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TO: MEMBERS OF THE TECHNICAL COMMITTEE
FROM: AMANDA BOTHA
SUBJECT: POST-IMPLEMENTATION REVIEW OF GRAP 103 *HERITAGE ASSETS*
DATE: 13 AUGUST 2019
FILE REF: ATTACHMENT 3(a)

BACKGROUND TO THE PROJECT

1. The Board agreed to undertake a post-implementation review of the Standard of GRAP on *Heritage Assets* (GRAP 103) in September 2018. The approved project brief (see attachment 3(c)) indicates that the objective of the review is to solicit feedback from preparers, users of financial statements and auditors, to determine if any:
 - (a) amendments are required to GRAP 103; and/or
 - (b) actions are required to address issues raised during the review, which could include
 - (i) developing an Interpretation of the Standards of GRAP;
 - (ii) issuing or revising Frequently Asked Questions (FAQs); and/or
 - (iii) engaging with the Office of the Accountant-General on developing additional guidance on GRAP 103, and/or undertaking other initiatives such as capacity building.
2. The first phase of the review involved a desktop review of a selection of financial statements of entities that apply GRAP 103. The second phase of the review involves receiving feedback from users, preparers and auditors through two mechanisms. The first involves the development of questionnaires to be completed by users and preparers, while the second mechanism involves direct consultations with these stakeholders. The questionnaires developed for users and preparers will form the basis for the direct consultations.

OBJECTIVE OF THIS MEMORANDUM

3. The objective of this memorandum to:
 - (a) provide feedback to the Technical Committee on the findings of the first phase of the review; and

Board Members: Mr V Ngobese (chair), Ms F Abba, Ms L Bodewig, Mr C Braxton, Mr K Hoosain,
Ms I Lubbe, Mr K Makwetu, Ms P Moalusi, Ms S Kubheke, Ms N Themba
Alternate: Ms M Sedikela
Chief Executive Officer: Ms E Swart, Technical Director: Ms J Poggiolini

- (b) present to the Technical Committee, the proposed *Invitation to Participate in the Post-implementation Review of the Standard of GRAP on Heritage Assets (GRAP 103)* for recommendation to the Board for its approval as an Exposure Draft, if deemed appropriate.

INITIAL PHASE OF THE REVIEW

Approach to undertaking the desktop review

4. Undertaking a desktop review was aimed at identifying the specific issues on which the Board needs respondent's views, so that these issues form the focus of the post-implementation review. The objective of the desktop review was therefore to understand how entities apply the principles in GRAP 103, and what information they disclose on heritage assets in their financial statements. The desktop review included a representative selection of financial statements of entities in all spheres of government that apply Standards of GRAP and were likely to have heritage assets. The selection also specifically included financial statements of entities that are part of the arts, culture, tourism, conservation and environmental clusters.
5. The review considered the audited financial statements for the 2017/2018 reporting period. Where the 2017/2018 financial statements were not available, the 2016/2017 audited financial statements were considered.
6. The table below summarises the number of entities' whose financial statements were included in the selection:

Type of entity	Total number of entities	Number of entities that apply GRAP 103	Number of entities included in sample	% of entities included in the sample
Constitutional Institutions	9	1	1	100%
National Public Entities	153	27	18	67%
Provincial Public Entities	56	25	18	72%
Municipalities	257	31	14	45%
Parliament and legislatures	10	9	8	89%
TVET Colleges	50	0	5	-

7. The Secretariat is of the view that the number of financial statements reviewed was sufficient to obtain an understanding of the information included on heritage assets in entities' financial statements. The observations noted from the desktop review were pervasive throughout the financial statements included in the selection. In the Secretariat's view, it is unlikely that any additional matters will be identified from reviewing additional financial statements as part of this phase of the project.

Results of the desktop review

8. The desktop review considered the information included in the accounting policy, the statement of financial position and/or related note disclosures for heritage assets. The disclosure notes for property, plant and equipment and investment property were also reviewed for information on heritage assets that have more than one purpose.

9. The table below summarises the observations noted from the desktop review.

Accounting policies	<p>Accounting policies were in many instances generic and included the wording from GRAP 103. For example:</p> <ul style="list-style-type: none"> - the definition of a heritage asset was included as part of the accounting policy, even though not all the features listed in the definition were relevant to the characteristics of heritage assets controlled by the entity; - the recognition principles for assets were part of the accounting policy without an explanation of how these principles apply to heritage assets recognised by the entity; and - impairment indicators, and the GRAP 103 principles on transfers to and from heritage assets, and compensation for heritage assets impaired, lost or given up, were included in the accounting policy, again without explaining how the principles apply to the entity specifically.
	<p>Accounting policies also provided information that were not applicable to the entity, or that were contradictory. For example, some accounting policies indicated that information on:</p> <ul style="list-style-type: none"> - repairs and maintenance are included in the heritage asset note, but no repairs or maintenance were undertaken for heritage assets in either the current, or previous reporting period; and - heritage assets not recognised are included in the heritage asset note, but this information was lacking from the disclosure note on heritage assets.
	<p>Some accounting policy did not clearly articulate the subsequent measurement basis and referred to both the cost model and the revaluation model as a subsequent measurement basis.</p>
Disclosures	<ul style="list-style-type: none"> - Where entities determined a deemed cost for the initial recognition of a heritage asset, the disclosure note included information on the qualifications of external valuers that determined the fair value. The disclosure notes, however, lacked information on (a) the method used to determine fair value; (b) significant assumptions applied in determining the fair value; and (c) the extent to which the fair value was determined by reference to observable prices in an active market. - Where the entity applied the revaluation method as its subsequent measurement basis, the disclosure notes did not explain the frequency of the revaluations. - Where it is known that heritage assets controlled by the entity may have an alternative use, no information was included in the disclosure note to explain the alternative use.

	<ul style="list-style-type: none"> - The disclosures on heritage assets on loan to, and from entities, also varied. Some disclosure notes only explained that arrangements are in place, while others provided detail information on the period of the arrangement and the parties with whom the arrangement are in place.
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MATTER FOR DISCUSSION #1

The Technical Committee is requested to:

- (a) **NOTE** the background to the approach for selecting financial statements included in the desktop review;
- (b) **INDICATE** whether it agrees with the Secretariat’s view on the sufficiency of the selection; and
- (c) **NOTE** results from the desktop review.

PROPOSED INVITATION TO PARTICIPATE IN THE POST-IMPLEMENTATION REVIEW OF THE STANDARD OF GRAP ON HERITAGE ASSETS (GRAP 103)

- 10. In addition to the specific issues noted from the desktop review, application matters noted from previous engagements with stakeholders were used to identify the specific issues on which the Board requests respondents’ views.
- 11. These issues are included in the proposed *Invitation to Participate in the Post-implementation Review of the Standard of GRAP on Heritage Assets (GRAP 103)*, that is included as attachment 3(b).

ACTIONS REQUESTED #2:

The Technical Committee is requested to:

- (a) **REVIEW** the proposed *Invitation to Participate in the Post-implementation Review of the Standard of GRAP on Heritage Assets (GRAP 103)*; and
- (b) if considered appropriate, **RECOMMEND** the proposed Invitation to the Board for its consideration.

CONSULTATION

- 12. In line with the current timetable, the Technical Committee and the Board will consider the comment on the post-implementation review in the third quarter of 2020. To ensure that all affected stakeholders are consulted as part of the Board’s due process, a longer comment period is recommended, i.e. the end of May 2020.

ACTIONS REQUESTED #3:

The Technical Committee is requested to **INDICATE** whether it agrees that comment should be requested by the end of May 2020.

NEXT STEPS

- 13. Following the recommendation from the Technical Committee, the Board will consider the proposed ITC and Exposure Draft at its meeting scheduled on the 19th of September 2019.

ACTIONS REQUESTED #4:

The Technical Committee is requested to **NOTE** the next steps.