ISSUED MARCH 2020

EXECUTIVE SUMMARY – ED 180 POST IMPLEMENTATION REVIEW OF THE STANDARD OF GRAP ON *HERITAGE ASSETS* (GRAP 103)

This Executive Summary provides an overview of the Invitation to Participate in the Post-implementation review of the Standard of GRAP on *Heritage Assets* (ED 180)

Overview	The Accounting Standards Board (hereafter referred to as "the Board") undertakes post-implementation reviews (hereafter referred to as "the review") with the objective of: • assessing if a Standard of GRAP achieved its intended outcome; and • identifying difficulties experienced in applying the Standard across all spheres of government. The Board, as its December 2019 meeting, approved the Invitation to Participate in the Post-implementation Review of the Standard of GRAP on *Heritage Assets* (GRAP 103).
Project objectives	The objective of the GRAP 103 review is to obtain input from: • users – to determine if GRAP 103 provides relevant information that enables them to make decisions and hold entities accountable. The review also aims to identify other information that users may need or require on heritage assets; • preparers – to understand the implementation challenges that they have experienced with the implementation of GRAP 103, and the extent to which these challenges impact the consistent application of GRAP 103; and • auditors – to understand the audit issues raised on heritage assets.
Next steps	Based on the results of the review, the Board will decide if amendments are required to GRAP 103 or whether any other action should be taken. This will be undertaken as the next phase of the project.
Comment deadline	The closing date to receive input is 15 September 2020.

ACCOUNTING STANDARDS BOARD

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ED 180 – POST–IMPLEMENTATION REVIEW OF THE STANDARD OF GRAP ON *HERITAGE ASSETS* (GRAP 103)

Background to the project	
Phase I of the project	The review consists of two phases, i.e. a desktop review, and feedback from stakeholders through the completion of a questionnaire and/or undertaking direct consultations. *Desktop review* This phase of the project is already completed and included a review of selected financial statements of entities that recognise, and/or disclose information about heritage assets in their financial statements. The objective of the desktop review was to understand how entities apply the principles in GRAP 103, and what information on heritage assets is included in financial statements. Some of the key observations noted from this review are: (a) Accounting policies were found to be generic and included the exact wording from GRAP 103 rather than explaining how the specific principles and bases in GRAP 103 are applied to the entity's circumstances. Where the definition of a heritage asset was included in the accounting policy, it was noted that some of the features listed in the definition were not relevant to the characteristics of the heritage assets controlled by the entity. (b) It was not always clear what subsequent measurement basis the entity applies, i.e. the cost model, or the revaluation model. The accounting policies sometimes referred to both subsequent measurement bases. (c) Some GRAP 103 disclosures were lacking from the financial statements. For example: • where the notes to the financial statements indicated that heritage assets have an alternative use, some notes lacked detail of the alternative use; • information was lacking on the frequency of revaluations where the revaluation model was selected as the subsequent measurement basis; and

Background to the project

Phase I of the project (continued)	• where a deemed cost was determined as a surrogate value for the cost or fair value of the heritage asset on initial recognition, some notes lacked information on (i) the method used to determine the deemed cost, (ii) significant assumptions that were made by the valuer in determining the deemed cost, and (iii) the extent to which the cost was determined by reference to observable prices in an active market.
Phase II of the project	*Feedback from stakeholders* In this phase of the project, the Secretariat intends to obtain feedback from stakeholders, either through the completion of questionnaires for users and preparers, or through direct consultations with stakeholders. These questionnaires, that will form the basis for the direct engagements with users, preparers and auditors, are included on the ASB's website at http://www.asb.co.za/ed-180/.

Overview of ED 180

Focus areas of the review

Objective of reporting on heritage assets	Assets of government are key in providing services to citizens and others. Some public sector entities also have a custodial responsibility over assets that require them to hold, manage and preserve these assets in terms of legislation or similar means. Entities need to provide information in the financial statements to users, to enable them to make informed decisions and hold entities accountable.

Focus areas of the review	
Objective of reporting on heritage assets (continued)	To meet user's information needs, financial statements provide information on heritage assets to enable users to assess, among others: • costs associated with holding, managing, maintaining and preserving heritage assets; • how the value or condition of the heritage asset has changed, particularly where the heritage asset is held for use in the production or supply of goods or services, for administration purposes, or for other purposes (hereafter referred to as "an alternative use"); • how changes in the value or condition of the heritage asset impact the entity's ability to preserve the asset for present and future generations; • the extent of repairs and maintenance required to ensure that the heritage asset is preserved as intended in terms of legislation or similar means; • transfers of heritage assets and/or heritage assets held for disposal; and • potential losses or forfeiture of heritage assets, particularly when the asset has been given as collateral for debt.
Classification of heritage assets as a separate category of assets	Heritage assets have specific measurement considerations because they have unique characteristics such as that they are often irreplaceable, are protected and preserved, their value appreciate over time and they are unlikely to be reflected in monetary terms. GRAP 103 therefore requires the separate classification of heritage assets in the financial statements. Heritage assets are presented as a separate class of assets on the face of the statement of financial position, if material. Where a significant portion of a heritage asset has an alternative use, the heritage asset is not accounted for in terms of GRAP 103, but in accordance with another applicable Standard of GRAP.

Focus areas of the review	
Classification of heritage assets as a separate asset category (continued)	The review requests input from stakeholders on: • whether the classification of heritage assets, separate from other assets, provides relevant information to enable decision-making and to hold entities accountable; • challenges that preparers experience to assess if the definition of a heritage asset is met for the asset to be classified separately from other assets; and • whether heritage assets should be classified differently from other heritage assets when they have an alternative use. *Legislative vs accounting requirements* Various legislative requirements are in place to ensure that South Africa's heritage resources are protected and preserved for present and future generations. As such, legislation requires that all heritage resources are included in the national inventory register. Accounting for heritage assets, on the other hand, aims to reflect how an entity uses the asset, whether the entity should continue to preserve the asset for future generations, or whether the heritage asset should be used or held for a different purpose. As the objective differs between accounting for heritage assets in the financial statements and having a complete national inventory register, not all heritage assets designated as such through legislation or similar means, may meet the definition of a heritage asset in GRAP 103. Likewise, not all heritage assets accounted for in terms of GRAP 103 may be designated as a heritage resource in terms of legislation or similar means. The review requests stakeholders' input on whether information should be disclosed in the financial statements on assets designated as heritage resources but not accounted for in terms of GRAP 103, and vice versa.

Focus areas of the review

Determining an initial value for a heritage asset

As with any asset, a heritage asset is recognised in an entity's financial statements when the entity controls the item, as a result of past events, and from which future economic benefits or service potential are expected to flow. A heritage asset's service potential arises from its benefit to be preserved for present and future generations.

Initial recognition of a heritage asset

On acquisition, a heritage asset is recognised at cost. Cost is the purchase price, including import duties and non-refundable purchase taxes, after deducting discounts and rebates. If the heritage asset is received free of charge, or when a nominal amount is paid for the asset, the heritage asset's initial cost is its fair value as at the date of acquisition. If historical cost or fair value is not available on initial recognition, a deemed cost may be determined for the heritage asset.

The initial cost of the heritage asset includes costs incurred to prepare the heritage asset site, installation and assembly costs, and any employee costs incurred to initially assess the state of the heritage asset.

If a reliable fair value cannot be determined for the heritage asset on initial adoption of GRAP 103, or for ongoing acquisitions in non-exchange transactions, the heritage asset is not recognised. Instead, information is disclosed in the financial statements to inform users why a reliable value could not be determined, among others.

Questions

The review asks for views on challenges that preparers have experienced to initially determine a reliable value for a heritage asset. Where a reliable value could not be determined, preparers are requested to share:

- their challenges experienced to provide the disclosures required by GRAP 103; and
- their views on whether (i) the information disclosed in the notes provides relevant information to users; and (ii) an entity should be required to continuously re-assess if reliable information becomes available so that the heritage asset can be recognised.

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ED 180 – POST–IMPLEMENTATION REVIEW OF THE STANDARD OF GRAP ON *HERITAGE ASSETS* (GRAP 103)

Focus areas of the review	
Determining a value for a heritage asset after recognition	GRAP 103 allows an entity to select, as its subsequent measurement basis, either: • the cost model, that comprises cost less impairment, or • the revaluation model, that comprises the heritage asset's fair value as at the date of undertaking the revaluation, less impairment. If the heritage asset is specialised, a replacement cost may be used to determine its fair value. The measurement model is applied per class of heritage asset, i.e. a grouping of heritage assets of a similar nature or function. The revaluation model does not require the entity to undertake annual valuations. Instead, a revaluation is only undertaken if the value of the heritage asset, as reflected in the financial statements, differs materially from the heritage asset's fair value as at the reporting date. The frequency of revaluations depends on changes in a heritage asset's fair value. *When fair value cannot be determined after initial recognition when the revaluation model is applied* When market-determined prices or values are unavailable, and/or alternative estimates of fair value are unreliable, GRAP 103 requires the entity to apply the cost model. The cost model is applied until a fair value can again be determined with reference to an active market. During this period, certain disclosures, such as the reason why a fair value could not be determined, are provided in the financial statements. When the fair value becomes available at a subsequent date, GRAP 103 requires that the revaluation model be applied from that point. Again, certain disclosures are required in the financial statements when the measurement basis changes. *Questions* The review requests input from users on: • whether the entity's choice of measurement basis has affected its assessment of accountability, its ability to make decisions, and/or to compare results between entities; and

Focus areas of the review	
Determining a value for a heritage asset after recognition (continued)	• if the information disclosed during, and after applying the cost model when the fair value is unavailable and/or alternative estimates of fair value are unreliable provides relevant information to users. From the preparer's perspective, views and input are requested on: • whether classes of heritage assets are measured using different measurement bases; • where the revaluation model is applied as the subsequent measurement basis: - how frequently valuations are undertaken, and what challenges are experienced to determine a fair value on an ongoing basis; and - whether the entity has ever considered applying Directive 11 on *Changes in Measurement Basis Following the Initial Adoption of Standards of GRAP*; and • if applicable, the reasons why the fair value is unavailable, and/or alternative estimates of fair value are unreliable, and the challenges experienced to provide the disclosures required in GRAP 103.
Impairing heritage assets	GRAP 103 does not require an entity to depreciate a heritage asset. Instead, a heritage asset is assessed for impairment at each reporting date to determine if there is a loss, or decline in the asset's capacity to generate cash flows or to provide service potential. The assessment will also indicate whether a previously recognised impairment loss needs to be reversed. When an indicator for impairment has been triggered, the heritage asset's carrying amount is compared to its recoverable amount (for cash-generating assets) or recoverable service amount (for non-cash-generating assets). The recoverable amount or recoverable service amount comprises the higher of the asset's fair value less cost to sell, and: • for cash-generating heritage assets, the present value of the heritage asset's estimated future cash flows; or • for non-cash-generating heritage assets, the present value of the heritage asset's remaining service potential.

Focus areas of the review	
Impairing heritage assets (continued)	If the carrying amount is higher than the heritage asset's recoverable amount, or recoverable service amount, an impairment loss has occurred. The loss is either expensed, or adjusted against the revaluation reserve when the revaluation method is applied. *Questions* The review requests input from: • users, on whether reflecting the impairment loss in the financial statements, provides them with useful information; and • preparers, on challenges that they experience to: - assess if the heritage asset is impaired, or if an impairment loss recognised in a prior period, no longer exists; and - calculate the recoverable amount, or the recoverable service amount.
Heritage assets that have alternative uses	GRAP 103 is applied when an entity controls a heritage asset, and an insignificant portion of the asset is held for an alternative use. The principles in other Standards of GRAP, for example, the Standards of GRAP on *Investment Property* (GRAP 16) or *Property, Plant and Equipment* (GRAP 17) are applied to account for a heritage asset when a significant portion of the asset has an alternative use. GRAP 103 requires disclosure of information on the heritage asset's alternative use. When the heritage asset with an alternative use is accounted for using the cost model, or the revaluation method, the asset needs to be depreciated to reflect the asset's consumption during a particular reporting period. Depreciation is reflected as an expense in the statement of financial performance. Depreciation is not applicable where the fair value model is applied to account for a heritage asset with an alternative use.

Focus areas of the review

Heritage assets that have alternative uses (continued)	*Depreciation of a heritage asset with an alternative use*
	
	Depreciation is calculated based on the period over which the heritage asset is expected to be available for use by the entity, i.e. its useful life. The useful life of each significant component of the heritage asset is determined separately.
	
	When an asset is depreciated, the Standards of GRAP require the entity to assess, at each reporting date, if its expectations about the asset's useful life and residual value remain appropriate. If previous expectations are no longer appropriate, the period over which the asset is expected to be available for use, and/or its residual value, need to be adjusted.
	
	Questions
	
	The review requests input from users on:
	• whether the information disclosed, where a heritage asset has an alternative use, provides relevant information;
	• what other information users may find useful in this regard; and
	• whether information on deprecation assists in making decisions about the use, management and condition of the heritage asset.
	
	From the preparer's perspective, the review requests input on:
	• challenges experienced to:
	  - assess if a significant portion of the heritage asset meets the definition of a heritage asset in GRAP 103, or whether the asset should be accounted for in terms of another Standard of GRAP; and
	  - determine the useful life, residual value and deprecation method to depreciate the heritage asset; and
	• whether a heritage asset with an alternative use should be accounted for differently from other heritage assets, including depreciating the heritage asset, when a significant portion of the asset has an alternative use.

Focus areas of the review	
Disclosure of heritage assets in the financial statements	GRAP 103 prescribes various disclosure requirements for heritage assets in providing information to users. These disclosures include: • the basis used to measure the heritage asset, and any significant assumptions and judgements applied in determining a fair value; • actual disposals and planned acquisitions of heritage assets; • heritage assets pledged as security for debt; • repairs and maintenance of heritage assets; and • heritage assets in the process of being constructed or developed. The review requests input from users and preparers on the sufficiency of these disclosures, and asks if any other information should be disclosed on heritage assets. The review also requests input on the challenges experienced to provide the required disclosures as required by GRAP 103 and/or any other Standards of GRAP.

How to access information	
Access information on the ASB and its work programme online	Visit our website on www.asb.co.za Subscribe to our Newsletter Access the translated versions of the Standards ASB@ASB_SA https://www.linkedin.com/company/accounting-standards-board https://www.facebook.com/AccountingStandardsBoard/