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**MINUTES OF THE TECHNICAL COMMITTEE MEETING OF THE
ACCOUNTING STANDARDS BOARD HELD VIRTUALLY ON 12 NOVEMBER
2020**

CHAIRPERSON C Braxton

MEMBERS OF THE COMMITTEE

BOARD REPRESENTATIVES

F Abba

I Lubbe

V Ngobese

REPRESENTATIVE OF THE AGSA

M Mentz

REPRESENTATIVE OF THE OAG

L Bodewig

REPRESENTATIVE OF THE ASB

E Swart

EX OFFICIO

J Poggiolini Technical Director

A Botha Project Manager

T Tshoke Project Manager

E van der Westhuizen Project Manager

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

1. WELCOME AND APOLOGIES

Members were WELCOMED to the meeting by the Secretariat.

2. CONFIRMATION OF THE AGENDA

The agenda was CONFIRMED with no additions.

3. DECLARATIONS OF INTERESTS

Members were ASKED to indicate if they had any amendments to their declarations of interests, as well as if they had an interest in any of the agenda items being discussed. None were NOTED.

4. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meeting were TABLED at the meeting. The minutes were APPROVED without amendment.

5. MATTERS ARISING

5.1 The Secretariat TABLED a memorandum at the meeting of the matters arising from previous meetings. The Secretariat NOTED the following:

- Review of the Introduction to each Standard – The Secretariat will review the Introduction along with the review of the Preface. This will be presented to the March 2021 meeting.
- Dispute resolution mechanism – The dispute resolution mechanism has largely reverted to the original text, particularly for the role of the ASB. Members INDICATED that they did not want to review the revised document.
- Constitution of the FRSC – The representative of the National Treasury indicated that there was no specific feedback to report. Members requested that feedback be provided at the next meeting given the period of time that the FRSC has not been functional.

Secretariat

TECHNICAL MATTERS

6. Review of the results of the Post-Implementation Review of GRAP 103 on *Heritage Assets* (ED 180)

6.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Analysis of the written comments received on ED 180.
- Analysis of the verbal comments received on ED 180.

6.2 The Technical Committee NOTED the two IPSASB projects that are relevant to the review, i.e. amendments to IPSAS 17 on *Property, Plant and Equipment*, and the proposed pronouncement on *Measurement*. It was NOTED that the IPSASB is likely to issue the two exposure drafts in early 2021, and the final pronouncement and amendments to IPSAS 17 in June 2022.

- 6.3 It was NOTED that some of the proposals from these pronouncements may be helpful to confirm the Board's decisions locally on heritage assets, or resolve the issues raised by respondents on the application of the measurement bases.

Overview of consultations undertaken with stakeholders

- 6.4 The Secretariat EXPLAINED the various consultation methods used to obtain input from stakeholders. These included (a) inputs solicited through the normal comment letter process; (b) face-to-face and virtual meetings held with stakeholders; and (c) questionnaires to users and preparers that were published on the ASB website.
- 6.5 It was NOTED that the Board received three written comment letters that represented input from a number of stakeholders. No direct responses to the questionnaires published on the ASB website were received.
- 6.6 The Technical Committee NOTED a summary of the stakeholders with whom the Secretariat consulted compared to the stakeholders that should have been consulted as in the project brief.
- 6.7 It was NOTED that the Secretariat is of the view that the comment received represents a good geographical diversity. It was also NOTED that engagements were targeted at national and provincial museums, national and provincial public entities, and all the municipalities in the nine provinces. The Secretariat also engaged with key users as part of the Board's due process.
- 6.8 It was NOTED that invitations to participate in the virtual engagements were specifically directed to audit committee members and municipal councillors. However, none of these stakeholders participated in any of the scheduled virtual meetings. A request to complete the questionnaires on the ASB website was sent by SAICA to the members of the Public Sector Audit Committee Forum, but no completed questionnaire was received.
- 6.9 It was NOTED that, despite the absence of comment from audit committee members and municipal councillors, the Secretariat is of the view that no additional information would have been obtained through these engagements. The Secretariat concluded that sufficient opportunity was given to users and preparers to participate in the review and/or to provide comment on ED 180.
- 6.10 The Technical Committee NOTED that participation by users was disappointing as input from more users would have been beneficial.
- 6.11 It was QUESTIONED whether those charged with governance were specifically targeted as part of the Board's due process. It was CONFIRMED that specific participation by these stakeholders was requested when invites for virtual discussions were circulated by CIGFARO, SALGA and SAICA.
- 6.12 It was NOTED that during the Post-implementation review on GRAP 16 on *Investment Property* and GRAP 17 on *Property, Plant and Equipment*, more input from those charged with governance was obtained compared to this review. It was, however, CONFIRMED that constructive input was obtained from users such as the South African Heritage Resources Agency (SAHRA) and the Department of Arts and Culture (DAC) as part of this review.

6.13 Based on these observations, the Technical Committee AGREED that sufficient opportunity was provided to stakeholders to participate in the Board's due process.

General observations from users and preparers

6.14 It was NOTED that feedback from users and preparers was generally positive. Users supported the reporting of heritage assets under GRAP 103, while preparers noted that the implementation of GRAP 103 had a positive effect on the way in which they manage and preserve heritage assets. Some preparers noted concerns about the cost to implement GRAP 103 and questioned the value added in recognising heritage assets in the financial statements. Concerns were also noted about skill and capacity shortages.

6.15 The following general observations were NOTED from stakeholders:

- The DAC indicated that they should improve their analysis and evaluation of the financial statements of the entities that report to them to enhance their decision-making. Their focus should not only be on assessing compliance with GRAP 103.
- There are a limited number of experts available to assist with valuations of heritage assets. To address this concern, preparers proposed that:
 - (a) the sector itself should provide more guidance to entities on how to manage and preserve heritage assets;
 - (b) knowledge sharing between entities should be promoted and can be addressed through, for example, the development of a centralised database; and
 - (c) entities should be encouraged to consider guidelines and standards relevant to the sector.

6.16 It was NOTED that the Secretariat proposes to liaise with the DAC and/or SAHRA to inform them about these observations as it is not within the Board's mandate to develop a centralised database, or to prescribe or encourage the use of guidelines and standards published by other stakeholders.

6.17 It was also NOTED that some preparers proposed that the Board should consider developing a reporting framework for small entities, and in particular small museums. It was NOTED that no action is proposed by the Secretariat in this regard based on the results of the Board's research project on small entities.

6.18 It was QUESTIONED whether the Secretariat should consider developing a Frequently Asked Question (FAQ) to explain why heritage assets should be recognised in the financial statements when legislation prohibits entities from selling these assets. It was NOTED that the Secretariat proposes to engage with the Office of the Accountant-General (OAG) for them to consider updating the GRAP Accounting Guideline to explain the importance and need to recognise all heritage assets irrespective of restrictions on disposal. The Technical Committee AGREED with the recommendation.

6.19 Matters concerning disagreements with auditors were NOTED. The Secretariat PROPOSED that these matters should be highlighted to the auditors through sharing the stakeholders' feedback with the senior management of the ARD unit at the AGSA. The Technical Committee AGREED with the recommendation.

- 6.20 It was NOTED that it is disappointing to still note concerns about disagreements with auditors. It was RECOMMENDED that the audit specialist responsible for developing and providing guidance to auditees should be part of the discussion when audit disagreements are discussed with the ARD unit. The Technical Committee AGREED with the recommendation.
- 6.21 It was also AGREED that feedback on the audit disagreements should be shared with the Independent Regulatory Board for Auditors (IRBA) as the matters may not necessarily only involve auditors at the AGSA. A request to share feedback on these matters will be sent to IRBA's Committee for Auditing Standards.
- 6.22 It was NOTED that a recommendation will be made to the OAG to update the relevant GRAP Accounting Guideline(s) with any amendments proposed to the principles in GRAP 103 or other Standards of GRAP.

Area 1: Classification of heritage assets as a separate asset

Classification of heritage assets as a separate asset

- 6.23 It was NOTED that users confirmed that the separate classification provides relevant information to hold entities accountable and to make decisions. A user noted that entities apply different criteria to assess if an asset is a heritage asset which may lead to different interpretations or may result in entities classifying the same asset differently. Users also noted concerns about an increased security risk when information is made publicly available. Due to the lack of funding, entities cannot properly insure their heritage assets against theft.
- 6.24 It was NOTED that, to address the security risk, a proposal was made by users to only share and disclose information about high value heritage assets with auditors, and to not reflect information about these heritage assets in the financial statements. Information about heritage assets should only be included in the financial statements, either through recognition or disclosure, to the extent that sharing the information will not increase the risk of theft. Users interested in information about a specific heritage asset can then request the entity to provide such information.
- 6.25 The following challenges and observations were NOTED from preparers in this area:
- to ensure the consistent application of the principles in GRAP 103, more guidance should be included in GRAP 103 on what is meant with "management's intent";
 - government should develop:
 - (a) a coordinated approach to assist entities with assessing whether the definition of a heritage asset is met and to value heritage assets; and
 - (b) conservation policies to clarify why an entity is holding a specific heritage asset;
 - due to a lack of skill or expertise, entities find it difficult to determine if the definition of a heritage asset in GRAP 103 is met. Entities make use of experts to help with the assessment;

- it is unclear whether future generations' expectations of whether an asset should be classified as a heritage asset is different to that of current generations and how this might impact on meeting the definition of a heritage asset;
- a number of items are still held in storage and need to be evaluated to conclude if the definition of a heritage asset is met. Entities are unsure if, how and/or at what value these items need to be reflected in the financial statements prior to the completion of the evaluation; and
- there seems to be an assumption that all assets that are old, and/or all assets kept in a museum should be classified as heritage assets.

6.26 The following proposals to address the comment from users and preparers were NOTED:

Significant issues

- (a) Expand the principles in GRAP 103 on accounting for items that still need to be tested against the GRAP 103 definition to clarify how, and at what value these items should be accounted for in the financial statements prior to the evaluation being completed.

Issues that require guidance

- (b) Update the existing FAQs with the guidance on accounting for items that still need to be tested against the GRAP 103 definition. The revised FAQs will also emphasise that an item can only be recognised if the definition of an asset is met, and that recognising an asset at a R1 value is inappropriate.
- (c) Develop a new FAQ to clarify that the classification of an asset as a heritage asset should be based on how that asset is currently used by the entity and whether (i) the asset has cultural, environmental, historical, natural, scientific, technological or artistic significance and (ii) an entity has the intention to hold the asset indefinitely and preserve it for the benefit of present and future generations. The new FAQ will also emphasise that, if the objective for having or holding the heritage asset changes at a future point in time, the entity needs to reconsider whether the definition of a heritage asset is met.
- (d) Develop a new FAQ to emphasise that, in presenting sensitive information in the financial statements, information on heritage assets does not need to be presented and disclosed on an individual basis. GRAP 1 on *Presentation of Financial Statements* allows for the aggregation of items that are not individually material.

Application, process and policy issues

- (e) Engage with the DAC to develop simplified guidance that can be applied by employees that are not familiar with the principles in GRAP 103. Guidance can be developed on:
- (i) when control of a heritage asset exists;
 - (ii) if the definition of a heritage asset is met;
 - (iii) the use of peer data in valuing heritage assets;
 - (iv) the use of curators and/or other employees to value a heritage asset;

- (v) detailed information to be included in a valuation report;
 - (vi) examples of when an impairment indicator has been triggered; and
 - (vii) illustrating the calculation of the recoverable amount or recoverable service amount and the GRAP 103 disclosure requirements.
- (f) Engage with the DAC and/or SAHRA to:
- develop a centralised database with information about the type and nature of heritage assets controlled by entities, and the valuer's details where a valuer was used to value a specific heritage asset;
 - consider the development of standardised conservation policies and a coordinated approach in assessing if the definition of a heritage asset is met; and
 - raise awareness of comments made on the increased security risk and lack of funding to properly insure against the risk of theft.
- (g) Engage with the OAG to provide guidance in the GRAP Accounting Guideline on:
- how heritage assets provide service potential in meeting the definition of an asset;
 - accounting for heritage assets subject to lease arrangements; and
 - that entities' internal policies should clarify that items controlled by the entity should be recognised in the financial statements if the definition of an asset is met, irrespective of whether the entity has evaluated whether the definition of a heritage asset in GRAP 103 is met.
- 6.27 It was NOTED that no additional guidance on distinguishing heritage assets from old assets is proposed as the Secretariat already developed a FAQ on this matter. Entities need to apply judgement to conclude if an old asset should be classified as a heritage asset.
- 6.28 The Technical Committee NOTED that it is of concern that entities still have items that need to be evaluated. GRAP 103 became effective for periods commencing on or after 1 April 2012 and entities were given a three-year transitional period to recognise and measure heritage assets. It was CONFIRMED that the principles in GRAP 103 should still be applied retrospectively by those that still need to complete the evaluation.
- 6.29 The Technical Committee also NOTED that entities should not recognise assets at R1 values, but that they should rather consider applying the exemption in GRAP 103 to only disclose information about heritage assets if a value cannot be determined.
- 6.30 The proposal to expand the principles in GRAP 103 on accounting for items that still need to be tested against the GRAP 103 definition was QUESTIONED. It was NOTED that considering if the definition of a heritage asset is met is an application issue than a matter of principle in GRAP 103 that needs to be clarified. It was QUESTIONED whether the matter extends to control over assets in general, and not only to control over heritage assets.
- 6.31 It was AGREED that, in making a recommendations to the Board, the Secretariat should consider whether the matters relate to (a) an application matter, in which case implementation guidance should be provided either through a FAQ or by requesting the

OAG or the DAC to provide guidance; or (b) a principle in the Standards that needs to be clarified. The Secretariat should also consider if the comments only relate to heritage assets, or to control over all assets in general.

- 6.32 On the proposal to develop standardised conservation policies and a coordinated approach, it was NOTED that preparers should take more responsibility to ensure compliance with GRAP 103. The Technical Committee AGREED with the recommendation that the comment should be raised with the DAC and SAHRA as it is not within the Board's mandate to provide such guidance.
- 6.33 It was NOTED that the concern raised about the increased security risk for heritage assets when classified as a separate asset category, is also relevant to other types of assets, for example natural resources. It was therefore AGREED that the proposed FAQ should not only focus on heritage assets.
- 6.34 On the proposal to engage with the DAC to develop simplified guidance that can be applied by employees that are not familiar with principles in GRAP 103, it was QUESTIONED whether the DAC will have the capacity and skill to develop such guidance. It was NOTED that the National Treasury has made funding available to the DAC to develop guidance on GRAP 103 based on requests from the sector in the past. The fact that similar comment was received during the review will emphasise the importance for the DAC to consider developing guidance on the application of GRAP 103.
- 6.35 It was PROPOSED that the National Treasury representative for the DAC should be part of the discussions when comment on the review is shared with the DAC and/or SAHRA.
- 6.36 The Technical Committee AGREED with all the other recommendations on the classification of heritage assets.

Disclosure of heritage asset designated in terms of legislation not accounted for in GRAP 103, and vice versa

- 6.37 It was NOTED that most users indicated that disclosing information on designated heritage assets that are not accounted for in terms of GRAP 103, and vice versa, will be useful. Users, however, cautioned that the disclosure requirements should not be too onerous, and that they should, for example, not require the disclosure of values for heritage assets not recognised. It was also NOTED that users proposed that the explanation of a heritage resource in legislation should be better aligned with the definition of a heritage asset in GRAP 103.
- 6.38 It was NOTED that some preparers also proposed that the description of a heritage resource in legislation and the definition of a heritage asset in GRAP 103 should be better aligned to ensure consistency.
- 6.39 It was NOTED that some preparers proposed that an entity should only classify those heritage assets that have been designated in legislation as heritage assets, while all other assets should be accounted for in terms of another Standard of GRAP. Some preparers proposed that disclosures should be provided of those items designated as a heritage asset in terms of legislation, but not accounted for in terms of GRAP 103, and vice versa.

6.40 It was also NOTED that a proposal was made that guidance should be developed where an entity controls a heritage resource designated in legislation, but subsequently concludes that its classification as a heritage resource in legislation is inappropriate.

6.41 The following proposals from the Secretariat to address the comment from users and preparers were NOTED:

Significant issues

(a) The definition of a heritage asset in GRAP 103 should remain broad enough to allow the recognition of heritage assets that are not designated as a heritage resource in legislation. This proposal is made on the basis of the different objectives for identifying heritage assets for financial reporting and legislative purposes. It is proposed that the definition in GRAP 103 should be reviewed to consider how the definition could be enhanced to align it with the legislative description.

Application, process and policy issues

(b) Engage with DAC and SAHRA to consider informing stakeholders of the processes that should be followed when it is concluded that a heritage asset should no longer be designated as a heritage resource in terms of legislation.

(c) Engage with the National Treasury to assess how, and if, disclosures about items that are designated as a heritage resource in legislation but not accounted for as a heritage asset in terms of GRAP 103, and vice versa, can be addressed in preparing other general purpose financial reports.

6.42 The Technical Committee CONFIRMED that the objective of aligning the definition of a heritage asset in GRAP 103 with the legislative requirements should not be to replace the GRAP 103 definition with the legislative definition but to enhance the definition.

6.43 The Technical Committee AGREED with the Secretariat's other recommendations on the disclosure of heritage assets designated in terms of legislation but not accounted for in GRAP 103, and vice versa.

Area 2: Initial recognition of heritage assets

Challenges to initially determine a value for a heritage asset and providing related disclosures

6.44 The Technical Committee NOTED the challenges raised by stakeholders on determining a reliable value on initial recognition relating to:

- the use of valuers;
- the application of different approaches and methodologies;
- valuation concerns, including the application of the replacement cost approach, and
- matters that resulted in audit disputes.

6.45 It was also NOTED that comment was received on (a) the separation of land from other assets, such as burial sites on land, and the accounting for land in conservation areas separate from fauna and flora; (b) increased insurance premiums as an unintended consequence of recognising and measuring heritage assets; and (c) the use of an insurance value to value heritage assets.

6.46 It was NOTED that the Secretariat proposes the following actions to address the comment received:

Significant issues

(a) Expand the principles and/or existing guidance in GRAP 103 to:

- allow entities to use peer data when they do not have sufficient sources of entity-specific data available to value a heritage asset. Appropriate adjustments should, however, be made based on the characteristics and/or condition of the specific asset;
- acknowledge that an entity may not be able to determine a reliable value for specific types of heritage assets, and that these heritage assets therefore need not be recognised. However, if the entity is able to value these heritage assets, despite certain limitations, these heritage assets should be valued and recognised in the financial statements;
- note that a reliable value cannot be determined if the range of estimates of fair value is significant and the probabilities of the various estimates cannot be reasonably assessed. In these instances, the heritage asset should not be recognised in the financial statements;
- explain that the value of a heritage asset may be affected by factors such as restrictions on its sale, protective rights and/or similar legislative limitations, but that these should not preclude an entity from determining a reliable value for the asset; and
- include guidance from GRAP 17 on applying judgement to aggregate individually insignificant items in applying the recognition criteria.

Issues that require guidance

(b) Develop a new FAQs to explain:

- that insurance values, individual auction prices and/or quotes from auctioneers are inappropriate to value heritage assets as these prices usually represent the highest possible value rather than the price obtainable in an active market; and
- that land should be separated from other resources on the land.

Application, process and policy issues

(c) Engage with the OAG to provide guidance in the GRAP Accounting Guideline on the importance and need to recognise all heritage assets in the financial statements.

6.47 It was NOTED that the Secretariat engaged with the DAC, SAHRA and valuation professionals on the observation that legislation restricts curators from valuing heritage assets. The Secretariat confirmed that there is currently no legislative requirement that prohibits curators from valuing heritage assets. As a result, the Secretariat proposes to engage with the DAC and/or SAHRA on the development of simplified guidance.

6.48 It was NOTED that the Secretariat proposes to monitor the IPSASB's measurement project as it will provide guidance on the application of replacement cost.

6.49 It was also NOTED that the Secretariat proposes to have a general discussion with the OAG and AGSA to understand their expectations when valuations are undertaken regarding:

(a) the level of detail that should be included in the valuation reports; and

(b) who, from an audit perspective, is qualified to undertake these valuations.

Based on the outcome of these engagements, appropriate actions will be agreed with the OAG and AGSA.

6.50 The Technical Committee QUESTIONED what the Secretariat intends to do with the information obtained from valuation experts and other stakeholders on the type of heritage assets for which it is challenging to determine a reliable value. It was NOTED that this background information will inform the appropriate action to be taken when it is difficult to obtain values for some heritage assets. The information will also support the Board's conclusion in the basis for conclusions if the principles in GRAP 103 are amended.

6.51 Some Technical Committee members QUESTIONED why auction prices are not appropriate in determining a value for a heritage asset. It was NOTED that, for heritage assets, the valuation experts indicated these prices usually represent the highest possible value for a heritage item, rather than the price in an active market. It was AGREED that the Secretariat will again confirm this with the valuation experts prior to developing the FAQ.

6.52 The Technical Committee AGREED with the other recommendations to address the challenges with determining a reliable value on initial recognition.

Reasons for not being able to determine a value for a heritage asset on initial recognition

6.53 It was NOTED that users indicated that the disclosures included in the financial statements about why a reliable value could not be determined for a heritage asset on initial recognition are useful to hold entities accountable and to make decisions. However, it was observed that reflecting a heritage asset at a R1 value is not useful.

6.54 It was NOTED that a concern was raised by some users that, in some instances, the reason for not being able to determine a value was accepted and justifiable for audit committee members, but some auditors did not accept these reasons.

6.55 The challenges for not being able to determine a value for some heritage assets were NOTED. It was NOTED that some preparers proposed that standardised and uniform policies or guidance should be developed for collections that cannot be valued due to ethical or other reasons.

6.56 It was NOTED that proposals on how to address the comment from users and preparers in this area are addressed as part of the challenges to initially determine a value for heritage assets.

Continue to re-asses if a reliable value becomes available

6.57 It was NOTED that users supported the continuous re-assessment in determining a value for a heritage asset where an initial value could not be determined. Preparers, however, had diverse views on this with some indicating that determining a value for a heritage asset is a past event, and that it is unlikely that a value will become available

subsequently. These preparers also indicated that capacity and funding constraints within the entity will hinder the entity from undertaking subsequent re-assessments.

- 6.58 It was NOTED that the preparers that supported a re-assessment indicated that an annual re-assessment will be too onerous, and that the Standard should prescribe how often, and when such re-assessments should be undertaken.
- 6.59 It was NOTED that the Secretariat proposes that entities should be required to undertake a re-assessment when an indicator has been triggered. GRAP 103 should include guidance on when an indicator is triggered. The Technical Committee AGREED with the recommendation.

Area 3: Determining values for heritage assets after recognition

- 6.60 It was NOTED that most preparers selected to apply the cost method as the subsequent measurement basis for heritage assets as (a) it is more cost effective compared to the revaluation model; or (b) because they were advised by the DAC to select this method.
- 6.61 It was NOTED that the revaluation method is mostly applied to value heritage buildings and art collections for insurance purposes, or to understand how the value of the heritage asset changes between valuations. The frequency of revaluations are between three and five years.
- 6.62 It was NOTED that users indicated that the choice of the measurement basis did not influence their ability to hold entities accountable and to make decisions.
- 6.63 It was NOTED that most preparers are not familiar with the Directive 11 on *Changes in the Measurement Basis following the Initial Adoption of Standards of GRAP*. It was NOTED that preparers proposed that the Board should consider extending the effective date of the Directive.
- 6.64 The following proposals from the Secretariat were NOTED:

Significant issues

- (a) Eliminate the revaluation method as a subsequent measurement basis in GRAP 103 to address concerns about cost implications of GRAP 103 and lack of valuers.
- (b) Develop new transitional provisions to deal with the elimination of the revaluation model and delete the application of Directive 11 to heritage assets.
- 6.65 The Technical Committee INDICATED that they do not support the extension of the effective date for Directive 11 as entities had sufficient time to adopt GRAP 103.
- 6.66 The Technical Committee DISAGREED with the recommendation to eliminate the revaluation model as a subsequent measurement basis. It was NOTED that it is inappropriate to eliminate a measurement basis based on cost implications or the fact that a minority of entities are applying that basis. Management should be able to select the most appropriate measurement basis that best meets the information needs of its users. Some members also NOTED that the revaluation model best reflects the current value of the entity's heritage assets to generate economic benefits or provide service potential.

6.67 The Technical Committee AGREED that there should be no change to the measurement requirements in GRAP 103. Both the cost model and revaluation model should be retained as a subsequent measurement basis for heritage assets.

Area 4: Impairing heritage assets

6.68 It was NOTED that stakeholders confirmed that information on impairment provides useful information as it:

- (a) indicates a loss of value;
- (b) helps to assess if the heritage asset is properly maintained and preserved; and
- (c) provides information on the condition of the heritage asset.

6.69 It was NOTED that one user indicated that, because heritage assets cannot be sold and need to be held indefinitely, presenting an impairment loss in the financial statements is not useful.

6.70 It was NOTED that one respondent requested the Board to reconsider some of the indicators, while others indicated that the only indicator considered to determine if an impairment has occurred, is physical damage. It was NOTED that the list of indicators provided in GRAP 103 is only the minimum that entities may consider, and that entities may identify other indicators. It was also NOTED that the Secretariat confirmed through engagement with valuers that physical damage is the most common indicator, but not the only indicator to consider if a heritage asset is impaired.

6.71 It was NOTED that both users and preparers indicated that the calculation of the recoverable amount or the recoverable service amount is challenging. Entities make use of experts to (a) determine if there is an indicator of impairment; and (b) to assist with the impairment calculation.

6.72 The Technical Committee RECOMMENDED that the Secretariat engage with the valuation experts to understand what type of indicators are commonly considered to determine if a heritage asset is impaired. The list of indicators in GRAP 103 could then be expanded with some of the more commonly considered indicators..

6.73 It was NOTED that some preparers highlighted disagreements with auditors relating to impairment. The Secretariat proposes to engage with the AGSA on these matters.

6.74 It was also NOTED that the Secretariat proposes to monitor the IPSASB's measurement project as it is likely to provide guidance on determining the replacement cost and value in use.

6.75 The Technical Committee AGREED with these recommendations.

6.76 It was NOTED that the Secretariat proposes to engage with:

- (a) the DAC to develop practical examples of when an indicator for an impairment has been triggered and to illustrate the calculation of the recoverable amount or recoverable service amount as part of developing simplified guidance; and
- (b) the OAG to include, in the GRAP Accounting Guideline, practical application guidance on the calculation of the recoverable amount, or recoverable service amount and examples of when an impairment indicator has been triggered.

6.77 The Technical Committee AGREED with these recommendations.

Area 5: Heritage assets with an alternative use

Assessing if a significant portion of the heritage asset has an alternative use

6.78 It was NOTED that most preparers indicated that they have challenges to determine if a heritage asset's alternative use is significant. Preparers proposed that guidance should be developed to ensure consistent application of the principle in GRAP 103.

6.79 It was also NOTED that one preparer questioned whether the heritage asset should be apportioned between the component that is used as a heritage asset, and the portion that has a significant use.

Classification of heritage asset with a significant alternative use

6.80 It was NOTED that all the users indicated that heritage assets should not be classified differently but should only be accounted for using the principles in GRAP 103, irrespective of any alternative use. Users noted that the objective remains the preservation of the heritage asset, and not classifying all heritage assets as a single line item in the financial statements may distort the reason for having or holding these assets. Government may also not be able to consolidate the total value of the country's heritage estate.

6.81 It was also NOTED that users indicated that, as soon as heritage assets are classified in a different asset category, the disclosures required by GRAP 103 are neglected in many instances.

6.82 It was NOTED preparers had diverse views on the classification of heritage assets with a significant alternative use. Those that indicated that the asset should be classified based on its significant use noted that the cost of using the heritage asset for another purpose should be reflected in the financial statements. Users will be able to make informed decisions about how the alternative use impacts the value of the heritage asset.

6.83 It was NOTED that those that disagreed with the different classification of heritage assets noted that users may understand a different classification to be that the heritage asset has lost its heritage status, and that the entity is no longer required to preserve the heritage asset. These preparers also noted that separating heritage assets into different asset categories may confuse users, and users may not get an accurate picture of all the entity's heritage assets.

6.84 It was NOTED that one preparer questioned if it is appropriate to require that the value of a heritage asset with a significant alternative use should reflect both a heritage value, and a value for the asset's alternative use.

6.85 It was NOTED that the Secretariat proposes to amend the principles in GRAP 103 to require the classification of all heritage assets together by presenting heritage assets as a single line item on the face of the statement of financial position, irrespective of their use. The disclosure note to heritage assets in the financial statements should distinguish between those heritage assets that only have a heritage use, and those heritage assets with a significant alternative use. Additional information on the heritage asset's alternative use should be presented as part of this disclosure note.

6.86 The Technical Committee AGREED with recommendation to classify all heritage assets as a single line item but DISAGREED with the recommendation to make a distinction

between heritage assets that have a heritage use and those with an alternative use. It was RECOMMENDED that, based on their nature and the fact that all heritage assets are held indefinitely to be preserved for the benefit of present and future generations, information about a heritage asset's alternative use should only be presented in the note to heritage assets.

Depreciation of heritage asset with a significant alternative use

- 6.87 It was NOTED stakeholders had mixed views on whether a heritage asset with a significant alternative use should be depreciated. Those that supported the depreciation, noted that the consumption of the heritage asset should be reflected in the financial statements. Those that disagree with depreciating a heritage asset with a significant alternative use noted that:
- (a) the objective for having or holding a heritage asset remains the indefinite holding and ongoing preservation of the asset;
 - (b) a residual value will not be determinable as heritage assets may not be sold; and
 - (c) depreciating heritage assets contradicts the Board's conclusion in GRAP 103 that heritage assets should not be depreciated.
- 6.88 It was also NOTED that preparers indicated that they had challenges with determining a useful life and residual value in the depreciation calculation.
- 6.89 Based on the comment from stakeholders, two alternatives to address the divergent views on depreciation were presented to the Technical Committee, i.e.
- (a) Alternative 1: Heritage assets with a significant alternative use should not be measured in accordance with GRAP 103, but in accordance with the applicable Standard of GRAP. This approach will also require entities to depreciate heritage assets with a significant alternative use.
 - (b) Alternative 2: All heritage assets should be measured in accordance with GRAP 103, irrespective of any alternative use or whether the alternative use is significant.
- 6.90 Some Technical Committee members SUPPORTED the view that heritage assets should be depreciated as depreciation reflects the value of the asset consumed when the asset has an alternative use.
- 6.91 The majority of the Technical Committee members, however, supported the view to not depreciate heritage assets. These members NOTED that all heritage assets are held indefinitely, with the objective to be preserved. The cost of preservation represents more than only the consumption of the heritage asset through use in the day-to-day operations of the entity, if applicable. In many instances, the depreciation expense is insignificant, as the value of most heritage assets increase over time. The Technical Committee CONCLUDED that a heritage asset should not be accounted for in terms of another Standard of GRAP as the definition of a heritage asset will then not align with the concept that heritage assets need to be held indefinitely.
- 6.92 It was also NOTED that estimating the useful life and determining the residual value for a heritage asset with a significant alternative use may be challenging.

- 6.93 Based on these observations, the Technical Committee AGREED to recommend to the Board that heritage assets should not be depreciated, but only assessed for impairment on an annual basis. The operational cost for using a heritage asset in the day-to-day operations of the entity will be reflected through the repairs and maintenance expense. It was also AGREED that it will be recommended that all heritage assets should be accounted for in terms of GRAP 103, and that no other Standard of GRAP should be considered.
- 6.94 The Secretariat PROPOSED to delete the principle in GRAP 130.44 that requires that the fair value of a heritage asset with an alternative use should reflect the heritage asset's fair value and the value obtained from its use in the production or supply of goods or services or for administration purposes. It was NOTED that this principle is misleading. The Technical Committee AGREED with the recommendation.

Area 6: Disclosure of heritage assets

- 6.95 It was NOTED that users indicated that they currently under utilise the information presented in the financial statements.
- 6.96 It was NOTED that preparers did not note any specific challenges with presenting the required disclosures.
- 6.97 Proposals were NOTED from users and preparers on additional information that could be included in the financial statements, and guidance that could be developed on the current disclosures.
- 6.98 It was NOTED that the additional disclosures proposed by users and preparers are either more relevant to a comprehensive understanding of the entity's service performance objectives, how the entity meets its legislative mandate, or comprises management information. The Secretariat therefore proposed to engage with the National Treasury and the DAC to consider whether they can include these disclosures in other reports outside the financial statements.
- 6.99 The Technical Committee AGREED with the recommendation.
- 6.100 It was QUESTIONED whether the Board will consider eliminating the encouraged disclosures in GRAP 103 following past practice to eliminate these in other Standards. It was AGREED that the Secretariat should review the encouraged disclosures in GRAP 103 and make a recommendation to the Board.
- 6.101 Some Technical Committee members NOTED that disclosing information on heritage assets that are borrowed from, or on loan to, other entities could be useful. It was RECOMMENDED that this disclosure requirement should be considered as a mandatory disclosure requirement in GRAP 103.
- 6.102 It was also NOTED that information on the reason for selling a heritage asset could be useful to users and should be considered as a mandatory disclosure requirement.

Next steps

- 6.103 It was NOTED that the Secretariat observed that, following the review, stakeholders have expectations that the Board will address their comment in a timely manner through revising GRAP 103. It was also NOTED that, despite the IPSASB's intention to include guidance on heritage assets in IPSAS 17 as application and implementation guidance

in IPSAS 17, the Secretariat is of the view that providing specific guidance locally on heritage assets in a separate Standard remains relevant.

6.104 The Technical Committee AGREED that the Board should retain GRAP 103 as a separate Standard. It was AGREED that this recommendation should be made to the Board.

6.105 It was NOTED that the Secretariat proposes that the Board should consider making amendments to GRAP 103 to address the South African specific matters that were raised during the review. Monitoring the outcome of the IPSASB's heritage asset project and measurement project will be part of the next phase of the project. The Technical Committee AGREED with the recommendation.

6.106 It was NOTED that the Secretariat proposes to develop a progress report to communicate the results and planned actions of the review to stakeholders. The Technical Committee RECOMMENDED that the progress report should be issued as a staff document based on the principle that it communicates the Board's proposed actions. It was NOTED that the actual changes proposed to GRAP 103 will still follow a due process.

6.107 It was NOTED that the Secretariat proposes to engage with the OAG and AGSA on issuing a joint communication as an outcome of this review. The Technical Committee AGREED with the recommendation.

6.108 No comment was NOTED on the summaries of written and verbal comment.

Secretariat

EMERGING ISSUES

7.1 The Secretariat TABLED an update on emerging issues at the meeting. The Secretariat NOTED the following:

- (a) An update was received from the SAICA team supporting the TVET and CET colleges. Four colleges improved their audit outcomes for the 31 December 2019 year end, and two of these four received unqualified audit opinions. Three audits for 2019 were not yet finalised. Two issues arose at the TVET colleges regarding the application of Standards of GRAP on (1) the accounting for land owned by the Department of Public Works, and (2) whether certain funding received from the Department of Higher Education and Training was conditional or not. These issues were resolved but will be monitored going forward.
- (b) The discussion on the GRAP 104 reference group is yet to take place. The OAG is awaiting confirmation of the project allocations. Once these are known, the Secretariat will meet with the OAG.

7.2 A member OBSERVED that the finance skills at the TVET colleges seem to be improving.

ADMINISTRATION

Projects to be commenced in 2021/22

General

8.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
 - Proposed Project Brief for the Desktop Review of GRAP 24 on *Presentation of Budget Information in Financial Statements*.
- 8.2 The Secretariat EXPLAINED the objective and proposed approach to the project, as well as some of the key issues that would be considered. These include:
- Whether the comparison should, or has been, presented as required, as only entities that make their budgets publicly available are required to apply GRAP 24.
 - How the comparison is presented.
 - Whether the reconciliations required by GRAP 24 are being presented.
- 8.3 The Secretariat NOTED that the timeframes in the project brief would be updated as follows:
- June 2021 – Discussion on project brief.
 - December 2021 – Results of the review.
 - March 2022 – Proposed Research Paper.

Secretariat

- 8.4 Members AGREED with the proposals in the project brief and the potential issues to be reviewed. A member NOTED that the review should identify entities that should have potentially presented the comparison to assess compliance with the basic requirement of when to present this information.
- 8.5 Technical Committee members RECOMMENDED the project brief to the Board for approval.

Current work programme and achievement of targets

- 8.6 The Secretariat TABLED the updated work programme and the report on the achievement of the quarterly targets at the meeting.
- 8.7 The Secretariat NOTED that the timeframes for the review of Directive 12 will be revised. The update is as follows:
- Review of the Preface – March 2021.
 - Results of review – June 2021.
 - If any changes are required based on decisions in June – September 2021.
- 8.8 The Secretariat NOTED that this target will not be met for 2020/21 as the final review will be completed in 2021/22. All other targets will likely be met.
- 8.9 The Secretariat NOTED that the table will be updated for two of the indicators. The submission of comment letters to the IPSASB and IASB will be updated to state “not applicable” rather than “100%” where there was no requirement to submit comment letters in that period.

Secretariat

INTERNATIONAL STANDARD SETTING ACTIVITIES

General

- 9.1 The Secretariat PROVIDED an overview of the September 2020 IPSASB meeting. The Secretariat EXPLAINED that a number of Exposure Drafts are due to be approved for issue in December.
- 9.2 Members QUESTIONED whether the IPSASB has considered the capacity of its constituents to deal with the volume of material published for comment.
- 9.3 The Secretariat INDICATED that it has raised this issue with the IPSASB, through comment letters as well as the with the staff, that the respondents find it difficult to respond to requests for comments given the volume.
- 9.4 Members RAISED concerns about the quality of the documents being issued, and that this would need to be monitored.

Overview of comment letters on ED 70 to ED 72

- 9.5 The Secretariat NOTED the comments letters submitted to the IPSASB on the following topics:
- ED 70 on *Revenue with Performance Obligations*.
 - ED 71 on *Revenue without Performance Obligations*.
 - ED 72 on *Transfer Expenses*.
- 9.6 The Secretariat SHARED the following key matters included in the comment letters.

ED 70 – pervasive issues

- The Secretariat is concerned about the use of private sector principles to develop requirements for the public sector. IFRS 15 on *Revenue from Contracts with Customers* was used as the basis to develop ED 70, and many of the same concepts have been used to develop ED 71 and ED 72.
- The definition of “binding arrangement” is a concern. How a transaction arises should be distinguished from the characteristics of the transaction. These two ideas are combined in the definition. The existence, or not, of a binding arrangement is used to determine the accounting requirements that would apply to a transaction, which could result in inappropriate accounting outcomes.
- The Secretariat has concerns with how the performance obligations approach was developed, which include:
 - information that certain users need about exchange/non-exchange transactions may no longer be available; and
 - distinguishing performance obligations from present obligations could be difficult.

ED 70 – specific issues

- The guidance on transactions with components is unhelpful and would not enable entities to identify a transaction with components. The Secretariat further

disagrees with the position to account for a transaction with components where the components cannot be separated fully in ED 70.

- The requirement to separate “binding arrangement assets” from “receivables” seems unnecessary and the informational value for users is questionable.
- The Secretariat does not support the criteria in step 1 of the 5-step revenue recognition model from IFRS 15 to identify a binding arrangement. In particular, there is concern about the criterion to determine whether the purchaser has the ability and intention to pay the transaction price, and the implications it has for compelled transactions.
 - The guidance is unclear on how an entity determines when an implicit price concession has been granted and distinguishing it from impairment losses.
 - The implications are that entities could apply cash accounting, information users need may no longer be available in the financial statements, and the practical implications are that entities would need to do calculations outside of their systems.

ED 71

- The Secretariat does not support (a) the assessment of how specified activities and requirements to incur eligible expenditure give rise to liabilities, and (b) that specified activities and eligible expenditure on their own gives rise to liabilities. Only where an entity has a return obligation would a present obligation exist. The application of the principles in ED 71 results in the recognition of liabilities that is not aligned to the Conceptual Framework and IPSAS 19 on *Provisions, Contingent Liabilities and Contingent Assets*.
- The guidance is unclear in ED 71 on how an entity applies the definition of “binding arrangement” to conclude that transactions with present obligations result in rights and obligations for both the transfer provider and transfer recipient. The steps to assess a transaction from a binding arrangement with present obligations are also unclear.
- No support for the subsequent measurement of non-contractual receivables in accordance with IPSAS 41 on *Financial Instruments*.
 - Due to the nature of non-contractual receivables and the information available for them, it is inappropriate for entities to apply amortised cost in IPSAS 41 and question the information value for users.
 - Entities may also have challenges to apply fair value in IPSAS 41 where amortised cost cannot be applied. It is however unclear what ED 71 means by “fair value”.
- As there are no performance obligations in the transactions in ED 71, it is questionable whether recognising “binding arrangement assets” and “binding arrangement liabilities” have informational value for users. As in ED 70, the need to separate binding arrangement assets from receivables is not necessary.
- The disclosure requirements for transactions with present obligations are onerous and extensive when compared to IPSAS 23.

- The Secretariat does not support how entities should assess whether the inflow of resources is probable in order to recognise the transaction. The same concerns as raised in ED 70 about the assessment of the purchaser’s ability and intention to pay the transaction price applies.
- The measurement requirements are of concern, especially for taxes. The consequence of including the requirements related to “transaction price” from ED 70 in ED 71 is that entities would be required to determine a range of possible amounts in estimating the transaction price.

ED 72

9.7 The following comments were NOTED:

- Questions were raised about the appropriateness of the PSPOA to a limited set of transactions, i.e. 3rd party arrangements. The same level of complexity is not applied to exchange transactions, so the level of complexity for 3rd party arrangements seems inappropriate.
- Several comments were raised on the application of the PSPOA, including how to allocate the transaction consideration to performance obligations. This is particularly problematic where the transaction consideration is higher than the amounts attributed to the performance obligations.
- The classification of transfers of goods and services is unclear. It is unclear whether these transactions are in the scope of IPSAS 19 or whether they are in the scope of ED 72.
- The presentation and disclosure requirements are onerous.

9.8 Members OBSERVED that the allocation of the consideration raised interesting questions where government is overpaying for goods and services.

CLOSING REMARKS

10.1 The meeting dates for 2021 were NOTED.

10.2 Members were THANKED for their contribution over the year, with a special thanks to members whose terms are ending in February next year.

10.3 The meeting was CLOSED at 14:00.

Prepared by:	J Poggiolini	19 November 2020
Reviewed by:	C Braxton	X November 2020
Issued:		X November 2020

Signed: _____