THE ACCOUNTING STANDARDS BOARD, NATIONAL TREASURY AND THE AUDITOR-GENERAL WORKING TOGETHER TO IMPROVE FINANCIAL REPORTING ON HERITAGE ASSETS

Public sector entities are entrusted with financial and non-financial resources to utilise in the most effective and efficient way to deliver services and contribute to the overall economic growth of the country. Public sector entities, as stewards of these resources, are responsible to protect and safeguard the resources under their control in a responsible manner.

The Accounting Standards Board (ASB) establishes the principles to ensure that relevant information is presented in the financial statements to hold entities accountable and to inform decision-making. The National Treasury (NT) facilitates the implementation of these principles by developing implementation guidance and providing support to entities. The Auditor-General of South Africa (AGSA) expresses an opinion on whether entities' financial performance, financial position and cash flows are fairly presented in accordance with Generally Recognised Accounting Practice (GRAP).

The ASB, AGSA and NT play an important role in improving public sector financial reporting, despite each party having a different mandate. While specific actions are undertaken individually to improve financial reporting, parties have agreed that a collaborative, co-ordinated approach in certain areas will have a greater impact. Accordingly, the three organisations will work together to address issues identified by stakeholders in the ASB's post-implementation review (hereafter referred to as "PIR") of the Standard of GRAP on *Heritage Assets* (GRAP 103).

The objective of the PIR

The ASB undertook a PIR of GRAP 103 to:

(a) assess if GRAP 103 achieves its objective of providing relevant information on heritage assets to users to enable users to hold entities accountable and to improve decision-making; and

(b) to identify difficulties and challenges experienced by preparers in applying GRAP 103.

The written and verbal comments received from stakeholders during the consultation process, and the Board's actions in response to the comments are available on the ASB's website at ED 180 – ASB. A progress report that communicates the Board's agreed actions is also available on the ASB's website at Progress Report GRAP-103.pdf (asb.co.za).

What stakeholders told the ASB about GRAP 103

The results of the PIR, generally, indicated support for GRAP 103. Stakeholders noted that the implementation of GRAP 103 had a positive effect on the way in which entities manage and preserve their heritage assets. Users specifically noted that the separate classification of heritage assets on the statement of financial position provides relevant and useful information for accountability and decision-making purposes. Classifying heritage assets separately provides a mechanism to ensure that heritage assets are preserved and cared for differently to other assets.

Skill and capacity shortages within entities were highlighted as key challenges that impaired the implementation of GRAP 103. The need for additional funding to properly secure heritage assets and enable entities to appoint valuation experts to measure heritage assets was also noted.

Trilateral parties working together to respond to feedback received on GRAP 103

While users found the information on heritage assets useful, preparers noted a few challenges with valuing heritage assets on initial recognition. Concerns were also raised about the classification of heritage assets with a significant alternative use. Based on the inputs and comments from stakeholders, improvements in the following areas are considered:

<u>Issue #1 – Determining a reliable value for heritage assets</u>

Some preparers noted that employees within an entity are not able to determine a value for heritage assets due to legislative restrictions, capacity constraints, the lack of skill, or concerns relating to conflicts of interest. This often results in the entity using external valuation experts. When external valuation experts are used, entities incur additional costs that have budget implications.

The ASB proposes to amend GRAP 103 to allow entities that have no, or insufficient sources of entity-specific data, to use peer group data. Peer group data will allow entities to value their heritage assets based on the value of a comparable heritage asset held by another entity with necessary adjustments for comparability purposes. At present entities do not recognise heritage assets if a fair value cannot be reliably determined. Guidance will be added to explain when fair value cannot be determined reliably.

Where, on initial recognition, an entity is not able to determine a reliable value, it is proposed that GRAP 103 be amended to require an entity to re-assess at each reporting date, if circumstances have changed that enables reliable measurement.

The Office of the Accountant-General (OAG) within NT will update the GRAP Accounting Guideline on *Non-current Assets* (hereafter referred to as the GRAP Accounting Guideline) with these amendments once finalised.

<u>Issue #2 – Valuation information as acceptable audit evidence</u>

During the PIR it was noted that auditors do not always accept the heritage values determined by valuation experts. Reasons include concerns with the valuation basis, a lack of clarity about the methodologies used, or entities not being able to provide evidence to support the valuations obtained.

The trilateral parties addressed these concerns by understanding the expectations from an auditor's and preparer's perspective when assets are valued, specifically:

(a) the detail and extent of information that should be included in the valuation report to be accepted as reliable audit evidence;

(b) acceptable valuation methodologies that can be applied to value assets; and

(c) who is qualified to undertake valuations, specifically when the valuers are employees of the entity.

The OAG agreed to consider the development of practical guidance on the use of experts that value assets.

<u>Issue #3 – Dual classification of heritage assets</u>

Stakeholders expressed a preference for using the principles of GRAP 103 for all heritage assets including heritage assets with a significant alternative use. Not classifying all heritage assets as a single line item on the face of the statement of financial position defeats the need for a separate asset class and the need for a separate Standard.

The ASB proposes to amend GRAP 103 to require that all heritage assets should be classified and accounted for in terms of GRAP 103, irrespective of whether they have an alternative use.

Issue #4 – Depreciation of heritage assets

Accounting for all heritage assets, including those with an alternative use, using GRAP 103, means there is no need for depreciation. As heritage assets have an indefinite useful life, their values usually appreciate over time which makes deprecation immaterial. Entities will be required to perform an annual assessment to determine whether any impairment indicators have been triggered.

What other challenges do preparers have with the applying the principles in GRAP 103?

While preparers indicated that they have been able to implement the requirements of the Standard, a few application issues were noted. The ASB agreed that guidance should be developed in the form of Frequently Asked Questions (FAQ) that clarify these application issues. Some of the existing FAQs will also be updated. FAQs are developed in consultation with the OAG and AGSA.

International guidance

The International Public Sector Accounting Standards Board (IPSASB) recently issued proposed guidance to address the lack of accounting for heritage assets at an international level. A proposed exposure draft on measurement aimed at providing guidance on the initial and subsequent measurement of assets and liabilities, with measurement related disclosures, has been issued. Once finalised, the guidance from these two projects will be considered by the ASB and the need for further actions assessed.

Way forward

Strengthening financial management in the public sector is at the core of the mandates of the ASB, the OAG and AGSA. The trilateral parties will continue to work together to deliver in accordance with their mandates.

ED 195 that proposes amendments to GRAP 103 can be accessed by following the link ED 195 – ASB.

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