

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

This Progress Report communicates the Board's responses to the comment received on the Post-implementation Review of GRAP 103 on *Heritage Assets*

Background

The Accounting Standards Board (“the Board”) undertook a post-implementation review of GRAP 103 on *Heritage Assets* (“the review”) during 2020. The purpose of the review was to assess if GRAP 103 achieved its objective of providing relevant information to users of financial statements on heritage assets, and to identify difficulties experienced in applying GRAP 103.

In December 2020 the Board evaluated the comment received from the review and agreed actions and timelines. The Board's responses to the written and verbal comment received are published on the ASB's website [[GRAP | Comment on proposals | Feedback on proposals | ED 180](#)].

Agreed actions

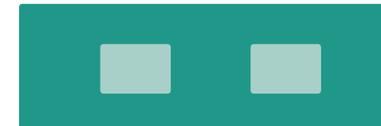
The Board agreed to address the comment from stakeholders by:

- Amending GRAP 103. The amendments will follow the Board's due process and will be published for comment.
- Developing new Frequently Asked Questions (FAQs), or revising existing FAQs dealing with heritage assets.
- Providing feedback to relevant stakeholders such as the Department of Arts and Culture (DAC), the South African Heritage Resources Agency (SAHRA), the Auditor-General South Africa (AGSA), the Independent Regulatory Board of Auditors (IRBA), and the Office of the Accountant-General (OAG).

Next steps

The Board will consider an Exposure Draft (ED) of amendments to GRAP 103 in September 2021.

The Secretariat will finalise the development and/or revision of the FAQs in September 2021.



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What the Board heard

General feedback

Feedback from users and preparers

Users

Positive feedback was received from users of the financial statements on the reporting of heritage assets using GRAP 103. Users shared challenges experienced by entities with the implementation of GRAP 103, and acknowledged that they need to enhance their analysis and evaluation of the information on heritage assets in the financial statements.

Preparers

Preparers noted that GRAP 103 had a positive effect on the way in which they manage and preserve their heritage assets. The following general concerns were noted:

- (a) The cost of implementing GRAP 103 was high – The value added by recognising heritage assets in the financial statements was questioned as:
- the objective for holding heritage assets is different to other assets that are used in the day-to-day operations; and
 - legislation prohibits entities from selling heritage assets under their control.
- (b) Skill and capacity shortages within entities – A limited number of experts exist to assist entities with the valuation of heritage assets.

Suggestions to address these challenges include:

- that the sector should provide guidance to entities on how to manage and preserve heritage assets;
- sharing knowledge between entities through, for example, the development of a centralised database that can be used as a reference point to determine values for similar heritage assets;

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What the Board heard

General feedback

Feedback from users and preparers (continued)

- encouraging entities to consider guidelines and standards published by entities responsible for the valuation and conservation of assets; and
- developing a reporting framework for smaller entities, particularly smaller museums.

The following disagreements between preparers and auditors were also noted:

- auditors not permitting and/or not relying on valuations obtained by some curators and/or internal valuers, despite the curator and/or internal valuer having the requisite competence to undertake a valuation in accordance with the requirements of the applicable Standards of GRAP;
- auditors requesting the entity to obtain three valuations to support the valuation of a heritage asset;
- auditors not placing reliance on values obtained due to unclear methodologies, concerns about the valuation bases applied or because entities could not produce supporting evidence for the valuations obtained; and
- different views on the application of the GRAP 103 definition of a heritage asset; and conclusions on when an indicator for impairment has been triggered.

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The Board's decisions

Actions by the Board to address the general feedback

The Board agreed that areas of disagreement between the preparers and auditors should be shared with the AGSA and IRBA.

The Board confirmed its previous decision to not introduce specific reporting requirements or guidance for smaller entities. The Research Paper on *Application of Standards of GRAP by Small Entities* can be accessed on the ASB's website at [Research-Paper-on-Application-of-GRAP-by-Small-Entities.pdf \(asb.co.za\)](https://www.asb.co.za/Research-Paper-on-Application-of-GRAP-by-Small-Entities.pdf).

As legislation requires entities to account for all assets under their control to enable users' decision making and to hold entities accountable, the Board confirmed that all heritage assets should be recognised. The importance of their recognition should be communicated to preparers by the OAG and DAC.

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 others, comments in this area will be shared by with the DAC and/or SAHRA. Refer to Annexure A *Actions to be considered by the DAC and/or SAHRA* No. 1 and 3.

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What the Board heard

Classification of heritage assets as a separate asset category

Feedback from users and preparers

Users confirmed that classifying heritage assets as a separate asset category in the statement of financial position provides relevant information to hold entities accountable and to make decisions. The separate classification provides a mechanism to ensure that heritage assets are preserved and maintained differently to other assets.

Specific challenges noted to separately classify heritage assets include:

- Different criteria are applied by preparers to assess if an asset should be recognised as a heritage asset, resulting in different interpretations, and/or entities classifying similar heritage assets differently.
- The separate classification increases the risk of theft as information is publicly available. Due to the lack of funding, entities cannot properly insure their heritage assets.
- Skill and capacity shortages result in entities making use of experts to classify heritage assets
- Assessing if an asset should be classified as a heritage asset generally takes time, and there is uncertainty if, and at what value, items need to be recognised until the evaluation is completed.
- Practical challenges in assessing control of heritage assets, when the definition of a heritage asset is met, accounting for heritage assets subject to lease arrangements, and accounting for specimens collected for research or held for educational or decorative purposes.

Preparers proposed that the development of standardised conservation policies and a co-ordinated approach to assess if the definition of a heritage asset is met could address some of the challenges experienced.

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What the Board heard

Classification of heritage assets with a significant alternative use

Feedback from users and preparers

As the objective remains the preservation of heritage assets, users expressed the view that all heritage assets should be accounted for using the principles in GRAP 103, irrespective of any alternative use. Not classifying all heritage assets as a single line item in the financial statements may distort the reason for having or holding these assets, and government may not be able to consolidate the total value of the country's heritage estate.

Preparers had diverse views on the classification, as well as the depreciation, of heritage assets with an alternative use. Those that supported the view that heritage assets should be accounted for based on their use, noted that the cost of using the asset for another purpose should be reflected in the financial statements. Depreciation should be reflected as a cost of service delivery to enable users to make informed decisions of how the alternative use impacts the value of the heritage asset. Those that supported the view that all heritage assets should be classified as such, noted that users may believe that the heritage asset has lost its heritage status, or that the entity is no longer required to preserve the heritage asset.

Challenges in determining a useful life and a residual value for heritage assets were also noted.

Classification of heritage assets using GRAP 103 or legislation

Feedback from users

Users indicated that disclosing information on heritage resources designated as such in terms of legislation, but which are not classified and accounted for as heritage assets in accordance with GRAP 103, and vice versa, will be useful.

Users and preparers noted that the legislative description of when an item is as a heritage resource is clearer than the definition of a heritage asset in GRAP 103. It was therefore proposed that the Board should consider aligning the definition of a heritage asset to the legislative explanation of a heritage resource.

Guidance was also requested on the process to be applied where entities subsequently conclude that the designation of a heritage resource in legislation is inappropriate.

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The Board's decisions

Actions by the Board to address the feedback

The Board agreed to review the definition of a heritage asset in GRAP 103 to consider how it could be enhanced to better align it with the legislative description of a heritage resource in the National Heritage Resource Act, and the SAHRA classification.

As the Board supports the views that all heritage assets should be accounted for as heritage assets, it agreed to amend GRAP 103 to require that:

- all heritage assets should be accounted for using GRAP 103, irrespective of their alternative use. Heritage assets with an alternative use will therefore no longer be depreciated;
- heritage assets should be presented as a single line item on the face of the statement of financial position; and
- if material, a note disclosure on the heritage asset's significant alternative use may be provided.

Annexure A includes information on actions requested of other stakeholders.

What the Board heard

Initial recognition of heritage assets

Feedback from preparers

Preparers shared the following challenges in determining a reliable value for heritage assets on initial recognition, and in presenting the GRAP 103 disclosures where an initial value could not be determined:

- (a) Use of valuers – entities use valuers to value heritage assets as curators are not able to determine a value due to legislative restrictions, capacity constraints, concerns relating to conflict; or due to a lack of skill and expertise. There is a limited number of valuers available to assist with valuations, and using these experts has cost implications. There is no standardised guidance to prescribe what qualifications a valuer should have, who qualifies to determine a value and the level of detail that should be included in valuation reports.

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What the Board heard

Initial recognition of heritage assets

Feedback from preparers (continued)

- (b) Valuation approaches and methodologies – as valuers apply different approaches and methodologies to determine a value for heritage assets, different values may be determined for similar heritage assets. There is no uniform technique to value heritage assets.
- (c) Values for certain heritage assets cannot be determined – valuing heritage assets may be appropriate for some heritage assets, but not all. For example, values cannot be determined for archaeological and natural history collections due to the nature of the heritage asset, or due to ethical reasons.
- (d) Unique characteristics of heritage assets – heritage assets are unique and cannot be replaced once damaged or destroyed. Using replacement cost to determine a value for the heritage assets is therefore inappropriate.
- (e) Lack of supporting documentation – there is generally a lack of supporting documentation for heritage assets donated to entities and, as a result, determining a value is challenging.
- (f) Restrictions on the sale of heritage assets – due to legal restrictions on the sale of some heritage assets, a value cannot be determined as there is no active market. The objective is to hold heritage assets indefinitely for the benefit of present and future generations rather than to sell them.
- (g) Valuing heritage assets at an insurance value or using an auction price are not always appropriate, as these values could often be inflated.

Preparers also questioned if (a) land, and other assets on the land for example a burial site, should be accounted for separately, and (b) in determining a value for the heritage asset, if the value of a heritage asset with a significant alternative use should reflect both a heritage value and a value for heritage asset's alternative use.

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What the Board heard	
Re-assess if a reliable value becomes available	
Feedback from users and preparers	<p>Currently, GRAP 103 does not require an entity to continuously re-assess if reliable information becomes available where a value could not initially be determined for a heritage asset. Users indicated that such a re-assessment should be required, while preparers had different views. Those that did not support a re-assessment noted that determining a value for a heritage asset is a past event, and unless legislation changes, it is unlikely that a value will subsequently become available. Capacity and funding constraints may also hinder the entity from undertaking subsequent re-assessments.</p>
The Board's decisions	
Actions by the Board to address the feedback	<p>The Board agreed to:</p> <ul style="list-style-type: none"> (a) allow entities to use peer data to determine values for equivalent/similar heritage assets when they do not have sufficient sources of entity-specific data. Appropriate adjustments will need to be made based on the characteristics and/or condition of the heritage asset; (b) clarify 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 these should not preclude an entity from determining a reliable value; (c) clarify that a reliable value may not be determined for certain types of heritage assets; (d) clarify that if the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, a fair value cannot be determined for the heritage asset; (e) require entities to re-assess if a value becomes available where a value could not initially be determined for the heritage asset, using an indicator based assessment;

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The Board's decisions

Actions by the Board to address the feedback (continued)

- (f) clarify that judgement should be applied to aggregate individually immaterial items in applying the recognition criteria; and
 - (g) delete the requirement that a heritage asset with a significant alternative use should reflect a heritage and other value.
- Annexure A includes information on actions the actions requested of other stakeholders.

What the Board heard

Measurement bases

Feedback from users and preparers

Users noted that the measurement basis selected to subsequently measure heritage assets does not affect their ability to hold entities accountable and to make decisions about heritage assets.

The majority of the preparers indicated that they apply the cost basis as their subsequent measurement basis as it is more cost effective because it does not require frequent revaluations. Some preparers noted that they have selected the cost model as it was recommended by the DAC.

Preparers that apply the revaluation model indicated that they apply it to measure heritage buildings and art collections. The basis was selected for insurance purposes, and to understand how the value of the heritage asset changes between valuations. The frequency of the revaluations varies between three and five years.

Most preparers indicated that they are not familiar with Directive 11 on *Changes in the Measurement Basis Following the Initial Adoption of Standards of GRAP*. After understanding the provisions of the Directive, preparers proposed that the Board should consider allowing entities another opportunity to apply the Directive.

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What the Board heard	
Impairment of heritage assets	
Feedback from users and preparers	<p>Users confirmed that presenting information on impairment is relevant to hold entities accountable as it:</p> <ul style="list-style-type: none"> • indicates a loss of value; • helps to assess if the heritage asset is properly maintained and preserved in accordance with the entity’s mandate; • provides information on the condition of the heritage asset; and • assists users to assess if the heritage asset should continue to be recognised as a heritage asset. <p>Preparers noted that they continuously need to appoint valuation experts to:</p> <ul style="list-style-type: none"> • determine if an indicator of impairment has been triggered; and/or • assist with the impairment calculation. Entities find it challenging to calculate the remaining service potential of an asset that is held indefinitely, and to determine the fair value less cost to sell as legislation prohibits the sale of heritage assets. <p>Preparers requested the Board to reconsider the indicators on the deterioration of a heritage asset, and a decline in market values. Some preparers indicated that the only indicator considered to determine if a heritage asset is impaired, is physical damage. After testing this comment with the valuation experts, it was noted that, even though physical damage is the most common indicator, it is not the only indicator considered to determine if a heritage asset is impaired.</p>

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The Board's decisions

Actions by the Board to address the feedback

The Board agreed that an engagement with the valuation experts is needed to understand what indicators are commonly used to assess if a heritage asset is impaired. Based on this discussion, the list of impairment indicators in GRAP 103 may be revised.

Other actions agreed by the Board include:

- (a) retaining both the cost model and the revaluation model in GRAP 103 to allow management to select a measurement basis that best meets the information needs of its users; and
- (b) not extending the effective date of Directive 11 as entities had sufficient time to adopt GRAP 103.

Annexure A includes information on actions requested of other stakeholders.

What the Board heard

Disclosure of heritage assets

Feedback from users and preparers

Stakeholders proposed the following additional disclosures in the financial statements:

- more explanatory information on the upkeep and maintenance of heritage assets with alternative uses;
- information on the condition of heritage assets and their maintenance;
- explanations of an entity's custodial responsibility, including dual custodianship, and the impact of these requirements on the entity's budget allocations;
- reasons for the disposal of a heritage asset, especially where legislation prohibits such a disposal;
- presenting information about the heritage asset's alternative use, irrespective of whether the alternative use is significant;

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What the Board heard	
Disclosure of heritage assets	
Feedback from users and preparers (continued)	<ul style="list-style-type: none"> improved disclosure on repairs and maintenance of heritage assets to inform decisions on whether the entity is meeting its legislative requirements; information to understand the reason for having or acquiring specific heritage assets; methods used to determine the range of estimates within which fair value is likely to lie when a heritage asset is not recognised; items controlled by an entity but which still need to be evaluated to conclude if the definition of a heritage asset in GRAP 103 is met; and practices applied to manage, preserve and value the heritage asset. <p>Some preparers also proposed that the following additional guidance should be provided in GRAP 103:</p> <ul style="list-style-type: none"> more detail on what information should be disclosed for heritage assets on loan; detail on what information should be presented when a reliable value cannot be determined for a heritage asset; and an indication of the minimum disclosures that an entity should present on heritage assets.
The Board's decisions	
Actions by the Board to address the feedback	<p>Annexure A includes information on actions requested of other stakeholders in addressing stakeholders' comment.</p>

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Other considerations that could impact the review of GRAP 103

IPSASB projects relevant to the review of GRAP 103

The Board considers International Public Sector Accounting Standards (IPSAS) as issued by the International Public Accounting Standards Board (IPSASB) in developing Standards of GRAP. Currently the IPSASB is undertaking two projects that are of relevance to the review. Two pronouncements were issued for comment in April 2021 that affect heritage assets are as follows:

- (a) Amendments to IPSAS 17 on *Property, Plant and Equipment* - The amendments to IPSAS 17 are aimed at addressing the lack of guidance in accounting for heritage assets. Currently entities that apply IPSAS are allowed to decide if they want to recognise heritage assets under IPSAS 17, with the application of the measurement principles being optional. If an entity elects to recognise heritage assets in accordance with IPSAS 17, it is also required to apply the disclosure requirements in IPSAS 17. The IPSASB proposes to remove the current scope exclusion of heritage assets in IPSAS 17, along with other paragraphs that made the IPSAS 17 requirements optional.

The IPSASB intends to include application and implementation guidance in IPSAS 17 to explain how the principles in IPSAS 17 should be applied to heritage assets. The application of, among others, depreciation and impairment of heritage assets will also be explained in IPSAS 17.

- (b) A new IPSAS on *Measurement* - This project aims to provide guidance on the initial and subsequent measurement of assets and liabilities, along with measurement related disclosures. The proposed IPSAS identifies and defines measurement bases such as fair value, historical cost, and current service cost. Guidance will also be provided on how these measurement bases should be applied.

The IPSASB's approach, as noted above, is to include guidance on accounting for heritage assets within IPSAS 17. The Board agreed to retain GRAP 103 as a separate Standard of GRAP because South Africa has a large number of heritage resources. A separate Standard therefore remains relevant to address the local accounting issues on heritage assets. The Board agreed to monitor the development of the IPSASB's projects as they (a) will provide guidance on the application of the measurement bases of assets; and (b) are relevant in understanding the international approach to the depreciation of heritage assets.

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How to access information

<p>Access information on the ASB and its work programme online</p>	<p>Visit our website on www.asb.co.za</p> <p>Subscribe to our Newsletter</p> <p>Access the translated versions of the Standards</p> <p>  ASB@ASB_SA </p> <p>  https://www.linkedin.com/company/accounting-standards-board </p> <p>  https://www.facebook.com/AccountingStandardsBoard/ </p>
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Annexure A – Summary of agreed actions

<p>Secretariat of the ASB to develop new FAQs</p>	<p>Develop new FAQs to explain:</p> <ol style="list-style-type: none"> 1. that information on assets does not need to be presented and disclosed on an individual basis, but can be aggregated when presented to address concerns about security risk; 2. the application of the definition of a heritage asset, i.e. that the classification of an asset as a heritage asset should be based on how that asset is currently used and if: <ul style="list-style-type: none"> • the asset has cultural, environmental, historical, natural, scientific, technological or artistic significance; and • the entity intends to hold the asset indefinitely and preserve it for the benefit of present and future generations; 3. why, or in what circumstances, the use of insurance values, individual auction prices and/or quotes from auctioneers may be inappropriate to value heritage assets; and 4. that land should be recognised and accounted for separately from other resources on the land.
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Annexure A – Summary of agreed actions

<p>Secretariat to revise existing FAQs</p>	<p>The following FAQs will be revised:</p> <ol style="list-style-type: none"> 1. FAQ 7.1 on the differences between the legal and accounting classification of heritage assets – Amend to explain that an entity should classify heritage assets using GRAP 103 despite changes in the asset’s legal status. 2. FAQ 7.4 on specimens collected for research – Amend to explain that items held for research and/or items that still need to be evaluated to decide if they are heritage assets, can only be accounted for if the definition of an asset is met. The FAQ will also explain that recognising assets at R1 is inappropriate as it does not reflect the value of the asset.
<p>Actions to be considered by the DAC and/or SAHRA</p>	<p>The following proposals will be shared with the DAC and/or SAHRA:</p> <ol style="list-style-type: none"> 1. As a knowledge sharing initiative between entities, develop a centralised database that provides information on heritage assets, such as the nature and type of heritage asset, its value (if applicable), and if a valuer was used to determine a value for a specific heritage asset, along with his or her details. 2. Develop simplified application guidance and illustrative examples that can be applied by employees that are not familiar with the principles in GRAP 103. 3. Develop simplified guidance on how heritage assets should be managed and preserved. This guidance can also include a reference to guidelines and standards published by other stakeholders concerning the conservation, management, and measurement and valuing of heritage assets. 4. Develop standardised conservation policies and a co-ordinated approach to assist in assessing if the definition of a heritage asset is met. 5. Develop guidance to inform stakeholders on the process to be followed when an entity concludes that a heritage asset should no longer be designated as a heritage resource in terms of legislation.

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Annexure A – Summary of agreed actions

<p>Actions to be considered by the National Treasury</p>	<ol style="list-style-type: none"> 1. The OAG will be asked to update the GRAP Accounting Guidelines on the following issues: <ol style="list-style-type: none"> (a) the treatment of items held for research and/or items that still need to be evaluated; (b) how heritage assets provide service potential to meet the definition of an asset; (c) the accounting for heritage assets subject to lease arrangements; (b) that entities' internal policies should clarify that items controlled by the entity should be recognised if the definition of an asset is met; (c) items should not be recognised at R1; (d) the importance and need to recognise all heritage assets in the financial statements; and (e) practical application guidance on the calculation of the recoverable amount and recoverable service amount, and practical examples of when an indicator of impairment has been triggered. 2. Recommend to the relevant stakeholders at the National Treasury responsible for developing requirements on general-purpose financial reporting to consider: <ol style="list-style-type: none"> (a) 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; and (b) the inclusion of the additional disclosures proposed by stakeholders.
<p>Actions to be considered by the trilateral parties</p>	<p>Engagement between representatives of the ASB, OAG and AGSA to understand the expectations when valuations of assets are undertaken, specifically the level of detail that should be included in the valuation reports, and who is qualified to undertake these valuations.</p>