

Post-implementation Reviews (PIR)





Disclaimer

The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.



Improving the quality of financial statements



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**We need to improve
the quality of the
financial
statements....**





What we see...

- Financial statements seen as an exercise in compliance.
- Requirements in the Standards used as checklists.
- Immaterial and/or irrelevant information 'clutters' the financial statements.





What we see...

- Generic, standardised disclosure provided.
- Repeat the principles in the Standards in the accounting policies rather than explain how the principles in the Standards were applied.



We need to go back to the basics...





Back to the basics...

- Ensure only relevant information is included in the financial statements.
- Materiality is used as a constraint to determine what is relevant.
- Material information will affect users in making decisions and holding entities accountable.
- Apply ASB's Guideline on *The Application of Materiality to Financial Statements*.





About the Guideline

- Who are your users?
- What decisions do they take and what information do they need?
- What is material, both quantitatively and qualitatively?





About the Guideline

- Formulate accounting policies, presentation and disclosures using Standards of GRAP based on what is material.
- Document considerations, discuss with oversight and similar structures
- Materiality considered at the start of the year and throughout – not just at year end!
- Does not deal with ‘materiality’ in legislation.



Review of GRAP 103

Heritage Assets





Background to GRAP 103

- GRAP 103 applicable to recognition, measurement and disclosure of heritage assets
- Effective for financial periods commencing on or after 1 April 2012
- Three year transition for recognition and measurement → 31 March 2015





Why the Board is undertaking a PIR

- Board agreed to undertake a PIR of GRAP 103:
 - determine extent to which GRAP 103 provides relevant and useful info to users
 - identify what other information users require on heritage assets (h/a)
 - understand preparers' implementation challenges and whether these impair application of GRAP 103
 - assess if amendments or other actions are required





How PIR will be undertaken

Phase #1 Desktop review of a selection of f/s

- understand how GRAP 103 is applied and what information is disclosed
- considered 2017/2018 audited f/s for those that recognise or disclose information on h/a
- considered past issues raised with the Secretariat
- results of desktop review identified issues on which views are requested

Phase #2 Feedback from stakeholders

- completion of questionnaire and direct consultations



Phase #1

Desktop review of a selection of financial statements





Issues noted phase #1

- **Accounting policies**

- generic policies that include GRAP 103 wording
- contradicting policies and/or policies not applicable to entity
- no clear subsequent measurement basis

- **Classification**

- designation of h/a in legislation or similar means – should these h/a automatically be classified as h/a in financial statements
- classification of statues, sculptures, monuments, replicas, assets erected to commemorate person/event
- items held for research reflected at R1 value



Issues noted phase #1

- **Disclosures**

- disclosures on revalued h/a not complete e.g. method, assumptions, extent to which reference was made to observable prices in active market
- disclosures do not explain when reliable value cannot be determined to recognise h/a e.g. due to nature of assets, restrictions on sale, items only displayed





Issues noted phase #1

- **Disclosures** (continued)
 - no info on h/a that have alternative use
 - info on h/a borrowed from and on loan varied
 - disclosure of repairs and maintenance did not specify specific costs and/or how expenses incurred

Phase #2

Feedback from stakeholders through completion of questionnaire and direct consultations





Questionnaire

- Questionnaire to be completed by users & preparers
 - users** – include service recipients, resource providers, and their representatives → lenders, creditors, donors, others that provide resources on a voluntary basis, Parliament, legislatures, municipal councils, other relevant authorities and taxpayers
 - preparers** – those responsible for preparing f/s or those that prepare information that is used in f/s





Objective of reporting on h/a

- Assets are key to enable service delivery **but** entities may also have a custodial responsibility
- In discharging accountability and custodial responsibilities entities need to provide information to enable decisions on whether assets were:
 - used effectively and efficiently in delivering services; and/or
 - held, managed and preserved in accordance with legislative and other regulatory requirements





Objective of reporting on h/a

Information on h/a will enable users to assess:

- costs associated with holding, managing, maintaining and preserving h/a
- changes in value or condition and ability to use h/a in future in the manner intended
- how, or if, h/a are consumed in meeting service delivery objectives
- amounts invested in new h/a (incl. constructed or developed)
- h/a held for disposal





Objective of reporting on h/a

Information on h/a will enable users to assess (continued)

- restrictions on the title and disposal of h/a
- transfers of h/a
- potential loss or forfeiture of h/a → given as collateral for debt
- alternative uses of h/a (if any)
- commitments to acquire h/a and significant future resources needed





Objective of reporting on h/a

To assess whether objective of reporting on h/a has been met, input is requested from stakeholders on:

- (a) Classification of h/a
- (b) Determining an initial value for h/a
- (c) Determining a value for h/a after recognition
- (d) Impairing h/a
- (e) H/a with alternative uses
- (f) Disclosure of h/a in financial statements



Classification of heritage assets



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GRAP 103 requirements

- H/a separately classified from other assets
 - separate line item on face of financial statement of position (if material)
- Reasons for separate classification
 - unique characteristics result in specific measurement considerations
 - nature of information provided to users are different





Questions to preparers

Question P1

What challenges, if any, do you experience to:

- assess if an asset meets the definition of a h/a; and
- distinguish h/a from other categories of assets such as investment property, property, plant and equipment?

Describe these and indicate how they could be resolved





Classification of h/a

- Classification of h/a **designated its legislation or similar means**
 - legislative requirements require compilation and maintenance of national heritage inventory
 - accounting requirements reflect how h/a used and whether it should be preserved or used differently
 - thus NOT all h/a designated in legislation will be accounted for as h/a and vice versa





Classification of h/a

- Classification of h/a with **alternative uses**
 - h/a may also be used for other activities or provide services in addition to preserve or hold indefinitely
 - Alternative use impacts measurement and/or level and timing of maintenance required
 - H/a accounted for its applicable GRAP if
 - (a) significant portion meets def of h/a but
 - (b) held for use in production or supply of goods/services or admin purpose





Questions to preparers

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





GRAP 103 requirements

- H/a will be recognised when control is demonstrated
- reflect at value in f/s if control → indication of asset's capacity to provide services contributing to SP or FEB
- initial recognition at
 - cost – purchase price incl. import duties, taxes and excl. discount and rebates; or
 - fair value – when received free of charge or nominal amount
- preparation of site, installation and assembly costs and employee costs to assess h/a part of initial cost





GRAP 103 requirements

- Fair value (deemed cost) may be determined when GRAP 103 first applied – no cost records
- Acquisitions at no or nominal value – fair value
- When fair value cannot be determined on initial recognition or for ongoing acquisitions then disclose:
 - type and nature of h/a
 - reasons or explanation of why
 - when disposed – compensation received
 - may include information on range of fair value estimates





Questions to preparers

Question P3

What challenges have you experienced to:

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

Provide a description of these challenges, explain how they arise, and indicate how they could be resolved





Questions to preparers

Question P4

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





Questions to preparers

Question P5

Where a reliable value for h/a cannot be determined, do you think that f/s provide useful information if an entity is not required to continuously re-assess if a fair value can be determined?

Explain your response



Determining a value for a heritage asset after recognition





GRAP 103 requirements

- Select measurement bases per class of h/a:
 - cost model or revaluation model
- Revaluation method as subsequent measurement basis:
 - reflect h/a at its fair value as at date of revaluation
 - specialised h/a – replacement cost
 - frequency depends of changes in fair value
- If market-determined prices/values unavailable and no alternative estimates to determine fair value → cost model





GRAP 103 requirements

- Specific disclosures where cost model is applied in absence of fair value:
 - type and nature of h/a
 - reasons or explanation of why
 - when disposed – carrying value of h/a at time of sale and gain or loss
 - may include information on range of fair value estimates





GRAP 103 requirements

- When fair value becomes available subsequent then specific disclosures are required:
 - type and nature of h/a
 - reasons or explanation of why fair value can be measured reliably
 - explain effect of change in f/s





Questions to preparers

Question P6

What subsequent measurement basis has been selected to measure h/a and why?

Question P7

Are classes of h/a measured using different measurement bases? If yes, explain why





Questions to preparers

Question P8

Where revaluation method is applied as a subsequent measurement basis:

- (a) what is frequency of valuations undertaken;
- (b) what challenges (if any) do you experience to determine a value for h/a on an ongoing basis;
(explain these challenges and indicate how to resolve)
- (c) ever considered application of Directive 11 after selecting revaluation method - explain response





Questions to preparers

Question P9

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





Questions to preparers

Question P9 (continued)

What challenges have you experienced to disclose information about h/a in notes:

- (a) while fair value is unavailable and alternative estimates are unreliable; and
- (b) when fair value can subsequently be determined and cost model is no longer applied?

Describe these challenges, and indicate where these challenges may arise from





Questions to preparers

Question P10

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



Impairing heritage assets



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GRAP 103 requirements

- Why impairment?
 - to determine if there is a loss or decline in h/a capacity to generate cash flows or to provide service potential
 - eg value to sell decreased, decline in demand, physical damage, condition deteriorates





GRAP 103 requirements

- Calculation of h/a remaining SP or ability to generate FEB when impaired provide information on:
 - will entity be able to use h/a
 - should h/a be sold
 - condition of h/a
 - is h/a managed properly
- GRAP 21 or GRAP 26 applied to assess if impairment indication exist or if prior period impairment should be reversed





GRAP 103 requirements

- H/a impaired when carrying amount is higher than recoverable amount or recoverable service amount
 - recoverable amount or recoverable service amount – higher of h/a fair value less costs to sell and h/a value in use
 - value in use – present value of h/a remaining SP or estimated future cash flows



Questions to preparers

Question P11

What challenges, if any, have you experienced to:

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

Describe these challenges, and indicate how they could be resolved



Heritage assets that have alternative uses





GRAP 103 requirements

- If insignificant portion of h/a is held for alternative use = GRAP 103 is applied
- Where a significant portion of h/a is held for alternative use = applicable GRAP (GRAP 16 or GRAP 17)
- GRAP 16 cost model → consider depreciation
- GRAP 17 → consider depreciation and if revaluation method applied then value of h/a reflect its heritage value and alternative use





GRAP 103 requirements

Depreciation:

- provides info on consumption of h/a during a period – recognised as expense
- calculate based over period that h/a is expected to be available for use
- allocate depreciable amount over useful life - pattern that best reflects how FEB or SP will be consumed





GRAP 103 requirements

Depreciation (continued):

- if h/a consists of number of components – allocate significant components and depreciate according to different useful lives
- assess changes at each reporting date of (a) expectations of period of consumption or (b) residual value





Questions to preparers

Question P12

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

Describe these challenges, and indicate how they could be resolved





Questions to preparers

Question P13

Do you agree that h/a with alternative use should be accounted for in accordance with another Standard of GRAP?

Explain your response





Questions to preparers

Question P14

Do you agree that h/a with an alternative use should be depreciated?

Explain your response





Questions to preparers

Question P15

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

Explain why this depreciation method is applied





Questions to preparers

Question P16

For h/a that are accounted for in accordance with another GRAP, what challenges do you experience to determine

- useful life;
- residual value; and
- depreciation method when depreciating h/a?

Describe these challenges, and indicate how they could be resolved



Disclosure of heritage assets in the financial statements





GRAP 103 requirements

- Disclosures needed for accountability and decision-making
 - how h/a are accounted for – effect of assumptions and judgements
 - condition and consumption of h/a
 - how disposal will impact ability to fulfil mandate
 - resources required for new investments in h/a
 - risk of potential losses when h/a given as collateral





GRAP 103 requirements

- Disclosures (continued)
 - repairs and maintenance and funding required to continuously preserve/maintain h/a
 - new h/a under construction or development – inform project and asset management decisions





Questions to preparers

Question P17

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

Describe these challenges and indicate how they could be resolved





Questions to preparers

Question P18

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

Explain your response





Other comment

General matters for comment

Any other comment on matters relating to GRAP 103?



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