



DUCHARME ARTICLE on GRAP 103 HERITAGE ASSETS 3 YEAR TRANSITIONAL PERIOD ENDING 2014/15

The Standard of GRAP on Heritage Assets (GRAP 103) became effective on 1 April 2012 (with additional effective dates of 1 July 2012 for municipalities and municipal entities in terms of the MFMA and 1 January 2014 for Technical and Vocational Education and Training Colleges ("TVET Colleges")).

The Accounting Standards Board (ASB) issued Directives 2, 3, 4, 8, 9 and 10, which contain transitional provisions on the adoption of the various Standards of GRAP, which includes a measurement "exemption" pertaining to certain classes of assets, and in specific for heritage assets.

These ASB Directives state that entities are not required to measure heritage assets for reporting periods beginning on or after a date within 3 years following the date of the initial adoption of the Standard of GRAP on Heritage Assets subject to certain other provisions, discussed in the article below. In application of GRAP 103 and these ASB directives, many entities that opted for the 3 year exemption of the heritage asset measurement are nearing the end of this exemption period.

The following table sets out an overview of the GRAP 103 timing for the various entities:

GRAP 103: Heritage asset	GRAP 103 effective date	Measurement Compliance date
PFMA entities	1 April 2012	31 March 2015
MFMA entities	1 July 2012	30 June 2015
TVET Colleges	1 January 2014	31 December 2016

As can be seen from the table, many PFMA and MFMA entities' measurement transitional or exemption period for entities ends in 2015. Entities that have pre-adopted GRAP 103 will need to consider the 3 years from date of pre-adoption. Due to the fact that TVET Colleges were required to adopt GRAP from 1 January 2014, as determined in ASB Directive 10, the 3 year transitional period for the measurement of heritage assets starts on 1 January 2014 and ends 31 December 2016.

This article addresses measurement considerations in the last year of transitional provisions, in consideration of entities that have adopted GRAP 103 in 2012 and the 3 year exemption ends in 2015.

The 3 year transitional period ends 2014/15: Retrospective measurement

The ASB Directives' transitional provision pertaining to the measurement of heritage assets is subject to certain **retrospective** accounting requirements.

DURING THE 3 YEAR MEASUREMENT PERIOD:

The Directives state that during the 3 year transitional period entities shall report in its financial statements provisional amounts for those heritage assets for which the accounting is incomplete, specifically relating to measurement. During the measurement period entities shall **retrospectively adjust the provisional amounts** recognised to reflect:

- facts and circumstances that existed on 1 April 2012 (PFMA) / 1 July 2012 (MFMA); and
- if known, would have affected the measurement of the amounts recognised as of that date.

During the measurement period entities shall also recognise additional heritage assets if information is obtained about the existence of those heritage assets at 1 April 2012 (PFMA) / 1 July 2012 (MFMA) and, if it had been known, would have resulted in the recognition of those heritage assets at that date.

AT END OF 3 YEAR MEASUREMENT PERIOD:

The measurement period ends as soon as entities receive the information it was seeking about facts and circumstances that existed at 1 April 2012 (PFMA) / 1 July 2012 (MFMA), or learn that no more information is obtainable. **However, the measurement period shall not exceed 3 years from 1 April 2012 (PFMA) / 1 July 2012 (MFMA).**

The above-mentioned ASB Directives thus makes it clear that entities have 3 years in which to comply with the measurement requirements of GRAP 103, but at the end of these 3 years have to ensure that all heritage assets for which measurement is possible are measured retrospectively:

- initially at its cost or
- at fair value where heritage assets are acquired through a non-exchange transaction.

This means that entities have to include in their 2014/15 AFS the following amounts for its heritage assets: the current year, comparative year (2013/14) and comparative year's opening balances (2012/13) pertaining to its heritage assets. If an entity early adopted GRAP 103, the above years will be amended accordingly.

Measurement considerations

In order to adhere to the measurement requirements of GRAP 103, entities have to ensure that its heritage asset registers are fully GRAP compliant and that it contains the following information:

- Historical cost or fair value of individual items of heritage assets or the fair value of heritage assets received as donations.
- Impairment losses attributable to heritage assets.
- Information on any subsequent revaluations of heritage assets.
- Carrying value of individual heritage assets (taking accumulated impairment into consideration).

Historical costs are however often not known for items of heritage assets. For such assets, the Fair Value/ Deemed Cost should be determined in terms of ASB Directive 7 and GRAP 103. Entities have a number of options to consider when dealing with this initial measurement challenge for heritage assets acquired before the implementation of GRAP:

<p>Historical Cost Option</p>	<p>Firstly, the entity can perform an asset count and allocate costs where documentation details and initial cost are available as per some kind of register, e.g. accession registers for museums. This option could unfortunately result in audit queries where proof cannot be provided for initial costs allocated to each asset.</p>
<p>Fair Value / Deemed Cost Option</p>	<p>An alternative option is that the entity can perform an asset count and where costs records are not available determine a fair value (deemed cost). The fair value of a heritage asset can be determined from market-based evidence determined by appraisal. An appraisal of the value of the asset is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification. The fair value will be ascertained by reference to quoted prices in an active and liquid market, if such a market exists.</p>
<p>No evidence for market value in an active market</p>	<p>Where no evidence is available to determine the market value in an active market for heritage assets, a third option would be to use valuation techniques to determine its fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, and reference to the current fair value of other heritage assets that have substantially similar characteristics in similar circumstances and locations, adjusted for any specific differences in circumstances. If there is a valuation technique commonly used by market participants to price such an asset, and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity may use that technique in determining the fair value of a heritage asset.</p>
<p>Specialised heritage buildings and other man-made heritage structures</p>	<p>In the case of specialised heritage buildings and other man-made heritage structures, such as monuments and even movable heritage assets, a fourth option would be to determine the fair values by using a replacement cost approach (Directive 7). The reproduction cost or the restoration cost approach may be the best indicator of the heritage asset's replacement cost.</p>
<p>Undeterminable value</p>	<p>Lastly where no value can be placed on an item, it will not be recognised, but information should be included on such heritage assets in the entity's heritage assets register and information shall be disclosed in the AFS about such items and the reason why such items cannot be valued (GRAP 103.94).</p>

Audit evidence

It is important that entities select valuation methods for heritage assets based on the specific circumstances of heritage assets and that the valuation / measurement approach is documented accurately and completely for auditing purposes.

There could be many instances where no value can be attached to a heritage asset item, which will result in audit queries where proof cannot be provided that a hierarchy of valuation options were first considered. All documentation pertaining to heritage asset measurement, such as original invoices, quotes, valuation reports of appraisers and fair value calculations should be filed properly for audit purposes.

Conclusion

Entities who have opted to utilise the ASB Directive's 3 year Measurement Exemption, should ensure that the necessary processes are in place to facilitate and ensure compliance with the full measurement requirements of GRAP 103 as at their applicable year-ends when the exemption end.

For more information, GRAP 103 compliance support or training

For more information as to **GRAP assistance** and **compliance support** with the above-mentioned measurement requirements of GRAP 103, **Asset Management training** (with focus on theoretical and practical aspects of GRAP 103 Heritage Assets), give us a call or send us an email:

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