “journey” on the road to sustainability reporting.
- 7.7 The representative from the National Treasury EXPLAINED that the Public Finance Management Act (PFMA) may be amended in the next 18 months. Changes could potentially be made to the sections dealing with the ASB. This could include expanding the ASB’s mandate to broader financial reporting.

7.8 It was NOTED that there is a climate group in the Office of the Presidency. It might be useful to be in contact with them as the development of this process is started.

Secretariat

7.9 It was AGREED that a timeline would be agreed upon and for the document to be presented to the Technical Committee for input.

Secretariat

8. EMERGING RISKS

8.1 The Secretariat TABLED a memorandum at the meeting.

8.2 The Secretariat NOTED the following:

- The amendments to GRAP 1 on *Presentation of Financial Statements* related to going concern were submitted to the Minister of Finance to determine an effective date.
- The Secretariat agreed with the PSAF to develop a FAQ on biological assets. The timeline will be agreed with the Forum.
- The GRAP 104 Reference Group discussed issues with VAT receivables and agreed that comprehensive guidance is needed. The National Treasury will develop an Accounting Guideline on VAT and will consult the Reference Group in the development.

9. ADMINISTRATION

WORK PROGRAMME AND PROJECTED PERFORMANCE

9.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Work programme for 2023/24.
- Monitoring convergence with the IPSASB.

9.2 The Secretariat NOTED that the performance for the quarter was affected by the GRAP 104 Reference Group meeting that was postponed from June 2023 to July 2023. There will be no impact on the annual performance.

9.3 A member ASKED what the impact is on the ASB's work that the IPSASB did not re-expose their pronouncements on revenue, transfer expenses and measurement. The Secretariat NOTED that there would be no impact on the 2024-26 work programme:

- The ASB's project on measurement will commence in 2024/25 as planned.
- The ASB's project on transfer expenses will commence in 2025/26 as planned.
- The ASB's research project on the impact of the new revenue requirements on the local environment is subject to staff availability.

10. FEEDBACK FROM THE IPSASB

10.1 The Secretariat PROVIDED an oral update on the key highlights of the IPSASB's June 2023 meeting.

10.2 The comment letter submitted on IPSASB ED 84 on *Concessionary Leases and Right-Of-Use Assets In-Kind (Amendments to IPSAS 43 and IPSAS 23)* was NOTED.

11. GENERAL

No matters were RAISED for discussion.

12. FUTURE MEETINGS

It was NOTED that the next meeting is scheduled for 31 August 2023.

13. CLOSING

Members were THANKED for their participation in the meeting. The meeting was CLOSED at 13:00.

Prepared by:	E van der Westhuizen	12 July 2023
Reviewed by:	D Dlamini	17 July 2023
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