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Why should heritage assets be reported in the financial statements?

Government has a responsibility to manage South Africa's resources

One of government's key responsibilities is to provide services to its citizens. It is however also responsible for managing the country's resources which include mineral, natural and cultural resources. While it is obvious that the revenue, costs, assets and liabilities related to service delivery should be reported in the financial statements, it is often challenged whether, or why, the same should apply to certain resources. Many of the debates on these issues relate to: (a) the difference between management versus control of resources; and (b) whether a reliable value can be determined for financial reporting purposes.

Management versus control of resources

The financial statements aim to reflect those resources that an entity controls. Control means that the entity has the ability to direct how the economic benefits or service potential of an asset will be used for the entity's benefit. This is contrasted with being tasked with the broad management of resources, which could include, for example, keeping a database of resources, issuing licences for their use, giving approval for alterations etc. These actions do not mean that the entity can use those resources to either generate cash or other economic benefits for the entity, nor are they able to use those assets in delivering services. The responsibility of an entity to manage resources without control being present will not result in recording in the financial statements. The existence of control (along with other factors), is the difference between a "resource" being managed and the existence of an "asset" for financial statement purposes.

Determining a reliable value

Resources are reported in the financial statements as assets when control exists, and a reliable value can be determined. This value is based on either what was paid, or an alternative value such as fair value where the asset was acquired without giving anything (or only a minimal amount) in return.

If amounts are paid, the value is usually easy to determine. Where there is no exchange of value and fair value or an alternative measurement basis needs to be used, the value may be difficult to determine. The value may be difficult to determine for a number of reasons, including that: (a) the benefits associated with an asset may not be known or quantifiable, and (b) the resources may be unique, meaning there is no active market, similar assets may not exist, and proxies may not best represent the value of the asset.

For accounting purposes, a reliable measure usually does not exist where either there is significant variability in the range of estimated values, or the probabilities of the various estimates cannot be reasonably assessed. Where there is variability in the values being determined, the asset is not recognised in the financial statements because this would not give users of the financial statements a fair representation of the value of the asset. Some other action, such as disclosure, may be appropriate.

What gets measured gets managed

The ASB has issued a number of Standards dealing with the accounting for resources. Notably, the ASB issued GRAP 103 on *Heritage Assets* in 2008 which explains when, or in what circumstances, certain of the resources listed above should be reported in the financial statements. Heritage assets are those assets that have “cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations”.

Prior to GRAP 103 being issued, entities would not necessarily have reported heritage assets at all in the financial statements. Entities were permitted to reflect heritage assets in the financial statements where they were used for administrative tasks or service delivery. By applying GRAP 103, entities are required to:

1. Identify heritage assets, i.e. those that are held for the reasons outlined above, and are preserved and maintained so that they can be held indefinitely for future generations. These resources should otherwise meet the definition of an asset, including that they are controlled.
2. A value should be determined for the initial recording of the asset, either using cost or fair value (depending on how the asset was acquired, and what information was available on the initial adoption of the Standard). Where a reliable value cannot be determined, there is disclosure in the financial statements.
3. Where a reliable value can be determined, the asset is measured at each reporting date either at cost or using the revaluation method. In both instances, the assets are not depreciated but assessed for impairment.

By including heritage assets in the financial statements, one inherent result is that entities should have a complete asset register of all heritage assets to support the amounts reported in the financial statements. What has emerged during the implementation of GRAP 103 is that entities – often those whose primary responsibility it is to hold, manage and direct how heritage assets are used – did not have complete registers of these assets. It is a basic management principle that asset registers should be kept so that assets can be managed and appropriately safeguarded. Entities may in fact need two asset registers – one for those assets that are heritage assets for financial statement purposes, and one for those assets/resources that it is required to manage in terms of a legal mandate.

Many argue that assigning a value to heritage assets is inappropriate because they generally cannot be sold. Because government has a broader responsibility related to the country's resources, the focus cannot merely be on cash generation. Assets in the public sector have service potential because they can be used to deliver services, which includes preserving the country's heritage. Value for accounting purposes, should reflect both cash and similar benefits that can be derived as well as service potential.

There are many benefits assigning a value to a heritage asset, which include the following:

- Users can make decisions about the quantum of resources needed to manage, maintain, and preserve these assets.
- Decisions can be taken about how best to safeguard assets, including whether insuring them is viable given their nature and value.
- Values provide an indication of how important an asset may be to the country's heritage and holding officials accountable for their preservation – although appreciating that the value of many assets that are irreplaceable may not be determinable.

Differing views on the value of accounting for heritage assets

The accounting for heritage assets – as outlined in GRAP 103 – has elicited divergent views from both preparers and users of the financial statements. Given the issues raised during the implementation of the Standard, the ASB agreed to undertake a post-implementation review of the Standard. The public consultation process with preparers, users and auditors is currently underway and will end on 15 September 2020. Affected parties are urged to participate in the review either by attending sessions hosted by the Secretariat of the ASB or other organisations, or by completing the applicable questionnaire.

More information on the review is available on the ASB's website: <http://www.asb.co.za/ed-180/>

Important dates

Open for comment

The following Exposure Draft is open for comment:

Topic	Comment deadline
ED 180 Post-implementation Review of the Standard of GRAP on <i>Heritage Assets</i>	15 September 2020

Date	Organisation	To register, contact
February 2020		
13 February	KwaZulu Natal – hosted by CIGFARO	kznbranch@cigfaro.co.za or branch@cigfaro.co.za
19 February	Western Cape - hosted by CIGFARO	westerncape@cigfaro.co.za or branch@cigfaro.co.za
21 February	Northern Cape - hosted by CIGFARO	jwagner@solplaatje.org.za or branch@cigfaro.co.za
March 2020		
5 March	Eastern Cape - hosted by CIGFARO	jngcelwane@mandelametro.gov.za or branch@cigfaro.co.za
12 March	Limpopo – hosted by CIGFARO	makhongelam@gmail.com or branch@cigfaro.co.za
13 March	Mpumalanga – hosted by CIGFARO	lengwatetm@nkangaladm.gov.za or branch@cigfaro.co.za
26 March	Gauteng – hosted by CIGFARO	asmas@joburg.org.za or branch@cigfaro.co.za

ASB meeting dates

The dates of the ASB's Board and Technical Committee meetings are as follows:

Technical Committee	Board
27 February	19 March
11 June	8 July
3 September	30 September
12 November	1 December

Observers are welcome to attend these meetings, but it should be noted that space is limited. In order to accommodate observers at meetings, interested parties are asked to complete the registration form available on the website.

Coming up

The Board will consider the following technical documents at its meeting on 19 March 2020:

- Review of comments received on ED 176 on *Improvements to Standards of GRAP* and final amendments.
- Review of comments received on ED 177 on *Proposed Transitional Provisions for the Standard of GRAP on Financial Instruments (Revised in 2019)* and final amendments.

If approved by the Board, these amendments and transitional provisions will be issued by the Board as final pronouncements.

Highlights of the December 2019 IPSASB meeting

The IPSASB met in December 2019. The key decisions are outlined below.

New Exposure Drafts

The IPSASB approved three Exposure Drafts for comment:

- ED 70 – *Revenue with Performance Obligations*
- ED 71 – *Revenue without Performance Obligations*
- ED 72 – *Transfer Expenses*

The documents will be published at the end of February 2020, with a comment period of six months.

The documents will be issued locally as Exposure Drafts for comment, and the Secretariat will be holding discussions with affected stakeholders on the proposals. The outcome of these discussions will be used to formulate a comment letter to the IPSASB.

New pronouncements

The Improvements to IPSASs were approved. These amendments will be considered locally in 2026 during the next ASB Improvements Project.

Being deliberated

- Leases – The IPSASB is still deliberating whether lessor accounting should be aligned with IFRS 16 on *Leases* or whether a right of use model (as outlined in ED 64 on *Leases*) should be applied by both lessors and lessees. The Task Force has been asked to refine the criteria to be used by the Board to decide which option should be adopted. The approach for lessors will be discussed again in March 2020.
- Measurement – The IPSASB discussed a high-level analysis of the responses received on its Consultation Paper on *Measurement*. A number of responses were received, raising a number of complex issues for the IPSASB to consider. Two of the most controversial areas are (a) the use of replacement cost as both a measure of fair value, as well as a measurement basis in its own right, and (b) the treatment of borrowing costs. The IPSASB will discuss the detailed comments at future meetings and how they can be addressed.
- Heritage assets – The IPSASB discussed possible amendments to IPSAS 17 on *Property, Plant and Equipment* to provide accounting guidance on heritage assets. Given the urgency to deal with other items on the agenda, the IPSASB will discuss these amendments again in March 2020.
- Infrastructure assets – The IPSASB proposes providing guidance on infrastructure assets by adding Application Guidance to IPSAS 17. A first draft of the guidance dealing with selected issues was discussed at the meeting, and feedback provided to staff. These proposed changes along with guidance in other areas will be discussed at the next meeting.

Review of the governance of the IPSASB

The Public Interest Committee (PIC) reviews the standard-setting activities of the IPSASB to ensure appropriate due process and that the Board's activities reflect the public interest. Since its formation, the Committee has actively provided advice and recommendations concerning the development of the IPSASB strategy and work programme, the appointment process for members of the IPSASB, and the IPSASB's standard-setting due process.

The PIC launched a public survey on the IPSASB's governance arrangements. All interested stakeholders are encouraged to participate in this global consultation. Feedback is requested by 24 February 2020.

For more information, follow this link:

http://www.oecd.org/gov/pic.htm?utm_source=IFAC+Main+List&utm_campaign=551b8063b1-EMAIL_CAMPAIGN_2019_12_17_03_38&utm_medium=email&utm_term=0_cc08d67019-551b8063b1-80289209#survey

