



ACCOUNTING STANDARDS BOARD

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MINUTES OF THE ASB'S BOARD MEETING HELD VIRTUALLY ON 25 JULY 2023

PRESENT:

CHAIR

P Moalusi

MEMBERS OF THE BOARD

C Braxton

W de Jager

D Dlamini

S Khan (left at 14:30)

A Muller (left at 11:30)

N Themba

A van der Burgh (Deputy-Chair)(joined at 09.40)

BY INVITATION

F Sinthumule (representative of the Audit Committee)

EX OFFICIO

J Poggiolini Chief Executive Officer

E van der Westhuizen Technical Director

A Botha Standard Setter

N Imam-Shah Standard Setter

S Nondlazi Standard Setter

S Peter Financial Manager

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 (Deputy-Chair)
Chief Executive Officer: Ms J Poggiolini Technical Director: Ms E van der Westhuizen

1. WELCOME AND APOLOGIES

Members were WELCOMED to the meeting. No apologies were NOTED.

2. CONFIRMATION OF AGENDA

The agenda was CONFIRMED without amendment. It was AGREED that risk management should be discussed in-committee.

3. ELECTION OF NEW DEPUTY-CHAIRPERSON

3.1 The Secretariat EXPLAINED that the Board elected a new Chairperson at its meeting on 25 May 2023. At the same meeting, the Board agreed that a Deputy-Chairperson should be elected at the next meeting. Nominations for potential candidates were D Dlamini, N Themba and A van der Burgh.

3.2 Ms Themba and Mr Dlamini INDICATED that they do not wish to stand for election. The Board ELECTED Mr van der Burgh as the Deputy-Chairperson.

4. MINUTES OF THE PREVIOUS MEETINGS

4.1 The Secretariat TABLED the minutes of the meetings held on 30 March 2023 and 25 May 2023.

4.2 The following amendments were AGREED to the minutes of the meeting held on 30 March 2023: paragraph 21.9 should explain that the liaison with the PEOU is about the governance structures, and 'the' should be deleted in paragraph 26.5.

4.3 It was AGREED that the spelling of "explained" in paragraph 5 of the minutes for 25 May 2023 should be corrected.

Secretariat

5. MATTERS ARISING

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

5.2 The Secretariat NOTED that undertaking a Monitoring and Evaluation Report was discussed at the last meeting. As there is no funding available for this activity either this year or over the MTEF period, the Secretariat ASKED members whether this should be pursued.

5.3 The Board AGREED that a request should be included in the Retention of Surplus submission to the National Treasury.

Secretariat

5.4 The Secretariat NOTED that there are potential changes to the timing of the filing of requests for Retention of Surplus based on a new Instruction Note to be issued. The Secretariat INDICATED that it will monitor this to ensure compliance with new deadlines.

Secretariat

5.5 The Secretariat NOTED that the Operations Committee agreed to issue a combined submission to the Minister on the replacement of all Board vacancies from 1 March 2024. Potential candidates would be discussed at this meeting.

TECHNICAL ACTIVITIES

6. FEEDBACK FROM THE TECHNICAL COMMITTEE

The Chairperson of the Technical Committee NOTED the feedback from the Technical Committee and the minutes of the meeting held on 6 July 2023.

7. SOCIAL BENEFITS

7.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Exposure Draft (ED) of a Proposed Standard of GRAP on *Social Benefits*.
- Invitation to Comment.
- Project brief (for information purposes).

7.2 The Secretariat NOTED background to the development of the ED and the two areas where there were challenges with developing the guidance.

Distinguishing types of social benefits

7.3 The Secretariat EXPLAINED the proposals to distinguish types of social benefits as social security insurance benefits and social assistance benefits.

7.4 A member ASKED whether individual entities would be required to assess benefits against the definitions and characteristics. The Secretariat CONFIRMED that each entity would need to make its own assessment about whether the benefits they provide are social benefits, and the type of social benefits they provide.

7.5 Members SHARED their concerns about entities applying judgement to distinguish benefits and the increased risk of disagreements between entities and auditors, including the ASB's potential involvement in these disputes. The Secretariat NOTED that support mechanisms from the ASB, OAG and AGSA can be put in place to assist entities and auditors with understanding and implementing the requirements. It was NOTED that the application of judgement is pervasive in the Standards of GRAP (e.g. the assessment of impairment of assets and classification of property as property, plant and equipment or investment property).

7.6 Members AGREED that the Secretariat should use the consultation period to identify all potential issues. Members NOTED that the application of judgement is part of the Standards of GRAP and the trilateral parties should collaborate to ensure there is a common understanding of the principles that require judgement, and create awareness of the need for proper documentation on the application of judgement.

Secretariat

7.7 Members SUPPORTED the distinction in social benefits as social security insurance benefits and social assistance benefits.

Secretariat

Recognition of social benefit liabilities

7.8 The Secretariat EXPLAINED the proposals to recognise liabilities for social security insurance benefits and social assistance benefits respectively.

7.9 A member NOTED that the diagram in the application guidance which illustrates the recognition points is difficult to understand. After the Secretariat's explanation of the guidance, members AGREED that the diagram should be moved to the non-

authoritative guidance and each liability should be explained separately. The separate presentation and disclosure of the liabilities should be illustrated further in the existing examples.

Secretariat

7.10 Members SUPPORTED the proposed recognition requirements for social security insurance benefits and social assistance benefits respectively.

Review of the ED

7.11 Members REVIEWED the ED page by page and APPROVED the ED for publication with the following amendments:

- Change references to social security benefits provided after the age of 65 to 60, in line with South African benefits.
- Change “defense” to “defence” throughout the ED.

Secretariat

Invitation to Comment

7.12 Members APPROVED the proposed Invitation to Comment, subject to the content being aligned to the changes agreed to in the ED.

Secretariat

8. POST-IMPLEMENTATION REVIEW OF GRAP 108 ON STATUTORY RECEIVABLES

8.1 The following documents were TABLED at the meeting:

- Memorandum from the Secretariat.
- Approved project brief (for information purposes).

8.2 The background to the GRAP 108 post-implementation review (hereafter “review”) was NOTED.

8.3 It was NOTED that the review has two phases. Phase one was completed, and identified application issues in the environment through various means. Phase two involves public consultation. For this purpose, an ED will be developed.

Phase one of the review

8.4 It was NOTED that phase one was a desktop review of a selection of entities’ financial statements to understand how they apply the principles in GRAP 108, 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. The Secretariat also consulted the OAG and the Technical Audit Support (TAS) unit of the Auditor-General South Africa (AGSA) to understand the practical application challenges with GRAP 108.

8.5 The Secretariat NOTED that the number of financial statements reviewed was sufficient to identify pervasive issues relating to GRAP 108.

8.6 A member QUESTIONED how many Schedule 2 and 3B entities apply Standards of GRAP, to understand the percentage of financial statements reviewed. It was AGREED that the Secretariat will share the information with members via email.

Secretariat

Results from phase one

- 8.7 The Secretariat NOTED the results from phase one. It was NOTED that these issues were pervasive and not specific to any province or type of entity.
- 8.8 The Secretariat NOTED the issues from the review, which included entities:
- (a) using boilerplate information in accounting policies and notes;
 - (b) not considering materiality when providing information on statutory receivables in the financial statements;
 - (c) not having accounting policies or relevant note disclosures despite having material statutory receivables;
 - (d) being 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*;
 - (e) incorrectly applying the initial recognition and measurement principles in GRAP 108;
 - (f) not clarifying in the policy and/or note whether a statutory receivable arises from an exchange or non-exchange transaction, or whether the receivables are statutory or contractual in nature; and
 - (g) failing to present the minimum information as required by GRAP 108.
- 8.9 No additional matters were NOTED from members.
- 8.10 It was NOTED that the ED (phase two) will be considered by the Technical Committee and Board at their November and December 2023 meetings respectively.

Secretariat

9. ENHANCING THE APPLICATION OF STANDARDS OF GRAP

- 9.1 The Secretariat TABLED a memorandum explaining the progress to develop material that enhances the application of the Standards of GRAP against the project plan.
- 9.2 Members NOTED the progress to date.

10. EMERGING ISSUES

- 10.1 The Secretariat TABLED an update on the emerging issues related to the implementation and application of the Standards of GRAP.
- 10.2 Members NOTED the update.

11. GRAP IMPLEMENTATION

- 11.1 The Accountant-General NOTED that a work programme was developed by their Technical Support Services (TSS) and was shared with the Secretariat. It was REQUESTED that the Secretariat and TSS co-ordinate their work programmes and work closely together.
- 11.2 It was NOTED that a range of new and revised guidance was issued, including:
- Updates to the GRAP Accounting Guidelines.
 - Regional Bulk Infrastructure Grants.
 - INEP Grants.

- Proposed changes to the Modified Cash Standard, for comment by 31 August 2023.
- 11.3 It was NOTED that the following guidance is in the process of being developed and/or revised:
- Guidance on Municipal Debt Relief.
 - Amendments to the Instruction on the Surrender of Surplus Funds.
 - Amendments to the treatment of unauthorised and irregular expenditure.
 - Updates to the GRAP Disclosure Checklist.
 - Guidance on the treatment of VAT in financial instrument transactions.
- 11.4 A member REQUESTED that preparers should be consulted about the changes to the Instruction Note on the Surrender of Surplus Funds, as well as any planned changes to the treatment of unauthorised and irregular expenditure.
- 11.5 As discussed in the item on social benefits, it was REQUESTED that the ASB and OAG collaborate on how to better deal with the application of judgement in the financial statements.

Secretariat/OAG

12. UPDATE FROM THE IPSASB

- 12.1 The Secretariat PROVIDED an update on the June 2023 IPSASB meeting.
- 12.2 The Secretariat TABLED the comment letter to the IPSASB on ED 84 on public sector specific leasing arrangements.

OPERATIONAL ACTIVITIES

13. FEEDBACK FROM THE OPERATIONS COMMITTEE (OPSCO)

- 13.1 The Chairperson of the OPSCO NOTED that three meetings were held in the quarter to deal primarily with the draft Annual Report for 31 March 2023, the MTEF submission for 2024-2027, and the outcome of the external audit.
- 13.2 The Chairperson of OPSCO HIGHLIGHTED a number of concerns with the functioning of the Audit Committee. It was NOTED that the Audit Committee met late in May 2023 to review the draft Annual Report, after difficulty in identifying a meeting date. The Committee only met the day before OPSCO. The Audit Committee Report was received for the first time after the Audit Committee meeting in July 2023 (received on Sunday 23 July). A number of errors were identified in the Report that required correction. The late receipt of the Audit Committee Report meant that members did not have an opportunity to adequately review it.
- 13.3 It was NOTED that OPSCO discussed whether the CEO should be a member of the Board. This discussion arose because of the legal case and questions being raised about the CEO's role in these matters. Identified Committee members will do preliminary work and report back to the October 2023 OPSCO.
- 13.4 The Chairperson of OPSCO EXPLAINED the difficulty experienced by the Secretariat to obtain quotations and the required documentation from potential bidders.

14. FEEDBACK FROM THE AUDIT COMMITTEE

- 14.1 Mr Sinthumule INTRODUCED himself and indicated that he is representing Ms Mzizi.
- 14.2 He INDICATED that the Audit Committee was not aware of the delegation to the OPSCO to approve the draft Annual Report in May 2023 and that resulted in the delay in finding a suitable meeting date.
- 14.3 It was NOTED that the Audit Report was unqualified with no findings. Mr Sinthumule INDICATED that the Committee congratulated management for their achievement.
- 14.4 Board members OBSERVED that there were errors in the external auditors' report, and QUESTIONED if the Audit Committee identified similar issues.
- 14.5 It was EXPLAINED that the external auditors' report was only received after the Audit Committee meeting. It was also EXPLAINED that it is not the Audit Committee's responsibility to quality check the report from the auditors.
- 14.6 The Secretariat NOTED that the comments from the CEO and members were sent to the external auditors for their review. The external auditors indicated that they would be able to send the amended report the following day.
- 14.7 It was AGREED that the updated audit report from the external auditors should be sent to members for their final review.
- 14.8 Board members ASKED about how the Audit Committee Report would be finalised to correct the errors identified in the Report.
- 14.9 The Secretariat NOTED that the comments were sent to the Chairperson of the Audit Committee. The Board REQUESTED commitment from the Audit Committee to finalise their Report as soon as possible.

15. APPROVAL OF ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2023

- 15.1 The Secretariat TABLED the audited Annual Report and Financial Statements for the year ended 31 March 2023.
- 15.2 Members were ASKED to send any editorial corrections to the Secretariat by midday on 28 July 2023.

Members

- 15.3 The Board APPROVED the Annual Report and Financial Statements.

16. BUDGET EXECUTION AND FORECAST FOR 2023/2024

- 16.1 The Secretariat TABLED a report outlining the budget execution for the first quarter, and the forecast from July 2023 to March 2024.
- 16.2 The Secretariat NOTED that a surplus was realised for the first quarter as a result of underspending on certain line items. The Secretariat EXPLAINED that it wished to reallocate underspending on certain line items to ICT support and the "Language Project".
- 16.3 The Board SUPPORTED the proposed reallocation.

Secretariat

17. QUARTERLY REPORT TO THE PEOU – 30 JUNE 2023

- 17.1 The Report to the PEOU for the quarter ended 30 June 2023 was TABLED.
- 17.2 It was NOTED that the report was discussed by both the OPSCO and Audit Committee.

17.3 It was AGREED that the performance information should include the indicators on managing the resources of the ASB effectively.

Secretariat

17.4 A member ASKED about the level of B-BBEE spending. It was OBSERVED that the Preferential Procurement Policy targeted 51% black owned suppliers.

18. PROCUREMENT

18.1 The Secretariat TABLED a schedule of deviations. It was NOTED that all the deviations relate to extending the time for submission of quotations.

18.2 A member ASKED that the amounts be added to the schedule. It was also OBSERVED that the documentation about the suppliers contacted, responses received, dates of publication and receipt, etc. should be robust enough to withstand audit scrutiny.

Secretariat

19. SUBMISSION ON MTEF 2024-2027

19.1 The Secretariat TABLED the MTEF submission for 2024-2027 sent to the National Treasury.

19.2 The Secretariat NOTED that the initial submission was discussed with the OPSCO. After submission to the National Treasury, the PEOU requested a reduction in the expenditure in 2026/2027.

19.3 The Secretariat INDICATED that they will monitor the process and provide feedback if needed.

Secretariat

20. REQUEST TO RETAIN SURPLUS FUNDS

20.1 The Secretariat TABLED the draft submission to the National Treasury on the Retention of Surplus Funds.

20.2 It was NOTED that the submission should be updated to request funding for the Monitoring and Evaluation Report. The Secretariat will need to get an indication from potential suppliers about the potential cost of this work.

Secretariat

20.3 The Board AGREED that once this change is effected, the letter should be submitted to the National Treasury.

Secretariat

21. NON-FINANCIAL PERFORMANCE

21.1 The Secretariat TABLED the non-financial performance at the meeting.

21.2 The Secretariat EXPLAINED that the performance target on the GRAP 104 Reference Group was not met. This is because the Reference Group meeting for June 2023 was moved to July 2023. This was to ensure that the service provider had sufficient time to prepare the meeting material, and many stakeholders were unavailable in June.

22. GOVERNANCE OF THE ASB

22.1 The Secretariat TABLED the following:

- The submission to the Acting Director-General on the ASB's proposed rationalisation of the governance structures.
- The process and potential nomination of candidates to fill vacancies on the Board from 1 March 2024.

22.2 The Secretariat NOTED that the submission was made in mid-July. It was REQUESTED that the Secretariat follow-up with the National Treasury on this submission in August 2023.

Secretariat

22.3 The Secretariat EXPLAINED that the OPSCO discussed the filling of vacancies on the Board and were of the view that a single submission to the Minister to fill all the vacancies on the Board from 1 March 2024 was more feasible than applying to fill two vacancies now.

22.4 The Secretariat NOTED that members were asked for potential nominations, which were included in the memorandum for the Board.

22.5 Board members SUPPORTED the process and agreed that the potential candidates should be contacted.

Secretariat

23. POLICIES

23.1 The Secretariat TABLED an updated Preferential Procurement Policy and EXPLAINED the rationale for the changes.

23.2 The Board APPROVED the revised policy.

24. STATUS OF THE LEGAL CASE

The Secretariat PROVIDED an update on the case. It was INDICATED that more information will be available after the 8th of August 2023.

25. CLOSING REMARKS

Members were THANKED for their participation. Members held an in-committee meeting to discuss risk management and remuneration. The meeting was adjourned at 15:15.

Prepared by: J Poggiolini

Reviewed by: P Moalusi

Approved: _____

Date: _____