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TO: MEMBERS OF THE TECHNICAL COMMITTEE

FROM: NABEELA IMAM SHAH

SUBJECT: ISSUES PAPER ON MEASUREMENT

DATE: 31 OCTOBER 2024

FILE REF: ATTACHMENT 3(a)

BACKGROUND AND OBJECTIVE

Project background

1. The Board approved a project brief to amend the chapter on the "Measurement of assets and liabilities in financial statements" in the *Conceptual Framework for General Purpose Financial Reporting* (Conceptual Framework) and to develop a Standard of GRAP on *Measurement* at the September 2023 Board meeting. Refer to the project brief (attachment 3(b)) for information on the project.

2. The purpose of the project is to develop guidance on the measurement of assets and liabilities in the Standards of GRAP. The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (IPSAS Conceptual Framework) will be considered when amending the Conceptual Framework. A new Standard of GRAP on *Measurement* will be developed. IPSAS 46, *Measurement* and stakeholders' needs will be considered in developing the Standard of GRAP. The first phase of the project includes developing an Issues Paper.

Objective of this memorandum

3. The objective of this memorandum is to provide information for the Technical Committee to consider the approach to develop the Exposure Drafts (EDs) on the proposed amendments to the Conceptual Framework and the proposed Standard of GRAP on *Measurement* with reference to the requirements in the Due Process Handbook (the Handbook).

APPROACH TO DEVELOP THE EDs

Board's policy on convergence

4. The Handbook requires that before converging existing, or developing new pronouncements, the Board:

   (i) assesses whether a particular IPSAS meets the ASB's legislative mandate and strategic objectives;

(ii) considers past decisions of the Board to depart from the requirements of an IPSAS; and

(iii) considers any other factors relevant to the decision to converge with IPSAS such as existing accounting practices, the legislative environment locally, the capacity of entities to adopt, the potential resource constraints of a change in accounting and reporting, the potential impact of the timing of a change in accounting and reporting on other financial management reforms and the urgency to deal with a particular issue.

5. The information contained in this memorandum is provided to assist the Technical Committee in making recommendations to the Board on the assessment in paragraph 4. The memorandum contains the following sections:

A. IPSAS landscape

The section provides background information on the IPSAS principles on measurement.

B. Local landscape: Comparison of current GRAP requirements to IPSAS

The section provides background information and context on the current GRAP requirements and the potential changes to the requirements in the Standards of GRAP if the IPSAS principles are adopted.

C. Assessment against Board's policy on convergence

The section assesses the appropriateness of the IPSAS principles for the local environment. It considers paragraph 4 in its assessment.

A. IPSAS LANDSCAPE

6. In order for the Board to consider converging with IPSAS, it is important to understand the measurement principles in the IPSAS Conceptual Framework and the key requirements of IPSAS 46.

7. The following attachments are included as background information:

- IPSAS Conceptual Framework – attachment 3(c).
- IPSAS 46 – attachment 3(d).

IPSAS principles

Objective

8. The purpose of measuring assets and liabilities (i.e. what these items are meant to portray in the financial statements) is described as the "measurement objective" in the IPSAS Conceptual Framework and IPSAS 46. The measurement objective is to select measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account and for decision-making purposes.

Interaction with other IPSAS

9. The measurement requirements in IPSAS 46 apply both to initial and subsequent measurement of assets and liabilities, unless specific guidance is included in the individual IPSAS. IPSAS 46 applies when an individual IPSAS refers to the bases

defined in IPSAS 46 or measurements that are based on one or more of the bases defined in IPSAS 46.

Initial measurement

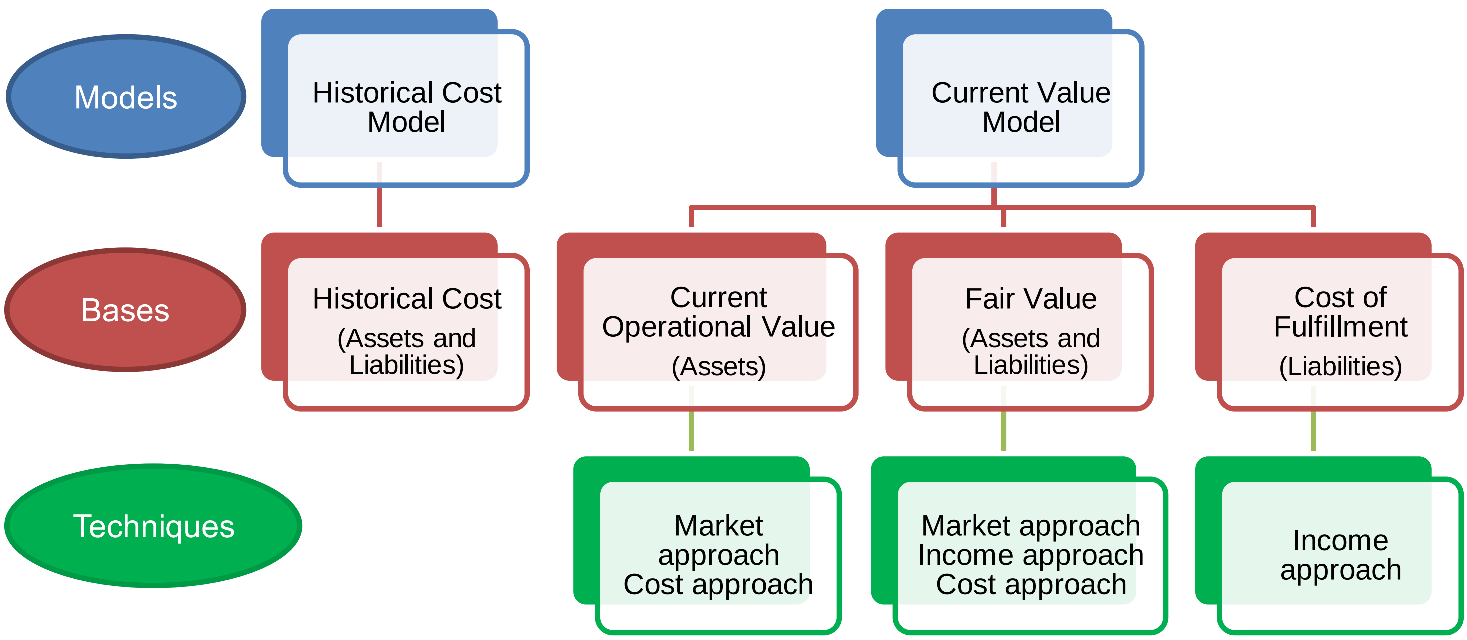
10. Assets are measured initially at their transaction price plus transaction costs and liabilities are measured initially at their transaction price minus transaction costs, unless:

- the transaction price does not faithfully represent the asset or liability; or
- otherwise required by another IPSAS.

11. Where the transaction price does not faithfully represent an asset or liability, deemed cost is used. Deemed cost is estimated using one of the current value measurement basis.

Subsequent measurement

12. There are three levels of measurement, as illustrated in the diagram below.



13. The three levels are as follows:

- Measurement models – the broad approaches for measuring assets and liabilities in the financial statements.

  There are 2 measurement models i.e. historical cost model and current value model. Some IPSAS require that an accounting policy choice is made to measure an asset or liability at either the historical cost model or current value model.

  The choice between the historical cost and current value measurement models considers the:

  - characteristics of the asset or liability being measured;
  - measurement objective; and
  - monetary information being presented.

- Measurement bases – the specific ways of measuring assets and liabilities under the measurement model selected.

  The measurement basis applicable using the historical cost model is the historical cost basis. The measurement bases applicable using the current value model are fair value, current operational value (COV) and cost of fulfilment.

  An entity selects a measurement basis that most fairly reflects the cost of services, operational capacity and/or financial capacity of the asset or liability. Each measurement basis has unique attributes that entities should consider in selecting the most appropriate basis.

- Measurement techniques – the methods to estimate the amount at which assets and liabilities are presented under the selected measurement basis.

  The measurement techniques are market approach, cost approach and income approach. Not all approaches are applicable to each measurement basis.

  Entities should use measurement techniques that are appropriate in the circumstances and for which sufficient data is available to estimate the measurement basis using observable inputs, where feasible. The selection considers the:

  - entity's circumstances;
  - availability of data to estimate the measurement basis (or determine deemed cost); and
  - attributes applicable to that measurement basis.

Measurement bases

Measurement basis	*Definition*
Historical cost	The consideration given to acquire, construct or develop an asset plus transaction costs, or the consideration received to assume an obligation minus transaction costs, at the time the asset is acquired, constructed or developed, or the liability is incurred.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Current operational value	The amount the entity would pay for the remaining service potential of an asset at the measurement date.
Cost of fulfillment	The cost that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

Measurement techniques

Measurement techniques	*Description*	*Measurement bases applied to*
Market approach	Uses prices and other relevant information generated by market transactions involving identical/comparable assets or liabilities.	Fair value Current operational value
Cost approach	Reflects the amount that would be required currently to replace the service provided by an asset (i.e. current replacement cost) through the acquisition or construction of a substitute asset of comparable utility, adjusted for obsolescence.	Fair value Current operational value
Income approach	Converts future amounts to a single current (discounted) amount.	Fair value Cost of fulfillment

Disclosure

14. Measurement disclosure requirements are not in IPSAS 46 but are included in the relevant IPSAS to which the asset or liability applies.

15. For more detail on the IPSAS principles, access a presentation on the ASB website and a recording on the ASB's YouTube channel.

ACTION REQUESTED #1

The Technical Committee is requested to NOTE the key IPSAS measurement principles.

B. LOCAL LANDSCAPE: COMPARISON OF CURRENT GRAP REQUIREMENTS TO IPSAS

16. As background for the Board to consider whether converging with IPSAS is appropriate, it is important to understand the current measurement requirements in the Conceptual Framework and the Standards of GRAP compared to the IPSAS Conceptual Framework and IPSAS 46.

17. The most significant difference between the GRAP requirements and IPSAS requirements is the subsequent measurement principles. The tables below highlight:

    - the measurement bases in the Conceptual Framework and the possible changes if the IPSAS Conceptual Framework is adopted (Table 1); and
    - the measurement principles in the Standards of GRAP and the possible changes if the IPSAS requirements are adopted (Table 2). The assessment of the potential changes to the individual Standards of GRAP was informed by the proposals in the IPSASB's ED 90 on *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement*. ED 90 proposes amendments to add the COV measurement

basis to relevant IPSAS. As ED 90 is not yet finalised, the table represents a preliminary understanding of the potential changes.

Conceptual Framework

Table 1: Changes to the measurement bases for assets and liabilities if the IPSAS Conceptual Framework is adopted

Conceptual Framework	**Summary of changes**	**If IPSAS Conceptual Framework is adopted in GRAP**
Historical cost Consideration given to acquire or develop an asset or the consideration received to assume an obligation, which is the cash or cash equivalents or the value of the other consideration given or received, at the time of the acquisition or development of the asset or at the time the liability is incurred.	1. Measurement basis retained. 2. Inclusion of transaction costs in definition.	Historical cost Consideration given to acquire, construct or develop an asset plus transaction costs, or the consideration received to assume an obligation minus transaction costs, at the time the asset is acquired, constructed or developed, or the liability is incurred.
Market value Amount for which an asset could be exchanged or a liability could be settled between knowledgeable willing parties in an arm's length transaction.	1. Measurement basis replaced. 2. Fair value definition consistent to IFRS 13 *Fair Value.* Value of the asset/liability represents its highest and best use. 3. A current value measurement used when assets are held for their financial capacity.	Fair value Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Replacement cost Most economic cost required to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date.	1. Measurement basis replaced. 2. A current value measurement used when assets are held for their operational capacity.	Current operational value Amount the entity would pay for the remaining service potential of an asset at the measurement date.
Net selling price	1. Measurement basis deleted.	N/A

Amount that the entity can obtain from sale of the asset, after deducting the costs of sale		
Value in use Present value of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life.	1. Measurement basis deleted.	Value in use is explained rather than retained as a measurement basis.
Cost of fulfilment Costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.	1. Measurement basis retained. 2. No changes in definition.	Cost of fulfilment Cost that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.
Cost of release Amount of an immediate exit from the obligation.	1. Measurement basis deleted.	N/A
Assumption price Amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.	1. Measurement basis deleted.	N/A

Measurement at Standards-level

18. The table below provides a preliminary understanding of the potential changes to the individual Standards of GRAP if the measurement principles in IPSAS (some based on the proposals in ED 90) are adopted. This is not a comprehensive assessment of the Standards of GRAP and only highlights asset Standards that are most impacted. The potential changes to the Standards of GRAP on liabilities are not expected to have a significant impact and are not shown below.

Table 2: Potential changes to the measurement requirements if IPSAS measurement requirements are adopted

Standard of GRAP	**Measurement in GRAP**	**Measurement if IPSAS requirements are adopted**
GRAP 16 *Investment Property* GRAP 17 *Property, Plant and Equipment* GRAP 31 *Intangible Assets* GRAP 103 *Heritage Assets* GRAP 110 *Living and Non-living Resources*	Cost model	Historical cost model and historical cost measurement basis
GRAP 17 *Property, Plant and Equipment* GRAP 31 *Intangible Assets* GRAP 103 *Heritage Assets* GRAP 110 *Living and Non-living Resources*	Revaluation model	Current value model and the choice between the fair value measurement basis (if the asset is held for its financial capacity) and the COV measurement basis (if the asset is held for its operational capacity)
GRAP 16 *Investment Property*	Fair value model	Current value model and fair value measurement basis
GRAP 17 *Property, Plant and Equipment* GRAP 103 *Heritage Assets*	Reproduction cost*	COV measurement basis
GRAP 103 *Heritage Assets*	Replacement cost approach*	COV measurement basis
GRAP 103 *Heritage Assets*	Restoration cost approach*	COV measurement basis
GRAP 12 *Inventories*	Current replacement cost	COV measurement basis
GRAP 21 *Impairment of Non-Cash-Generating Assets* GRAP 26 *Impairment of Cash-Generating Assets*	Value in use	COV measurement basis for non-cash-generating assets No anticipated change for cash-generating assets
GRAP 21 *Impairment of Non-Cash-Generating Assets* GRAP 26 *Impairment of Cash-Generating Assets*	Fair value less costs to sell	Fair value measurement basis definition, less costs to sell

GRAP 27 *Agriculture*	

*These represent measurement approaches under the revaluation model in the Standards of GRAP.

ACTION REQUESTED #2

The Technical Committee is requested to NOTE the potential changes to GRAP if IPSAS measurement principles are adopted.

C. ASSESSMENT AGAINST THE BOARD'S POLICY ON CONVERGENCE

19. The Secretariat performed the analysis described in paragraph 4 above. The Secretariat concludes that converging with the IPSAS Conceptual Framework (the Chapter on *Measurement of Assets and Liabilities)* and IPSAS 46 meets the ASB's legislative mandate and strategic objectives and is appropriate for the local environment. There were no fundamental issues raised by stakeholders and they supported the introduction of the new public sector measurement basis, COV. The detail of the analysis is included in the paragraphs below.

20. The Secretariat therefore proposes that Section 4 of the Handbook on the *Pronouncements based on international equivalents* be applied in developing the EDs.

Assessment of whether the IPSAS measurement principles meets the ASB's legislative mandate and strategic objectives

21. To assess whether the IPSAS guidance would meet the ASB's mandate and strategic objectives in terms of paragraph 4(i), the Secretariat sought views on the appropriateness of the IPSAS principles for the local environment. In assessing the appropriateness of the IPSAS principles, an understanding of the local environment was necessary. With this in mind, the Secretariat determined that its consultation with stakeholders is twofold:

    - firstly, to obtain an understanding of the local environment, an understanding of the measurement issues stakeholders experience when applying the current GRAP requirements on assets and liabilities is crucial; and
    - secondly, in assessing the appropriateness of IPSAS for the local environment, it is important to understand the potential issues stakeholders foresee in applying IPSAS. In order to obtain valuable comment from stakeholders, education sessions on the IPSAS principles were held prior to the discussions on the appropriateness thereof.

22. Stakeholders were engaged through virtual meetings and by polling and submission of questionnaires. A total of 16 meetings were held and 6 questionnaires were submitted. The following stakeholders were consulted:

    - Preparers of financial statements (entities that apply GRAP)
    - Audit firms
    - Consultants and technical experts
    - Professional bodies

- Office of the Accountant-General (OAG) and provincial treasuries
- Valuation experts
- New Zealand Accounting Standards Board
- Ministry of Finance: Saudi Arabia

23. The key measurement issues experienced by stakeholders currently when applying the Standards of GRAP are discussed under *Issues in GRAP*. The IPSAS measurement principles may resolve some of these issues. This is indicated below, where relevant. Other current measurement issues identified and the proposals for addressing them are included in Appendix A for information purposes.

24. When discussing the issues stakeholders foresee in IPSAS, questions were raised in applying the IPSAS requirements. These are discussed under *Potential issues in applying IPSAS*. Concerns raised by stakeholders will be considered in developing the EDs, where necessary.

Issues in GRAP

<u>Initial measurement of assets in non-exchange transactions</u>

Key measurement issue

25. Stakeholders indicated that it is difficult to measure items that are the subject of non-exchange transactions. These assets are usually held for their operational capacity, i.e. to deliver services, and it is difficult to obtain a fair value in an active market for an asset with a similar use. An example provided by stakeholders is the acquisition of an educational building for no consideration.

26. It was noted that in some non-exchange transactions, only the value received is recorded and the concessionary element is ignored because of the difficulty in determining the fair value of the assets.

Application of IPSAS 46 to the key measurement issue

27. In IPSAS 46, assets are initially measured at their transaction price plus transaction costs, unless the transaction price does not faithfully represent the asset.

28. Circumstances of when the transaction price does not faithfully represent an asset include non-exchange transactions. IPSAS 46 requires entities to apply deemed cost to non-exchange transactions to estimate the initial measurement of assets.

29. Deemed cost is estimated using one of the current value measurement basis. The current value measurement bases for assets are fair value and COV. The difference between deemed cost and the consideration for the transaction is recognised as revenue.

30. COV can be used to estimate the deemed cost of an asset. This measurement basis can assist with the issue experienced by stakeholders who are unable to determine a value to initially measure assets held for their operational capacity. The following attributes of COV will assist entities on the initial measurement of assets held for their operational capacity:

    - COV is an entry value. It measures how much an entity would pay to replace the remaining service potential of an asset rather than how much an entity would receive to sell the asset.

- It is an entity-specific value. It uses assumptions from the entity's perspective assuming that an entity acts in accordance with its policy objectives. This reflects the economic position of the entity, rather than the position of the market.
- COV is the amount an entity would pay for the remaining service potential of an asset. The remaining service potential takes into account the current age, functionality and condition of the asset. The asset's physical, functional and economic obsolescence are considered in this assessment.

Conclusion:

The guidance on deemed cost in the IPSAS Conceptual Framework and in IPSAS 46 will assist with the initial measurement of assets in non-exchange transactions.

Subsequent measurement of public sector assets

Key measurement issue

31. Public sector assets such as infrastructure assets, heritage assets and community assets were identified as those assets that pose the biggest challenges to measure. As these assets are unique, entities experience difficulty finding similar assets in an active market to determine their fair values. This is primarily due to the fact that public sector assets are held for a specific policy objective rather than to generate economic benefits. An example provided by stakeholders is measuring the replacement cost of a specialised asset, especially those that have been constructed or developed and those where no active market exists.

Application of IPSAS 46 to the key measurement issue

32. COV is a measurement basis for assets held for specific policy objectives in order to deliver services to the public. In addition to the attributes mentioned in paragraph 30, the following will assist entities in measuring public sector assets:
    - COV reflects the value of an asset in its existing use. The existing use of the asset generally reflects the policy objectives of the entity.
    - COV reflects the value of the asset in its existing location. COV assumes that the entity will deliver services or goods from the same location in which the asset is currently situated. This is because the cost of replacing the asset can differ when compared across different locations.
    - COV assumes the entity will use an identical, similar asset. An identical or similar asset delivers services or goods in the same manner as the asset being measured.

33. The guidance on determining the replacement cost of an asset is contained in the measurement technique called the cost approach in IPSAS 46. Entities that apply the current value model may apply the cost approach irrespective of whether they apply fair value or COV as their measurement basis.

34. The cost approach applied under the COV measurement basis is useful when no active market for a similar asset exists. The more specialised the asset, the less likely an active market exists and the more useful the cost approach becomes. When market transactions involving similar assets do not exist, COV is the cost to develop or produce the similar asset.

Conclusion:

The guidance on COV in the IPSAS Conceptual Framework and in IPSAS 46 will assist with the measurement of public sector assets.

The guidance on the cost approach measurement technique in IPSAS 46 will be useful to measure specialised assets.

<u>Limitations of historical cost</u>

Key measurement issues

35. There were no issues identified with applying the historical cost model, but stakeholders raised questions about the usefulness of the information from applying the model.

36. Stakeholders noted that assets valued at fair value provide better information than when they are valued at historical cost. Entities indicated that specifically heritage assets and community assets on the historical cost model are undervalued in entities' financial statements. These assets have long life spans and with the passage of time, the difference between the historical cost and the current value of the assets increases. It was noted that most entities apply the historical cost model for these assets because of the difficulty in determining their fair value (as indicated in paragraph 31).

37. A component for tariff setting by municipalities is the consideration of the maintenance of and the reinvestment in assets. Historical cost may not provide useful information for tariff setting or decision-making because it does not reflect the current value of the asset.

Application of IPSAS 46 to the key measurement issues

38. Refer to paragraph 13 for an explanation on the measurement models. The objective is to select those measurement models that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

Conclusion:

The guidance in the IPSAS Conceptual Framework and in IPSAS 46 on selecting the appropriate measurement model will assist stakeholders in deciding on the measurement model best suited for a particular transaction, event or condition.

Potential issues in applying IPSAS

39. Stakeholders raised questions on the requirements and application of IPSAS 46, as discussed below. The Secretariat notes that there is sufficient guidance and explanation in the IPSAS Conceptual Framework and IPSAS 46 to address these concerns. Awareness and education on IPSAS 46 is required for stakeholders to become familiar with its requirements.

<u>IPSAS 46 measurement techniques and their applicability to measurement bases</u>

40. Stakeholders were concerned that there will be confusion about the use of the measurement techniques as the same techniques are applicable to different measurement bases. For example, the cost approach and the market approach techniques are applicable to both the fair value and COV measurement bases.

41. Stakeholders indicated that the features of the cost approach seem to be inconsistent with the fair value basis attributes. They questioned whether the cost approach is an applicable technique for the fair value measurement basis. The same question was raised for the market approach and the COV measurement basis.

Operational capacity and financial capacity

42. It was noted that guidance on what constitutes the operational capacity versus the financial capacity of assets and liabilities is important. Entities should understand clearly whether they hold assets to deliver services to the public or to make a profit, especially in instances where there may be an element of both, in order to determine which measurement basis is fitting.

Past decisions by the Board to depart from IPSAS

43. In terms of paragraph 4(ii), there are no past decisions by the Board that are relevant to depart from IPSAS 46 and the measurement section in the IPSAS Conceptual Framework.

Other considerations per the Board's policy

44. As noted in paragraph 4(iii), the policy requires the Board to consider any other matters that may be relevant in determining an approach to develop the EDs. The information below was obtained through stakeholder engagements.

Capacity and resource constraints

45. Stakeholders involved in the initial phase of the project did not express any specific concerns regarding their capacity or resource constraints to apply IPSAS 46. It is expected that the requirements in IPSAS 46 will resolve some of their issues.

46. The most significant difference between the GRAP accounting requirements on measurement and IPSAS 46 is the addition of the measurement base COV. Engagements with preparers of financial statements and valuation experts highlighted that they apply depreciated replacement cost in a similar way to COV. They noted that the guidance on COV is useful as it provides clarity and cements their practices on measuring assets without market data carried on the revaluation model.

Legislative environment, impact on other financial management reforms and urgency to provide guidance

47. This is addressed in the project brief and there were no changes or concerns noted in stakeholder engagements. There are potential changes to the PFMA which will be monitored as the project progresses.

ACTION REQUESTED #3

The Technical Committee is requested to:

a) CONSIDER whether convergence with the IPSAS Conceptual Framework and IPSAS 46 is appropriate; and

b) RECOMMEND the proposed approach to the Board for approval.

NEXT STEPS

48. The next step in the project is the development of the EDs. The draft EDs will be considered by the Technical Committee and Board in November 2025.

Appendix A

Other issues

Issue raised	**Proposal to address issue**
Entities continue to experience legacy issues with old assets discovered that were not previously recognised and no documentation is available to account for them. Entities are unsure how to determine the deemed cost of these assets.	The guidance in IPSAS 46 on applying deemed cost for the initial recognition of an asset can help with this issue if adopted in the Standard of GRAP on *Measurement*. The issue is however an asset management/audit issue rather than a standard setting issue. This will be raised at a trilateral meeting.
There is a misunderstanding on how the indicator assessment for impairment of non-monetary assets is intended to be applied. Entities calculate impairment at every year end and not when indicators are present. On the contrary, impairment indicators are present but instead of calculating an impairment loss, the entity adjusts the useful life of the asset.	A FAQ on impairment assessment will be developed. There is some guidance in FAQ 7.2 on *Are there any accounting considerations relating to World Cup Stadiums after the World Cup?* that can be used. Awareness on the topic will be created through the Enhancing the Application of GRAP project.
Auditors require entities to assess the entire population of assets for impairment when one item in that asset class is impaired. This is not required by GRAP 21 or GRAP 26.	The proposed FAQ mentioned in the block above will address this issue. The matter will also be raised at a trilateral meeting.
Where projects to construct assets are halted, entities find it difficult to measure the recoverable amount/recoverable service amount of the non-monetary work-in-progress assets.	COV as a measurement basis and the cost approach as a measurement technique in IPSAS 46 may assist in this regard. If the issue is not resolved by the proposed Standard of GRAP on *Measurement,* FAQ 3.14 on *What amount should be disclosed for projects that are taking significantly longer to complete than expected and what does "significantly longer" mean?* can be updated to include guidance on determining the recoverable amount/ recoverable service amount.
Entities struggle with the distinction between cash generating asset and non-cash generating asset, and the allocation of admin costs to these when both units make use of the admin unit.	Awareness of the amendments to the impairment standards that became effective in 2018 on cash generating versus non-cash generating assessments will be created through the Enhancing the Application of GRAP project.

Entities noted that there are different accounting treatments applied in practice when accounting for concessionary leases. The reason could be that the Standards of GRAP do not specifically provide guidance on concessionary leases.	IPSAS 43 on *Leases* provides guidance on concessionary leases. The issue may be addressed through a project on *Leases* in the next work programme. In the interim, a FAQ will be developed.
There is some confusion on when a change in impairment valuation models of financial assets (e.g. refinement of models or changes in valuation models) are changes in estimates or changes in accounting policies.	The *Improvements to GRAP, 2023* revises the definition of estimates and provides further clarity on changes in accounting estimates versus changes in accounting policies. The amendments should help stakeholders with this issue. The Minister of Finance must still approve an effective date for the Improvements.
Stakeholders indicated that accounting for land where there has been land invasions is difficult, especially where the land is carried on the fair value model. Impairment is not applicable to land carried on the fair value model, therefore entities are uncertain about its accounting.	FAQ 3.9 on *Do land invasions affect whether an entity recognises land?* will be reviewed to determine whether guidance is provided for land measured in terms of GRAP 16 and GRAP 17.
Auditors have observed that entities are impairing land to Rnil where there are land invasions. They do not believe that it is appropriate to reflect the land at a Rnil value.	FAQ 3.9 will be updated to include guidance on the appropriateness to impair land subject to invasion to Rnil.
Stakeholders experience difficulty in accounting for infrastructure assets. Prior discussions have indicated that the determination of the components of the infrastructure asset poses challenges.	IPSAS 45 includes guidance on infrastructure assets that will be considered as part of the 2026 *Improvements to GRAP*. It will be assessed whether the amendments provide useful guidance to entities.
Entities arrive at vastly different valuations for similar assets. Valuation experts have suggested that there should be a national database of unit rates for assets (which are updated regularly) for entities to use.	Inform the asset management unit at National Treasury about the issue raised.
Municipalities are unsure if smaller municipalities can the apply Cities Infrastructure Delivery and Management System (CIDMS) guideline as it is applicable to cities. CIDMS assists in the management of infrastructure assets including determining its useful lives.	Inform the asset management unit at National Treasury about the issue raised.

Entities are unsure how to measure lease liabilities where default has occurred. The public sector is more lenient with lease arrangements and as a result defaults are more prevalent than in the private sector.	The issue does not seem to be pervasive. It will be monitored and considered in a future project on leases.
Entities are disclosing too much information for contingent liabilities. The information disclosed is sensitive.	The issue will be monitored. It may be a materiality issue where entities are not able to decide on the appropriate level of detail in the disclosure. This will be considered in a future project on materiality.
The OAG noted that entities struggle to calculate the impairment of financial assets per GRAP 104 on *Financial Instruments* (2009). It was indicated that they have too much information and do not have the systems to cater for it. Furthermore, they do not apply their own policies on impairment.	Awareness will be raised in the GRAP 104 Reference Group and in GRAP 104 presentations for entities to update/upgrade their systems/processes. This is especially important as the revised GRAP 104 (2019) requires even more information to be considered for impairment assessments.
Some stakeholders indicated that their billing cycles are different to their month end accrual cycles for financial instruments. This poses difficulty in getting the information in time for reporting purposes.	This is an entity's internal control/process issue rather than a standard-setting issue. Entities should estimate their accruals if they do not have actual information on hand.