



**Responses due by 15 September 2020**

## **ACCOUNTING STANDARDS BOARD**

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

**(ED 180)**



ED 180

## Commenting on this Invitation

The Accounting Standards Board (the Board) is undertaking a post-implementation review of the Standard of GRAP on *Heritage Assets* (GRAP 103). The review is undertaken to enable the Board to determine if any amendments are required to GRAP 103, and/or whether any other guidance should be issued to address the issues raised during the review.

The responses received from stakeholders will be used by the Secretariat of the Accounting Standards Board (hereafter referred to as “the Secretariat”) to make recommendations to the Board.

Responses to the Invitation should be submitted in writing so as to be received by **15 September 2020**. E-mail responses are preferred. Comment should be addressed to:

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## 1. Undertaking a post-implementation review of GRAP 103

- 1.1 The Minister of Finance determined the effective date for the Standard of GRAP on *Heritage Assets* (GRAP 103) to be for financial periods commencing on or after 1 April 2012. The Board granted entities a three-year transitional period for the recognition and measurement of heritage assets in their financial statements. The transitional period ended on 31 March 2015.
- 1.2 During the implementation of GRAP 103, several Frequently Asked Questions (FAQs) were developed by the Secretariat on heritage assets to assist entities in the preparation of their financial statements. The National Treasury also developed a GRAP Implementation Guideline to assist with the implementation of GRAP 103.
- 1.3 The Board agreed to undertake a post-implementation review of GRAP 103 with the objective to:
- (a) determine the extent to which GRAP 103 provides relevant and useful information to the users of the financial statements, and to identify what other information users require on heritage assets in the financial statements;
  - (b) understand the implementation challenges that preparers experience, and the extent to which these challenges may impair the consistent application of the requirements in GRAP 103; and/or
  - (c) assess if any amendments are required to GRAP 103, and/or whether other actions that may be required, such as:
    - (i) developing an Interpretation of the Standards of GRAP;
    - (ii) issuing or revising existing FAQs; and/or
    - (iii) engaging with the Office of the Accountant-General on developing additional guidance on GRAP 103 and/or to undertake other initiatives, such as capacity building.
- 1.4 The review will be undertaken in two phases. The first phase involved a desktop review of a selection of financial statements of entities that apply GRAP 103, while the second phase involves receiving feedback from users, preparers and auditors.

### Initial phase of the review

- 1.5 The objective of the desktop review was to understand how entities apply the principles in GRAP 103, and what information on heritage assets they disclose in their financial statements. 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. The financial statements were selected based on whether the entity has:
- (a) recognised heritage assets in its financial statements; and/or

(b) disclosed information about heritage assets in its financial statements when the recognition criteria were not met, and/or the heritage asset could not be reliably measured.

1.6 The desktop review focused on the accounting policy notes, the statement of financial position and/or the related note disclosures for heritage assets.

1.7 The results of the desktop review, along with the issues addressed in the FAQs and those identified through engagements with stakeholders, were used to identify the specific issues on which the Board needs respondents' views in the second phase of the review. These issues are summarised and explained below.

*(a) Accounting policies*

- (i) The accounting policies on heritage assets were in many instances generic and included the exact wording from GRAP 103. The accounting policies should explain the specific principles and bases applied by an entity, tailored to its specific circumstances.

For example, the definition of a heritage asset was included in the accounting policy, but not all the features listed in the heritage asset definition were relevant to the characteristics of the heritage assets controlled by the entity. Other accounting policies included the recognition principles for assets but did not indicate how the probable inflow of future economic benefits or service potential are attributable to the heritage assets recognised in its financial statements.

- (ii) Accounting policies provided information that is not applicable to the entity, or that is contradictory. For example, some accounting policies indicated that information on repairs and maintenance is included in the disclosure note on heritage assets. The disclosure note did not include such information as no repairs and maintenance were undertaken during the current, or in prior, reporting periods.

Accounting policies also indicated that the disclosure note on heritage assets provided information on heritage assets not recognised, but the disclosure note did not include such information.

- (iii) Some accounting policies do not clearly articulate the subsequent measurement bases applied in accounting for heritage assets, e.g. accounting policies referred to both the cost model and the revaluation model. It was unclear from the accounting policy what measurement basis was selected to subsequently measure heritage assets.

(b) *Classification*

- (i) It was questioned if heritage assets designated in terms of legislation or similar means should automatically be accounted for, and classified, as heritage assets in the entity's financial statements. It was also questioned whether all assets recognised as heritage assets in an entity's financial statements should be designated a heritage asset in terms of legislation or similar means.
- (ii) The classification of statues, sculptures, monuments, similar structures, replicas that duplicates the original, or assets that are erected to commemorate a particular person or event, as heritage assets was also questioned. A statue, sculpture, monument, similar structure or replica is accounted for as a heritage asset if the definition of a heritage asset is met and the item is held indefinitely for the benefit of present and future generations.
- (iii) A number of financial statements explained that items held for research are reflected in the asset register at a R1 value. An assessment was not undertaken to determine whether these items meet the definition of a heritage asset, and/or to determine an appropriate value for the items held.

(c) *Disclosures*

- (i) Where an entity applies the revaluation method as its subsequent measurement basis, certain disclosures on revalued heritage assets are required, such as:
  - the method used to determine the fair value;
  - significant assumptions applied in estimating the heritage asset's fair value; and
  - the extent to which the fair value was determined by reference to observable prices in an active market, recent market transactions or other valuation techniques.

In many instances it was found that these disclosures were lacking. Instead, disclosures were provided about the qualifications of the external valuers used to undertake the valuations, which is not required in GRAP 103.
- (ii) GRAP 103 requires that, where a reliable value cannot be determined to recognise the heritage asset, or a class of heritage assets, the notes to the financial statements should explain the reasons. Explanations included in a number of financial statements indicated that heritage assets could not be recognised, or a value could not be determined due to:
  - the nature of the heritage asset, without explaining what this entails;
  - restrictions of sale that impacts an entity's ability to sell the heritage asset;

- an entity not being the owner of the heritage asset;
- certain legislative requirements, without expanding on these; and
- items only being displayed.

The explanations included in the notes to the financial statements do not always clearly articulate the reasons why a heritage asset, or a class of heritage assets are not recognised, or why a reliable value could not be determined.

- (iii) GRAP 103 also requires information about the alternative use and the value for heritage assets that have alternative uses. Where an entity controls a heritage asset that is used for an alternative purpose, these disclosures were lacking from the financial statements.
- (iv) GRAP 103 allows an entity to provide useful and relevant information to the users on, among others, heritage assets that are borrowed from, or on loan to other entities. Some financial statements merely explained that arrangements are in place, without providing specific information on, for example, with whom such arrangements are in place, or the period for such arrangements.
- (v) GRAP 103 requires disclosure in the notes to the financial statements, of specific costs to repair and maintain heritage assets. Where heritage assets were repaired and maintained, the disclosure notes did not explain how these expenses were incurred or determined.

### **Second phase of review**

1.8 There are two mechanisms through which feedback is requested from users, preparers and auditors in this phase of the review. The first is through the completion of a questionnaire for users and preparers, while the second mechanism involves direct consultations with users and preparers.

#### ***Participation in the review through completing questionnaires***

1.9 The questionnaires developed for users and preparers, are aimed at obtaining views from stakeholders on specific application and other matters identified through the desktop review, previous engagements with stakeholders, and the FAQs. The questionnaire also includes general questions on the principles in GRAP 103.

1.10 Stakeholders who wants to participate in the review by completing a questionnaire, are required to respond to the appropriate questionnaire based on whether they are a user or a preparer of the financial statements.

- Users of financial statements include service recipients, resource providers, and their representatives. These stakeholders comprise lenders, creditors, donors,



others that provide resources on a voluntary basis, Parliament, legislatures, municipal councillors or other relevant authorities and taxpayers.

- Preparers are those responsible for preparing financial statements, or those that prepare information that is used in the financial statements.

1.11 The questionnaires to users and preparers are available on the ASB's website at <http://www.asb.co.za/ed-180/>. The closing date to receive inputs on the questionnaire is 15 September 2020.

***Participation in the review through engagements***

1.12 The Secretariat will also undertake a series of direct consultations with users, preparers and auditors in accordance with a stakeholder engagement plan. The questionnaires developed for users and preparers will form the basis of these engagements.

1.13 The consultations will be co-ordinated through various structures nationally, provincially and at a local government level, including the National Treasury, provincial treasuries, relevant departments, professional bodies and other institutions.

## 2. The review

### What is the objective of reporting on heritage assets?

- 2.1 Entities operating in the public sector have the primary objective of providing services that enhance or maintain the well-being of their citizens and constituents. As public sector entities are accountable to those that provide them with resources, and those that depend on them to use those resources for service delivery, accountability is the cornerstone of financial reporting.
- 2.2 Assets, such as buildings, land and infrastructure are key assets in the public sector that enables service delivery. Entities may also have a custodial responsibility over assets, such as heritage assets, that require them to hold, manage, and preserve these assets in terms of legislation or similar means.
- 2.3 In discharging its accountability and custodial responsibilities, an entity needs to provide information to users to enable them to make decisions on whether the assets were:
- used effectively and efficiently in delivering services; and/or
  - held, managed and preserved in accordance with legislative and other regulatory requirements applicable to the entity.
- 2.4 Heritage assets are assets that have cultural, environmental, historical, natural, scientific, technological or artistic significance, and are held indefinitely for the benefit or present and future generations. They may also be used by entities to deliver services or may have another use. To meet users' needs, information is included on heritage assets in the financial statements to enable users to assess, among others:
- costs associated with holding, managing, maintaining and preserving heritage assets;
  - changes in the value or condition of the heritage assets and their ability to be used in future, in the manner intended;
  - how, or if, heritage assets are consumed in meeting service delivery objectives;
  - amounts invested in new heritage assets, including heritage assets that are in the process of being constructed or developed;
  - heritage assets held for disposal;
  - restrictions on the title and disposal of the heritage assets;
  - transfers of heritage assets;
  - potential loss or forfeiture of heritage assets, particularly if these assets have been given as collateral for debt;
  - alternative uses of heritage assets, if any; and

- commitments to acquire heritage assets in the future, particularly as significant future resources would be needed for the acquisition of new heritage assets.

2.5 To assess whether the objective of reporting on heritage assets has been met, the Board has identified the issues below on which it requests respondents' views as part of this review.

### **Classification of heritage assets as a separate asset category**

2.6 GRAP 103 requires that heritage assets should be classified separately from other assets such as inventory, investment property, intangible assets or property, plant and equipment. If material, heritage assets are included as a separate line item on the face of the statement of financial position, along with related disclosures in notes to the financial statements.

2.7 The unique characteristics of heritage assets bring about specific measurement considerations that need to be considered when heritage assets are recognised in an entity's financial statements. These characteristics also impact the nature of information to be provided to the users of the financial statements. These characteristics include the following:

- Rather than to generate future economic benefits, or to use heritage assets for service delivery, heritage assets are held indefinitely for the benefit of present and future generations.
- The heritage asset's value may also appreciate over time due to cultural, environmental, educational, natural scientific, technological, artistic or historical significance.
- A heritage asset's value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in monetary terms.
- Heritage assets are often irreplaceable, are kept unencumbered, and are protected and preserved.

These characteristics warrant the classification of heritage assets as a separate asset category.

### *Classification of heritage assets designated in terms of legislation or similar means*

2.8 The objective of accounting for heritage assets is to reflect how an entity holds, manages and preserves the heritage assets entrusted to it.

2.9 Various legislative requirements are in place to set standards for the conservation and maintenance of South Africa's heritage resources. These legislative requirements require, among others, the compilation and maintenance of an inventory of national heritage resources, designated as such in legislation or similar means. The objective of having a complete inventory of national heritage resources, is to ensure that these

resources are protected and properly managed through an integrated system. The legislative requirements also establish a system of grading of places and objects before they can be classified as heritage resources to form part of the national heritage estate. In terms of this grading, some heritage resources will only become part of the national heritage estate if they are older than one hundred years.

- 2.10 Accounting aims to reflect how an entity uses its assets, whether to manage or preserve it for future generations, or for another use. As the objective differs between accounting for heritage assets and having a complete register of the national heritage resources as regulated in legislation or similar means, not all the assets designated as a heritage asset through legislation or similar means, may meet the definition of a heritage asset from an accounting perspective. Similarly, not all assets that are classified and accounted for as a heritage asset in accordance with GRAP 103, are designated as a heritage resource in terms of legislation or similar means.

*Classification of heritage assets with alternative uses*

- 2.11 Even though heritage assets are generally expected to be held indefinitely, managed and preserved, an entity may also use heritage assets for other activities or to provide services as part of its day-to-day operations. For example, a building has a significant historical association but is also used for administration purposes, and therefore needs to be preserved for current and future generations.
- 2.12 As the heritage asset is consumed when used for other activities or in providing services, there may be an impact on replacing some parts of the asset, or on the level and timing of maintenance required. Using a heritage asset for other activities or in providing services, may have measurement implications.
- 2.13 GRAP 103 therefore requires that, where a significant portion of an asset that meets the definition of a heritage asset, but is held for use in the production or supply of goods or services or for administration purposes (i.e. an alternative purpose), the asset should not be classified and accounted for as a heritage asset. Instead, the applicable Standard of GRAP is applied.
- 2.14 GRAP 103 requires that information about the use, and value of heritage asset that have alternative uses should be provided in the financial statements.
- 2.15 Paragraphs 2.44 to 2.55 further considers the accounting considerations for heritage assets that have alternative uses.

***Users perspective***

Users' views are required on the following aspect(s):

Question U1

Does classifying heritage assets as a separate asset category on the statement of financial position provide relevant information to hold entities accountable and to make decisions?

If yes, what decisions are made with this information?

If no, please provide reasons why it does not provide relevant information, and what information, in your view, would achieve the objectives of GRAP 103?

Question U2

Do you require information to be disclosed on assets that are:

- (a) designated as a heritage resource in terms of legislation or similar means, but which are not classified and accounted for as a heritage asset in accordance with GRAP 103; and/or
- (b) classified and accounted for as a heritage asset in accordance with GRAP 103, but which are not designated as a heritage resource in terms of legislation or similar means?

If yes, what decisions are made with this information?

Question U3

Do you agree that an entity should classify a heritage asset differently if it has an alternative use? Please explain your response.

***Preparers perspective***

Preparers' views are required on the following aspect(s):

Question P1

What challenges, if any, do you experience to:

- (a) assess if an asset meets the definition of a heritage asset; and
- (b) distinguish heritage assets from other categories of assets such as investment property, property, plant and equipment, etc.?

Please describe these challenges, and indicate how, in your view, they could be resolved.

Question P2

Do you agree that an entity should classify a heritage asset differently if it has an alternative use? Please explain your response.

**Determining an initial value for a heritage asset**

2.16 For an asset to be recognised in an entity's statement of financial position, an entity needs to control the item as a result of a past event, and future economic benefits or service potential should be expected to flow to the entity. The service potential embodied in a heritage asset arises from the preservation of the heritage asset for present and future generations.

- 2.17 Assets controlled by an entity, are reflected at a value in the statement in financial position. Reflecting an asset at a value is indicative of the asset's capacity to provide services that contribute to achieving the entity's objectives (service potential), and/or reflects its ability to generate cash inflows (future economic benefits). The service potential embodied in a heritage asset arises from the benefit to preserve the heritage asset for present and future generations.
- 2.18 Where a heritage asset is acquired by an entity, the initial cost is its purchase price, including import duties and non-refundable purchase taxes. Discounts and rebates are deducted from the purchase price, if applicable.
- 2.19 Where a heritage asset is received free of charge, or where a nominal amount is paid for a heritage asset, the initial cost of the asset is determined using fair value. Fair value comprises the amount at which a heritage asset could be acquired between willing, unrelated parties. These parties should be reasonably informed about the nature and characteristics of the heritage asset, its actual and potential uses, and the market conditions at the date of acquisition.
- 2.20 Other costs that are part of the initial cost of a heritage asset may include:
- (a) costs incurred to prepare the site for the heritage asset;
  - (b) installation and assembly costs; and/or
  - (c) employee costs incurred to initially assess the state of the heritage asset.
- 2.21 Where information about the historical cost of the heritage asset is not available on the date that the entity first applies GRAP 103, a fair value may be determined for that heritage asset. The fair value constitutes a surrogate value, or deemed cost, for the heritage asset on initial adoption of GRAP 103.
- 2.22 Where a reliable fair value cannot be determined to reflect the asset in the financial statements, either on the initial adoption of GRAP 103, or for ongoing acquisitions of heritage assets in non-exchange transactions, users require information as to why the heritage asset is not recognised. Reasons why a fair value cannot be determined include the unavailability of market determined prices or values, and alternative estimates of fair value being clearly unreliable.
- 2.23 GRAP 103 requires that the following disclosures should be provided in the financial statements, when a reliable value cannot initially be determined for the heritage asset:
- (a) the type and nature of the heritage asset for which a value could not be determined;
  - (b) an indication of why a value could not be determined; and
  - (c) when the heritage asset is disposed of, any compensation received.
- 2.24 Financial statements may also include information on the range of estimates within which the fair value is highly likely to lie.

***User's perspective***

Users' views are required on the following aspect(s):

**Question U4**

Where a reliable value for heritage assets cannot be determined, does the information disclosed in the notes to the financial statements on such heritage assets, provide relevant information to hold entities accountable and to make decisions?

If yes, what decisions are made with this information?

If no, please provide reasons why it does not provide relevant information, and indicate what information, in your view, will be relevant.

**Question U5**

Where a reliable value for heritage assets cannot be determined, should the entity, in your view, continue to re-assess if reliable information becomes available so that the heritage asset can be recognised in its financial statements?

Please explain your response.

***Preparer's perspective***

Preparers' views are required on the following aspect(s):

**Question P3**

What challenges have you experienced to:

- (a) initially determine a reliable value for heritage assets; and
- (b) disclose information about a heritage asset for which a reliable value could not be determined on initial recognition?

Please provide a description of these challenges, explain how they arise, and indicate how, in your view, they could be resolved.

**Question P4**

What were the reasons for not being able to determine a reliable value for a heritage asset on initial recognition (if applicable)?

**Question P5**

Where a reliable value for heritage assets cannot be determined, do you think that the financial statements provide useful information if the entity is not required to continuously re-assess if a fair value can be determined?

Please explain your response.

### **Determining a value for a heritage asset after recognition**

- 2.25 After initially determining a value for a heritage asset, an entity selects a measurement basis to determine the monetary value at which the heritage asset is recognised and carried in an entity's statement of financial position.
- 2.26 The measurement basis is applied to a class of heritage assets. A class of heritage assets comprises a grouping of heritage assets of a similar nature or function.
- 2.27 GRAP 103 allows a measurement choice between the cost model and the revaluation model.
- 2.28 The cost model requires an entity to reflect the heritage asset at its cost, less impairment (refer to paragraph 2.18 that explains how the cost of the heritage asset is determined). Impairment is a decrease in the value of the heritage asset.
- 2.29 Where an entity applies the cost model, GRAP 103 encourages the disclosure of the heritage asset's fair value if the carrying amount of the heritage asset (as reflected in the statement of financial position), materially differs from its fair value.
- 2.30 Under the revaluation model, the heritage asset is reflected at an amount for which the asset could be exchanged between knowledgeable, willing parties, in an arm's length transaction. The revaluation model requires an entity to measure the heritage asset at its fair value as at the date that the revaluation is undertaken, less impairment. When the heritage asset is specialised, a replacement cost may be used to determine a fair value.
- 2.31 When an entity applies the revaluation model to subsequently measure its heritage assets, it is not required to undertake a revaluation at each reporting date. The revaluation of a heritage asset is only required when the value of the heritage asset, as reflected in the statement of financial position, materially differs from the heritage asset's fair value as at the reporting date. The frequency of revaluations thus depends upon changes in the fair value of the heritage asset being revalued.
- 2.32 If market-determined prices or values are unavailable, and/or alternative estimates of fair value may be unreliable, GRAP 103 allows an entity to apply the cost model, until the fair value for the heritage asset can again be determined by reference to an active market. The following disclosures are required in terms of GRAP 103 under these circumstances:
- (a) the type and nature of the heritage asset;
  - (b) an indication of why the fair value could not be determined; and
  - (c) when the heritage asset is disposed of, the carrying value of the heritage asset at the time of sale along with information on the gain or loss recognised.

2.33 An entity may also disclose the range or estimates within which the fair value is likely to lie.

2.34 As soon as the fair value of the heritage asset can be determined by reference to an active market at a subsequent date, an entity is required to provide information in the notes to the financial statements on:

- (a) the type and nature of the heritage asset;
- (b) an explanation as to why fair value can be measured reliably; and
- (c) an explanation of the effect of the change in its financial statements.

***User's perspective***

Users' views are required on the following aspect(s):

Question U6

Has the choice of the measurement basis used by an entity to report heritage assets, affected your assessment of accountability, to make decisions about heritage assets, and/or to compare results across entities? Please explain your response.

Question U7

Where an entity applies the revaluation model as its measurement basis, but fair value, subsequent to the recognition of the heritage asset is unavailable and alternative estimates of fair value are unreliable, the entity measures the heritage asset using the cost model.

- (a) Does the information disclosed on heritage assets in the notes, while the fair value is unavailable and alternative estimates are unreliable, provide relevant information for accountability and to make decisions?
- (b) Does the information disclosed in the notes, when the fair value can subsequently be determined by reference to an active market and the cost model is no longer applied, provide relevant information to hold entities accountable and to make decisions?

If yes, what decisions are made with this information?

If no, please provide reasons why it does not provide relevant information, and indicate what information, in your view, will be relevant.

***Preparer's perspective***

Preparers' views are required on the following aspect(s):

Question P6

What subsequent measurement basis has been selected to measure heritage assets, and why was this basis selected?

Question P7

Are classes of heritage assets measured using different measurement bases? If yes, please explain why a different measurement basis is applied to different classes of heritage assets.

Question P8

Where the revaluation method is applied as a subsequent measurement basis:

- (a) what is the frequency of valuations undertaken;
- (b) what challenges, if any, do you experience to determine a value for the heritage asset on an ongoing basis. Please explain these challenges and indicate how, in your view, they could be resolved; and
- (c) have you ever considered applying Directive 11 on *Changes in Measurement Basis Following the Initial Adoption of Standards of GRAP* after selecting the revaluation method as your measurement basis? Please explain your response.

Question P9

Where an entity applies the revaluation model as its measurement basis, but fair value, subsequent to the recognition of the heritage asset is unavailable and alternative estimates of fair value are unreliable, the entity measures the heritage asset using the cost model.

What challenges, if any, have you experienced to disclose information about a heritage asset in the notes:

- (a) while the fair value is unavailable and alternative estimates are unreliable; and
- (b) when the fair value can subsequently be determined by reference to an active market and the cost model is no longer applied?

Please describe these challenges, and indicate where, in your view, these challenges may arise from.

Question P10

If applicable, what were the reasons for fair value being unavailable and alternative estimates being unreliable?

**Impairing heritage assets**

2.35 As heritage assets are preserved for present and future generations, they have an indefinite useful life with their value appreciating over time. Heritage assets are therefore not depreciated, but assessed for impairment at each reporting date (paragraph 2.44 to 2.55 considers the accounting considerations for heritage assets that have alternative uses).

2.36 A heritage asset is assessed for impairment to determine if there is a loss, or decline in its capacity to generate cash flows, or to provide service potential. The utility of the asset

to generate future economic benefits or to provide service potential may decrease due to, among others:

- (a) the value at which the heritage asset could be realised if sold or otherwise disposed of, has declined;
- (b) there being a decline in the demand for the specific heritage asset;
- (c) physical damage to the heritage asset, for example a flood; and/or
- (d) a deterioration in the condition of the heritage asset impacting the ability to preserve the heritage asset for future generations.

2.37 Calculating the heritage asset's remaining service potential, or the expected future cash flows to be derived from its continuing use or disposal, will provide information on:

- (a) whether the entity will still be able to use the heritage asset to generate future economic benefits or service potential;
- (b) whether the heritage asset should be sold;
- (c) the heritage asset's condition; and/or
- (d) whether the heritage asset is managed appropriately.

2.38 The Standards of GRAP on *Impairment of Non-cash-generating Assets* (GRAP 21) and *Impairment of Cash-generating Assets* (GRAP 26) require an entity to assess, at each reporting date, whether there is an indication that the heritage asset may be impaired.

2.39 A heritage asset will only be assessed for impairment if there is an indication that the heritage asset may be impaired. GRAP 103 lists, as a minimum, indicators that may be considered to assess if the heritage asset is impaired. The existence of impairment indicators will result in the entity comparing the carrying amount of the heritage asset, as reflected in its financial statements, to the higher of the asset's recoverable amount (for cash-generating assets), or recoverable service amount (for non-cash-generating assets). The recoverable amount, or recoverable service amount, is the higher of the asset's fair value less costs to sell, and its value in use.

2.40 For a non-cash-generating asset, value in use is the present value of the heritage asset's remaining service potential. Value in use for a cash-generating asset is the present value of the heritage asset's estimated future cash flows, that is expected to be derived from continuing use of the asset, or from its disposal.

2.41 If the carrying amount of the heritage asset is higher than its recoverable amount or recoverable service amount, the asset is impaired, and the loss in the value of the heritage asset is recognised either:

- (a) as an expense in the statement of financial performance; or

(b) where the heritage asset is measured using the revaluation model, in the statement of changes in net assets.

2.42 Where an entity applies the revaluation model, but is unable to reliably determine a fair value for the heritage asset, it also needs to assess the heritage asset for impairment.

2.43 GRAP 21 and GRAP 26 also require an entity to assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods, may no longer exist or may have decreased.

### ***User's perspective***

Users' views are required on the following aspect(s):

#### **Question U8**

Does reflecting a decrease in the value of the heritage asset as an impairment loss in the financial statements, provide useful information about the heritage asset, and is this information relevant to hold entities accountable and to make decisions?

If yes, what decisions are made with this information?

If no, please provide reasons why it does not provide relevant information, and indicate what information, in your view, will be relevant.

### ***Preparer's perspective***

Preparers' views are required on the following aspect(s):

#### **Question P11**

What challenges, if any, have you experienced to:

- (a) assess if a heritage asset is impaired, or that an impairment loss recognised in prior periods may no longer exist or has been decreased; and
- (b) calculate the recoverable amount, or the recoverable service amount?

Please describe these challenges, and indicate how, in your view, they could be resolved.

### **Heritage assets that have alternative uses**

2.44 As noted in paragraphs 2.11 and 2.12, some heritage assets may have an alternative use. The asset is only accounted for as a heritage asset in accordance with GRAP 103 if (a) the definition of a heritage asset is met; and (b) an insignificant portion of the asset is held for use in the production or supply of goods or services or for administration purposes.

*Insignificant portion of the heritage asset is held for an alternative use*

2.45 Where an insignificant portion of the heritage asset is held for use an alternative use, the entity applies GRAP 103 (see paragraphs 2.27 to 2.34).

*Significant portion of the heritage asset is held for an alternative use*

- 2.46 Where a significant portion of the heritage asset is held for an alternative use, the heritage asset is not accounted for in accordance with GRAP 103, but in terms of the applicable Standard of GRAP.
- 2.47 Where the heritage asset is accounted as property, plant and equipment, the cost model or the revaluation model is applied as a subsequent measurement basis in accordance with the requirements in the Standard of GRAP on *Property, Plant and Equipment* (GRAP 17). Where the asset is accounted for as investment property, an entity can either apply the fair value model, or the cost model to account for the heritage asset in accordance with the Standard of GRAP on *Investment Property* (GRAP 16).
- 2.48 Where an entity applies the revaluation model in GRAP 17 to measure a heritage asset with an alternative use, the value of the heritage asset reflects both the asset's heritage value, and the value obtained from its alternative use.
- 2.49 Users of financial statements also require information on the heritage asset's alternative use and its value. This information should be disclosed in the notes to the financial statements as required by GRAP 103. Providing information on the heritage asset's alternative use will indicate the extent to which the entity uses the heritage asset for other activities or to provide other services, and how, if at all, this may impact the preservation of the heritage asset for current and future generations.
- 2.50 Under the cost model (GRAP 16 and GRAP 17) and the revaluation model (GRAP 17), an entity needs to depreciate the heritage asset to reflect the consumption of the asset during a particular reporting period, in addition to considering impairment (as discussed in paragraphs 2.35 to 2.43). The reduction in the value of the heritage asset through its consumption during a particular reporting period, is reflected as an expense in the statement of financial performance.
- 2.51 Depreciation is calculated based on the period over which the heritage asset is expected to be available for use by an entity (useful life). An entity selects a depreciation method and allocates the depreciable amount of the heritage asset over its useful life in a manner that best reflects the pattern in which the heritage asset's future economic benefits or service potential are expected to be consumed by the entity. The depreciable amount of the heritage asset comprises its cost, less the estimated amount that the entity expects to obtain from disposing the heritage asset at the end of its useful life (residual value), if any.
- 2.52 When a heritage asset consists of a number of components, the cost of the heritage asset needs to be allocated separately to each significant component. The useful life of each component is then determined separately, as the components are depreciated according to the different useful lives.

- 2.53 At each reporting date, management assesses whether its expectations about the period over which the heritage asset will be consumed remains, appropriate. Management also needs to assess if its expectations about the residual value, if applicable, have changed. If there is an indication that the period is no longer appropriate, or that the residual value has changed, management needs to reconsider:
- (a) the period over which the heritage asset is expected to be available for use by an entity to generate future economic benefits or service potential; and/or
  - (b) the heritage asset's residual value.
- 2.54 Depreciation provides information on how the heritage asset was consumed during a reporting period, and if the heritage asset will continue to be available in future to:
- (a) provide services, or to generate future economic benefits; and/or
  - (b) be preserved for current and future generations.
- 2.55 Information is also available to management on whether the heritage asset:
- (a) requires any maintenance; or
  - (b) should not have an alternative use as it impacts or impairs the entity's ability to preserve the heritage asset for current and future generations.

***User's perspective***

Users' views are required on the following aspect(s):

**Question U9**

Does presenting information on a heritage asset with an alternative use provide relevant information to hold entities accountable and to make decisions?

If yes, what decisions are made with this information?

If no, please provide reasons why it does not provide relevant information, and indicate what information, in your view, will be relevant.

**Question U10**

Does the depreciation of heritage assets held for another purpose assist in making assessments of, and decisions about, the use, management and condition of the heritage asset?

If yes, what information, in particular, has been useful?

If no, please provide reasons why it does not provide relevant information, and indicate what information, in your view, will be relevant.

***Preparer's perspective***

Preparers' views are required on the following aspect(s):

Question P12

What challenges, if any, do you experience to assess whether a significant portion of the asset meets the definition of a heritage asset, or whether the asset should be classified and accounted for in accordance with another Standard of GRAP?

Please describe these challenges, and indicate how, in your view, they could be resolved.

Question P13

Do you agree that a heritage asset that has an alternative use should be accounted for in accordance with another Standard of GRAP? Please explain your response.

Question P14

Do you agree that a heritage asset that has an alternative use should be depreciated? Please explain your response.

Question P15

What depreciation method do you apply to depreciate heritage assets that are accounted for in accordance with another Standard of GRAP?

Please explain why this depreciation method is applied.

Question P16

For heritage assets that are accounted for in accordance with another Standard of GRAP, what challenges, if any, do you experience to determine the

- (a) useful life;
- (b) residual value; and
- (c) depreciation method

for purposes of depreciating the heritage asset?

Please describe these challenges, and indicate how, in your view, they could be resolved.

**Disclosure of heritage assets in the financial statements**

2.56 Various disclosures are required on heritage assets in GRAP 103. Where a heritage asset is accounted for in accordance with another Standard of GRAP, the disclosure requirements in those Standards also need to be considered. These disclosures provide information about heritage assets that is useful to users for accountability purposes and for decision-making. These disclosures include the following:

- (a) The basis used to measure heritage assets, and any significant assumptions and judgements applied in estimating the heritage asset's fair value, where appropriate. Information is also required on the impairment of heritage assets. Where heritage assets are accounted for in accordance with another Standard of GRAP, information on the depreciation method, the depreciation rate and the useful life should also be disclosed.

This disclosure of information assists users to understand how heritage asset are accounted for, the effect of assumptions and judgements on amounts recognised in the financial statements, and enables comparisons between entities. Information is also available on the condition of the heritage asset, how the heritage asset was consumed during a reporting period, and whether the asset will continue to be available in future.

- (b) Actual disposals of heritage assets – this information enables users to consider how the disposal of heritage assets used or held may impact its ability to fulfil its mandate in future.
- (c) Actual and planned acquisitions of heritage assets – this information assists to understand how an entity utilises its resources in making new investments in assets. Information is also available on commitments to acquire heritage assets at a future date.
- (d) Heritage assets pledged as security for debt – information is provided on the risk of potential losses of heritage assets that should be preserved for current and future generations, particularly if heritage assets have been given as collateral for debt.
- (e) Repairs and maintenance spent on heritage assets – this information will inform the extent to which funding is used to restore the heritage asset to enable an entity to preserve it for current and future generations, and to maintain and preserve the heritage asset on an on-going basis. Amounts spent to repair and maintain heritage assets can also indicate whether the heritage asset is properly managed and maintained.
- (f) Heritage assets in the process of being constructed or developed – this disclosure provides information on heritage assets under construction and development. As information is required on the development and construction of heritage assets that take significantly longer to complete than expected, informed project and asset management decisions can be taken.

2.57 Some disclosures are also encouraged in GRAP 103. In addition to the encouraged disclosures mentioned previously, entities disclosure information on heritage assets borrowed from, or on loan to other entities. This information may also provide useful information on increases in costs associated with holding and safeguarding heritage assets.

***User's perspective***

Users' views are required on the following aspect(s):

Question U11

Is the information provided in the financial statements on heritage assets, sufficient to hold entities accountable and to make decisions?

If yes, what decisions are made with this information?

If no, please provide reasons why it does not provide relevant information, and indicate what information, in your view, will be relevant.

Question U12

What other information on heritage assets will you find relevant for accountability and to make decisions? Please explain why this information will be relevant.

***Preparer's perspective***

Preparers' views are required on the following aspect(s):

Question P17

What challenges do you experience to provide the disclosures on heritage assets as required by GRAP 103 and/or other Standards of GRAP?

Please describe these challenges and indicate how, in your view, they could be resolved.

Question P18

What other information on heritage assets do you think users will find relevant for accountability and to make decisions. Please explain your response.