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Reference: T7/2/7

TREASURY CIRCULAR MUN NO. 55/2014

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THE MAYOR, MATZIKAMA MUNICIPALITY: MR J BOTHA
THE MAYOR, CEDERBERG MUNICIPALITY: MS L SCHEEPERS
THE MAYOR, BERGRIVIER MUNICIPALITY: MR EB MANUEL
THE MAYOR, SALDANHA BAY MUNICIPALITY: MR F SCHIPPERS
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THE MAYOR, PRINCE ALBERT MUNICIPALITY: MR G LOTTERING
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THE MUNICIPAL MANAGER, HESSEQUA MUNICIPALITY: MR J JACOBS
THE MUNICIPAL MANAGER, MOSSEL BAY MUNICIPALITY: DR M GRATZ
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THE CHIEF FINANCIAL OFFICER, BEAUFORT WEST MUNICIPALITY: MR F SABBAT

THE HEAD OFFICIAL: PROVINCIAL TREASURY (DR JC STEGMANN)
THE HEAD: BRANCH FISCAL AND ECONOMIC SERVICES (MR H MALILA)
THE HEAD: BRANCH GOVERNANCE AND ASSET MANAGEMENT (MR Z HOOSAIN)
THE HEAD: PUBLIC POLICY SERVICES (MS M KORSTEN)
THE HEAD: PROVINCIAL GOVERNMENT PUBLIC FINANCE (MS JD GANTANA)
THE HEAD: LOCAL GOVERNMENT PUBLIC FINANCE (MR H MALILA) (PRO TEM)
THE HEAD: ASSET MANAGEMENT (MR IG SMITH)
THE HEAD: FINANCIAL GOVERNANCE AND ACCOUNTING (MR A HARDIEN)
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THE SENIOR MANAGER: BUSINESS INFORMATION AND DATA MANAGEMENT (MR PP PIENAAR)
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THE SENIOR MANAGER: LOCAL GOVERNMENT BUDGET OFFICE (MR ML BOOYSEN)
THE SENIOR MANAGER: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP ONE) (MR E JOHANNES) (ACTING)
THE SENIOR MANAGER: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP TWO) (MR M SIGABI)
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THE SENIOR MANAGER: PROVINCIAL GOVERNMENT BUDGET OFFICE (MS M KORSTEN) (PRO TEM)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT FINANCE (EXPENDITURE MANAGEMENT) (MS A PICK)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT SUPPLY CHAIN MANAGEMENT (MS N EBRAHIM)
THE SENIOR MANAGER: STRATEGIC AND OPERATIONAL MANAGEMENT SUPPORT (MS A SMIT)
THE SENIOR MANAGER: SUPPORTING AND INTERLINKED FINANCIAL SYSTEMS (MR A BASTIAANSE)

THE PROVINCIAL AUDITOR

MASTER RECORDS OFFICIAL: BUSINESS INFORMATION AND DATA MANAGEMENT

THE HEAD OF DEPARTMENT: LOCAL GOVERNMENT

THE CHIEF DIRECTOR: LOCAL GOVERNMENT BUDGET ANALYSIS – NATIONAL TREASURY (MR J HATTINGH)

THE CHIEF DIRECTOR: MFMA IMPLEMENTATION – NATIONAL TREASURY (MR TV PILLAY)

ACCOUNTING STANDARDS BOARD (ASB) - EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO THE STANDARDS OF GRAP ON INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT (ED 126)

1. PURPOSE

1.1 The purpose of this circular is to request municipalities and municipal entities to submit comments on the proposed amendments to the Standard of Generally Recognised Accounting Practice (GRAP) on **Investment Property and Property, plant and Equipment *(ED 126)*.**

1.2 This can be accessed via the following link http://www.asb.co.za.

2. BACKGROUND

2.1 According to the Accounting Standards Board, a post implementation review was completed on Investment Property (GRAP 16) and Property, Plant and Equipment (GRAP 17) in early 2014.

2.2 The objective of the review was to implore feedback from users regarding whether the information produced by applying the Standards meets their needs and what challenges preparers face in applying the Standards.

2.3 The scope of the proposed amendments include the following:

- A review of the principles and explanations to distinguish investment property and property, plant and equipment.
- Consideration to introduce an indicator-based assessment of useful lives of assets.
- Clarification on the wording related to the use of external valuers.
- Introducing a more specific presentation and disclosure requirements for capital work-in-progress.
- A review of the encouraged disclosures and assess whether any should be made mandatory or deleted.
- A requirement for separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

3. OBJECTIVE

3.1 The objective of this Exposure Draft highlights the proposals received during the post implementation review, the Board's considerations thereto and to solicit comments from stakeholders on the proposed amendments to GRAP 16 and GRAP 17.

4. REQUEST

4.1 To submit comments on specific matters posed in **Annexure 1** attached.

4.2 Municipalities should also state the overall opinion on whether this exposure draft (ED126) is supported and to supplement this opinion with the detailed comments and specifying paragraphs to which it relates, explaining the issue and suggesting alternative wording.

4.3 Comments are invited by the ASB until 30 January 2015; however it will be appreciated if comments can be submitted to Provincial Treasury by **15 January 2015** to consolidate all comments for the Province.

4.4 All comments may be submitted to PT.helpme@westerncape.gov.za.

5. Your co-operation is highly appreciated.

MR A HARDIEN
HEAD: FINANCIAL GOVERNANCE AND ACCOUNTING
DATE: 20 November 2014

ANNEXURE 1

NAME OF THE MUNICIPALITY: ____________________

NO.	SPECIFIC MATTERS RAISED FOR COMMENT	RESPONSE	REF.
1.	**PART A** Do you agree with the proposed amendments to GRAP 16?		
2.	**PART B** Do you agree with the proposed amendments made to GRAP 17? a) Using an indicator based approach to assess the useful lives of assets (see paragraphs 1.1 to 1.8)?		
	b) Clarifying the use of external valuers (see paragraphs 2.1 to 2.9)?		
	c) The additional requirements added relating to the presentation and disclosure of capital work-in-progress (see paragraphs 3.1 to 3.8)?		
	d) The elimination of certain encouraged disclosures and requiring the disclosure of fully depreciated assets still in use (see paragraphs 4.1 to 4.11)?		

NAME OF THE MUNICIPALITY: ____

NO.	SPECIFIC MATTERS RAISED FOR COMMENT	RESPONSE	REF.
	e) Requiring the separate presentation of repairs and maintenance in the notes to the financial statements (see paragraphs 5.1 to 5.6)?		
	f) Apart from disclosing expenditure incurred on repairs and maintenance, is there any other information that would be relevant to users to assess the adequacy of repairs and maintenance incurred during the year or otherwise provide context to the level of expenditure incurred?		
GENERAL MATTERS FOR COMMENT: As with any other Exposure Draft, comment on any other matter contained in this document would be welcomed.			

Comments due by 30 January 2015

ACCOUNTING STANDARDS BOARD

EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO THE STANDARDS OF GRAP ON

INVESTMENT PROPERTY

AND

PROPERTY, PLANT AND EQUIPMENT

(ED 126)

Issued by the

Accounting Standards Board

October 2014

ED 126

Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the Exposure Draft of *Proposed Amendments to the Standards of GRAP on Investment Property and Property, Plant and Equipment* (ED 126). Based on comments received during the post-implementation review undertaken on the Standards of GRAP on *Investment Property* (GRAP 16) and *Property, Plant and Equipment* (GRAP 17), the Board has proposed a number of amendments to these two Standards. These amendments respond to those users who requested additional information, as well as to preparers that highlighted issues on the practical application of the Standards to specific situations.

The proposals in this Exposure Draft may be modified in the final documents in the light of comment received. Comment should be submitted in writing so as to be received by **30 January 2015**. Email responses are preferred. Unless respondents to this Exposure Draft specifically request confidentiality, their comment is a matter of public record once the Standard has been updated. Comment should be addressed to:

The Chief Executive Officer

Accounting Standards Board

P O Box 74219

Lynnwood Ridge

0040

Fax: +2711 697 0666

E-mail Address: info@asb.co.za

Introduction

Standards of Generally Recognised Accounting Practice

The Accounting Standards Board (the Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

(a) departments (including national and provincial and government components);

(b) public entities;

(c) trading entities (as defined in the PFMA);

(d) constitutional institutions;

(e) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and

(f) Parliament and the provincial legislatures.

The above are collectively referred to as "entities".

The Board has approved the application of Statements of Generally Accepted Accounting Practice (GAAP), as codified by the Accounting Practices Board and issued by the South African Institute of Chartered Accountants as at 1 April 2012, to be GRAP for:

(a) government business enterprises (as defined in the PFMA);

(b) any other entity, other than a municipality, whose ordinary shares, potential ordinary shares or debt are publicly tradable on the capital markets; and

(c) entities under the ownership control of any of these entities.

The Board has approved the application of International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board to be GRAP for these entities where they are applying IFRSs.

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard of GRAP and any related Interpretations of the Standards of GRAP.

Any limitation of the applicability of specific Standards or Interpretations is made clear in those Standards or Interpretations of the Standards of GRAP.

All paragraphs in this Standard of GRAP have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This Standard should be read in the context of its objective, its basis for conclusions if applicable, the *Preface to Standards of GRAP,* the *Preface to the Interpretations of the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards of GRAP, published in the Government Gazette.

Reference may be made here to a Standard of GRAP that has not been issued at the time of issue of this Standard. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph .11 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Background to the development of this Exposure Draft

Introduction

The Board completed its post-implementation review of the Standards of GRAP on *Investment Property* (GRAP 16) and *Property, Plant and Equipment* (GRAP 17) in early 2014. The objective of the post-implementation review was to solicit feedback from users about whether the information produced by applying the Standards meets their needs, and what challenges preparers face in applying the Standards. The complete results of the post-implementation review are available on the ASB's website.

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

The amendments proposed by the Board in each of these areas are discussed in more detail below.

Scope of proposed amendments

Principles to distinguish investment property and property, plant and equipment

Preparers indicated that they often find it difficult to distinguish investment property from property, plant and equipment. A number of scenarios were highlighted during the post-implementation where entities found the distinction difficult, e.g., social housing, resorts, sports stadiums, golf courses, etc.

A key factor to consider in distinguishing investment property from property, plant and equipment, is whether the asset is used in the production or supply of goods or services in accordance with an entity's mandated function. Where assets are used for this purpose, then they are classified as property, plant and equipment rather than investment property. Similarly, if property is held to fulfil another purpose, such as sale in the ordinary course of an entity's operations, then these properties are inventories, part of a construction contract, or within the scope of another relevant Standard of GRAP.

If an entity holds properties that it does not utilise to provide goods or services in accordance with its mandate, then a key consideration in classifying property as property, plant and equipment rather investment property, is whether other assets or resources of the entity are needed to contribute to the provision of a specific good or service (that results in economic benefits or service potential), or whether the property generates economic benefits or service potential on its own. When an entity uses other assets or resources in conjunction with the property to provide a service, then the property is classified as property, plant and equipment and not investment property.

In reviewing the existing principles and guidance, the Board concluded that the principles used to distinguish investment property and property, plant and equipment are sound. The application of these principles, particularly in relation to practical examples, could however be clarified. As such, the Board has focused on clarifying the existing principles and text in GRAP 16 rather than revising the underlying principles themselves.

Indicator based assessment of useful lives of assets

GRAP 17 currently requires entities to assess, at each reporting date, whether there has been a change in the useful lives of assets. Preparers indicated that this annual assessment is onerous. They suggested introducing an indicator based approach, similar to that applied in assessing whether assets are impaired, to reviewing useful lives.

The Board believes that it would be helpful to introduce an indicator based assessment as it would result in less detailed testing being performed by entities on an annual basis. Entities would assess, based on a list of indicators, whether there may have been a change in the useful lives of assets based on a number of factors. Only if one or more of indicators are triggered, would entities undertake a detailed assessment of whether there has been a change in useful life and what the effect would be. The indicators have been developed in consultation with preparers and engineers.

Use of external valuers

Preparers noted during the post-implementation review that it is unclear whether the Standards require the use of an external valuer to determine the fair value of assets, or whether this is merely encouraged. It was also indicated that internal experts, such as property valuation experts and engineers, are often used to value assets because of their insights into the assets held by their respective entities.

The wording in GRAP 16 and GRAP 17, as well as the Standard of GRAP on *Heritage Assets,* has been revised to make it clear that an entity may use both internal and external valuers to determine the fair values of assets. These experts may be members of the valuation profession, but should, as a minimum, demonstrate competence in performing the valuations in accordance with the requirements of the applicable Standards of GRAP.

Presentation and disclosure of information on capital work-in-progress

Many users who participated in the post-implementation review indicated that additional information is needed in the financial statements about capital work-in-progress. A significant amount of entities' resources are often spent on constructing or developing new assets, but little information is provided about the types of assets being constructed or developed. Users were also concerned about the potential for long outstanding or halted capital projects being reflected as capital work-in-progress.

The Board has developed proposed presentation and disclosure requirements to respond to these issues. The Board has proposed that:

- Capital work-in-progress should be presented per class of asset so that users have information about the types of assets being constructed or developed.
- Information should be disclosed about long outstanding or halted projects included in capital work-in-progress.

Although not specifically highlighted during the review, the Board has proposed equivalent amendments to GRAP 16*,* as well as the Standards of GRAP on *Intangible Assets* (GRAP 31) and *Heritage Assets* (GRAP 103)*.*

The proposed disclosures on capital work-in-progress may have limited value for some entities, particularly those that do not have capital intensive operations. The applicability of these disclosures to individual entities would need to be considered in the context of whether they are material to the entity.

Encouraged disclosures

There are a number of encouraged disclosures included in GRAP 17, and to a limited extent, GRAP 16. Users and preparers questioned the relevance of these disclosures and whether they should be eliminated from the Standards.

The Board has reviewed the encouraged disclosures and has proposed to eliminate all these disclosures. The Board considered whether it should require disclosure of the carrying values of fully depreciated assets that are still in use in GRAP 17. The Board considered this because during the post-implementation review, some respondents argued that this disclosure provides users with information about whether the useful lives of assets are in fact being reviewed by management. The Board noted that if the requirements of GRAP 17 have been applied correctly, then there should be no fully depreciated assets still in use, and if there are any, they would be immaterial and not require disclosure. The Board also considered that requiring this disclosure would contradict the principles in GRAP 17 which require entities to regularly assess the useful lives of assets. On this basis, the Board agreed that this disclosure should be deleted. A consequential amendment has been made to GRAP 31 to reflect this decision.

Expenditure on repairs and maintenance

Many users that participated in the post-implementation review indicated that they want expenditure on repairs and maintenance to be a mandatory disclosure for all entities. Users assess the adequacy of repairs and maintenance by comparing this to the carrying values of assets held by entities. As this is a key measure used by readers of the financial statements, the Board has proposed adding the mandatory disclosure of repairs and maintenance to the Standard of GRAP on *Presentation of Financial Statements.*

The Board did, however, note that additional information is likely to be necessary for users to better understand the level of spending on repairs and maintenance, but that this information may not necessarily be within the scope of reporting in the financial statements. The Board has therefore requested respondents' views about what other information may be necessary to place this information in context.

As with the disclosure on capital work-in-progress, the applicability of this disclosure on individual entities would need to be considered based on whether they are material to that entity.

Format of amendments

The detailed amendments proposed to the relevant Standards of GRAP are outlined in Part A and Part B of this Exposure Draft. Part A outlines the proposed amendments to GRAP 16 relating to the distinction between investment property and property, plant and equipment, while Part B outlines proposed amendments to GRAP 17 to address the issues noted above.

As many of the changes to GRAP 17 result in departures from the equivalent International Public Sector Accounting Standard (IPSAS) on *Property, Plant and Equipment* (IPSAS 17), a basis for conclusions has been developed. This is included in Part C of this Exposure Draft and deals with all the amendments proposed.

The transitional provisions related to the amendments made to each Standard are included in Part C. The effective date of the proposed amendments will be considered by the Board once the public consultation process has been completed.

Due process and timetable

The due process followed by the Board in developing Standards of GRAP is for the Board to receive comment on the proposals set out in this Exposure Draft from preparers, users, auditors, standard setters and other parties with an interest in public sector financial reporting. Accordingly, all interested parties are therefore invited to provide comment.

Exposure drafts will usually have a comment period of three (3) months, although shorter or longer periods may be used for certain exposure drafts, depending on the urgency to issue the final Standard. Upon the closure of the comment period, the Board will consider the comment received on the Exposure Draft and may modify the proposed Standard of GRAP in the light of the comment received before proceeding to issue a final Standard.

Invitation to comment

Comment is invited until **30 January 2015** on this Exposure Draft. The Board requires that respondents express an overall opinion on whether the Exposure Draft, in general, is supported and supplement this opinion with detailed comment, whether supportive or critical, on the principles in the exposure draft. Respondents are also invited to provide detailed comment identifying the specific paragraphs to which it relates, explaining the issue and suggesting alternative wording, with supporting reasons, where this is appropriate.

The basis for accepting or rejecting significant comment will be published on the website.

The Board would particularly appreciate answers from respondents to the questions posed below.

Specific matters for comment

Specific matter for comment 1: Part A - Amendments to the Standard of GRAP on *Investment Property* (GRAP 16)

Do you agree with the proposed amendments to GRAP 16?

Specific matter for comment 2: Part B - Amendments to the Standard of GRAP on *Property, Plant and Equipment* (GRAP 17)?

Do you agree with the following amendments made to GRAP 17:

(a) Using an indicator based approach to assess the useful lives of assets (see paragraphs 1.1 to 1.8)?

(b) Clarifying the use of external valuers (see paragraphs 2.1 to 2.9)?

(c) The additional requirements added relating to the presentation and disclosure of capital work-in-progress (see paragraphs 3.1 to 3.8)?

(d) The elimination of certain encouraged disclosures, and requiring the disclosure of fully depreciated assets still in use (see paragraphs 4.1 to 4.11)?

(e) Requiring the separate presentation of repairs and maintenance in the notes to the financial statements (see paragraphs 5.1 to 5.6)?

(f) Apart from disclosing expenditure incurred on repairs and maintenance, is there any other information that would be relevant to users to assess the adequacy of repairs of maintenance incurred during the year or otherwise provide context to the level of expenditure incurred?

General matters for comment

As with any other Exposure Draft, comment on any other matter contained in this Exposure Draft would also be welcomed. Comment is most helpful if reference is made to a specific paragraph or group of paragraphs.

ED 126

PROPOSED AMENDMENTS TO THE STANDARDS OF GRAP ON

INVESTMENT PROPERTY

AND

PROPERTY, PLANT AND EQUIPMENT

ED 126

Contents

Proposed amendments to the Standards of GRAP on *Investment Property* and *Property, Plant and Equipment*

Part A – Amendments to the Standard of GRAP on *Investment Property* (GRAP 16)

Background to amendments

1.1 Following feedback received as part of the post-implementation review, the Board agreed to review the principles and explanations in GRAP 16 insofar as they relate to the classification of land and buildings as either investment property, or property, plant and equipment.

1.2 In particular, the following comments were raised, or issues noted, relating to the classification of land and buildings as either investment property, or property, plant and equipment:

(a) The classification of properties is often based on their current use, which may be temporary. This results in frequent reclassifications of properties between property, plant and equipment and investment property, and vice versa.

(b) Land held for an undetermined future use should be classified as property, plant and equipment rather than investment property as most entities exist in the public sector exist to deliver goods and services in line with their specific mandate.

(c) It is unclear how buildings held for an undetermined future use should be classified. GRAP 16 is prescriptive about land held for an undetermined future use.

(d) It is unclear whether property used in the following scenarios should be classified as investment property, or property, plant and equipment:

(i) Social housing.

(ii) Land held for sale in the ordinary course of operations.

(iii) Community assets such as caravan parks, golf courses and other recreational facilities.

Proposal and its impact

1.3 Many of these issues are addressed in some way in the existing text of GRAP 16. These requirements may however not have been clear because of the structuring of certain paragraphs. As a result, certain paragraphs have been restructured and relevant examples added where necessary. These changes clarify rather than amend existing principles.

1.4 Additional paragraphs have been added that explain the key factors that distinguish investment property and property, plant and equipment. These principles focus on establishing why an entity holds specific property, and how its uses that property.

1.5 The Board debated whether land held for an undetermined future use should be classified as property, plant and equipment rather than investment property. The existing text of GRAP 16 refers to land "held for strategic purposes" being classified as property, plant and equipment. Additional text has been added to explain under what circumstances land could be classified as held for strategic purposes, and that this could be based on the expected use of assets based on legislation, policies, decisions or plans adopted by an entity. It is anticipated that this clarification is likely to lead to more land being classified as property, plant and equipment. The Board believes that any land held that does not meet this description and is held for an undetermined use is better classified as investment property. The Board believes that classification as investment property provides users with information about potential opportunities to better utilise or otherwise dispose of such properties.

1.6 On balance, the Board agreed that explicit guidance on the classification of buildings held for an undetermined future use is not necessary. These could potentially be classified as "held for strategic purposes". It may be more appropriate to deal with buildings held for an undetermined future use, as well as properties being classified based on their temporary use, as part of the implementation guidance developed for GRAP 16.

Proposed amendments

1.7 The proposed amendments to GRAP 16 are outlined below. New text is underlined, deleted text is struck through, and text that has been relocated is indicated with a double underline.

Definitions

.05 ***…***

<u>Investment property</u> is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of operations.

<u>Owner-occupied property</u> is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

…

…

Investment property

.07A <u>Entities in the public sector often own a significant number of properties. While the properties are most often used to deliver goods or services in accordance with each</u>

entity's respective mandated functions, some entities use them to provide additional sources of revenue, e.g. through rental, or through the value that could be realised if the properties are sold.

.07B Investment property comprises land and buildings (or part of a building), or both, that is held for capital appreciation or rental to others rather than for:

(a) use in the production or supply of goods or services or for administrative purposes (referred to as owner occupied property and is accounted for in accordance with the Standard of GRAP on *Property, Plant and Equipment*); or

(b) for sale in the ordinary course of operations (which is accounted for in accordance with the Standard of GRAP on *Inventories*).

.07C In determining whether land and buildings (or part of a building) meet the circumstances in paragraph .07A(a) and (b), an entity considers:

(a) Whether it uses the land and/or buildings to provide goods or services in accordance with its mandated functions specified in legislation or similar means.

(b) If the land and/or buildings are not used to provide goods or services in accordance with an entity's mandated functions, it considers whether it uses its other assets, in conjunction with the land and/or buildings, to provide certain goods or services. In these instances, an entity should assess the nature of the fee charged, particularly whether the fee is for the use of the property, or a fee for the goods or services it provides. If the fee charged relates to goods or services provided, then the property is used to provide goods or services rather than for rental.

(c) Holds the land and/or buildings for disposal, through sale or transfer, as part of its ongoing operations, e.g. an entity that frequently acquires and transfers or sells land to beneficiaries of a land redistribution programme.

If an entity holds land and/or buildings (or part thereof) in any of the situations described in (a) to (c) above, then this Standard is not applicable and the Standards of GRAP on *Property, Plant and Equipment, Inventories* or another applicable Standard should be applied.

.07D There are a number of circumstances in which entities may hold property to earn rental and for capital appreciation. For example, an entity may be established to manage a certain portion of a municipality's property portfolio on a commercial basis. The management of these properties on a commercial basis supplements the municipality's revenue rather than being part of its mandated functions. In this case, the property held by the entity, other than property held for ~~re~~sale in the ordinary course of operations, meets the definition of an investment property. Other entities may also hold property for rentals or capital appreciation and use the cash generated to finance their other (service delivery) activities. For example, an entity may own a building for the purpose of leasing on a commercial basis to external parties ~~to~~

~~generate funds~~, rather than to produce or supply goods and services. This property would also meet the definition of investment property.

.08 Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates revenue ~~cash flows~~ largely independently of the other assets held by an entity. This distinguishes investment property from other land or buildings controlled by entities, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate revenue ~~cash flows~~. For example, entities may use a building to provide goods or ~~and~~ services to recipients in return for a fee, which is based on either a full or partial cost recovery. However, the building is held to facilitate the production of goods ~~and~~ or services and the revenue ~~cash flows~~ is~~are~~ attributable not only to the building, but also to other assets used in the production or supply process. The Standard of GRAP on *Property, Plant and Equipment* applies to owner-occupied property.

.08A In assessing whether a property is investment property or property, plant and equipment, it is not relevant how much revenue is generated through the activity, but rather why the activity is being undertaken. If the entity merely earns revenue from the use of the property, then it may be appropriate to classify it as investment property. However, if the entity earns revenue because providing such facilities is part of its mandated functions, or because it provides goods or services using both the property and its other assets, then it may be appropriate to classify the property as property, plant and equipment.

.09 Certain administrative arrangements exist such that an entity may control an asset that may be legally owned by another entity. For example, an entity may control and account for certain buildings that are legally owned by another entity. In such circumstances, references to owner-occupied property mean property occupied by the entity that recognises the property in its financial statements.

.10 The following are examples of investment property:

(a) Land held for long-term capital appreciation rather than for disposal, e.g. through sale or transfer, in the short-term ~~sale~~ in the ordinary course of operations. For example, land held by a hospital for its long term capital appreciation which may be sold at a beneficial time in the future.

(b) Land held for a currently undetermined future use. Land is held for a currently undetermined future use when:

(i) ~~(If a~~An entity has not determined that it will use the land ~~either~~ as owner-occupied property.

(ii) ~~including occupation to provide services such as those provided by national parks to current and future generations,~~ An entity does not hold the land ~~or~~ for short-term sale in the ordinary course of operations, ~~the land is considered to be held for capital appreciation.)~~

(iii) An entity has not determined that it holds the land for strategic purposes as outlined in paragraph .11A(c).

(c) A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases on a commercial basis. For example, a property management company ~~university~~ may own a building that it leases on a commercial basis to external parties.

(d) A property owned by the entity and leased out at a below market rental. For example, a municipality may own an office building which it leases to external parties at a below market rental to promote urban regeneration.

(e) Property that is being constructed or developed for future use as investment property.

~~The rent earned does not have to be at a commercial basis or market related for the property to be classified as investment property.~~

.10A The existence of a lease does not in itself mean that the property is an investment property. An entity can also lease properties which are classified as property, plant and equipment. However, ~~P~~property that is leased to another entity under a finance lease is not investment property (see the Standard of GRAP on *Leases*).

.10B The rent earned does not have to be on~~at~~ a commercial basis or market related for the property to be classified as investment property. Entities may own properties which they hold solely for the purposes of renting to external parties, but for which they cannot charge a commercial or market related rental because of specific policy decisions, e.g. to promote growth and development in specific areas, or because prevailing economic conditions do not permit the charging of such rentals.

.11 The following are examples of items that are not investment property and are within the scope of the Standards of GRAP on *Inventories* or *Construction Contracts*: ~~therefore outside the scope of this Standard:~~

(a) Property held for disposal, either through sale or transfer, in the ordinary course of operations ~~or in the process of construction or development for such sale~~ (see the Standard of GRAP on *Inventories*). For example, land held by municipalities for transfer to beneficiaries of a housing scheme, or ~~a municipality may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory.~~ housing stock held by ~~T~~the Department of Housing which it sells ~~may routinely sell part of its housing stock~~ in the ordinary course of its operations as a result of changing demographics~~, in which case any housing stock held for sale is classified as inventory~~.

(b) Property being constructed or developed for ~~on behalf of~~ third parties. For example, a municipality may develop or construct houses for the Department of Housing for distribution as part of the Department's housing scheme ~~may enter~~

~~into construction contracts with entities external to its government~~ (see the Standard of GRAP on *Construction Contracts*).

~~(c) Owner-occupied property (see the Standard of GRAP on *Property, Plant and Equipment*), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for military personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.~~

~~(d) Property that is leased to another entity under a finance lease.~~

~~(e) Property held to provide goods and services and also generates cash inflows. For example, an entity may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an "investment property" and would be accounted for in accordance with the Standard of GRAP on *Property, Plant and Equipment*.~~

~~(f) Property held for strategic purposes which would be accounted for in accordance with the Standard of GRAP on *Property, Plant and Equipment*.~~

.11A The following are examples of items that are not investment property and are within the scope of the Standard of GRAP on *Property, Plant and Equipment*:

(a) Owner-occupied property (see the Standard of GRAP on *Property, Plant and Equipment*), including (among other things):

(i) property held for future use as owner-occupied property;

(ii) property held for future development and subsequent use as owner-occupied property;

(iii) property occupied by employees such as housing for military, official or similar personnel which are required as part of their employment to be located in a specific area (whether or not the employees pay rent at market rates); and

(iv) owner-occupied property awaiting disposal.

(b) Property held to provide goods and services and which also generates revenue. These properties are typically used by entities to fulfil their mandated function to provide certain goods and or services rather than for rentals or capital appreciation. Rental revenue generated is often incidental to the purposes for which the property is held. Examples of these properties include:

(i) ~~Social h~~Housing: An entity may hold a large housing stock used to provide housing to low income families, or to provide housing to communities at affordable rates closer to their places of employment. ~~at below market rental.~~ ~~In these this situations, w~~Where the provision of housing is within the entity's mandate, the property is held to fulfil its mandate to provide housing services rather than to generate rental revenue. ~~rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held.~~

(ii) Recreational, sporting or similar facilities: Some entities operate recreational facilities such as resorts, camping sites and caravan parks; sporting facilities such as stadiums, golf courses, athletics tracks, and tennis courts; and similar facilities such as community halls, in accordance with their specific mandated function. Entities receive a fee for the use of these facilities. These facilities are held and operated by entities to provide specific services to communities rather than to generate rental revenue. As these facilities are provided to communities as part of their mandated function, any fees received are compensation for services provided. An entity should however consider paragraph .16 to assess whether it merely acts as a passive investor in the property, in which case it will be classified as investment property.

(c) Property held for strategic purposes which would be accounted for in accordance with the Standard of GRAP on *Property, Plant and Equipment*. Land and/or buildings held for strategic purposes is property that, although not currently used as property, plant and equipment, is likely to be used in the production or supply of goods and services or for administrative purposes in future because of certain legislation, policies, decisions or plans adopted by an entity. Such property may or may not generate rental revenue at present. For example, land held by a municipality which is currently vacant, but is adjacent to a growing suburban area. In terms of the municipality's spatial planning, this land could be used to develop housing, or it could be used to expand the current infrastructure network. Although a firm decision has not been made by the entity on the use of this land, given current plans in place, the land is likely to be used to fulfil its mandate. When property is classified as being held for strategic purposes, specific disclosure of the types of property classified as such is required (see paragraph .84(c).

.12 Some entities hold property to deliver goods and services rather than to earn rental or for capital appreciation. In such situations the property will not meet the definition of investment property as its main purpose is the delivery of goods and services. This Standard is applicable if the main purpose and most significant use of the property is to earn rental or for capital appreciation. For example, when an entity owns a building, mainly used for the delivery of social housing but rents out a floor of the building to shops, banks and other external parties, the building should be accounted for as property, plant and equipment as its main purpose and most significant use is the provision of social services. This should be the case irrespective of whether the rental earned from the one floor of the building is significant in relation to the rental earned from the remainder of the building.

.13 In some cases, entities hold some property that includes a portion that is held to earn rentals or for capital appreciation rather than to provide goods or services and another portion that is held for use in the production or supply of goods or services or for administrative purposes. For example, a hospital or a university may own a building, part of which is used for administrative purposes, and part of which is leased out as apartments on a commercial basis. If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

.14 In some cases, an entity provides ancillary services to the occupants of a property it holds. An entity treats such a property as investment property if the services are insignificant to the arrangement as a whole. An example would be where an entity owns an office building which is held exclusively for rental purposes and rented on a commercial basis and also provides security and maintenance services to the lessees who occupy the building.

.15 In other cases, the services provided are significant. For example, an entity may own a hostel. The services provided to residents are a significant component of the arrangement as a whole. Therefore, an owner-managed hostel is owner-occupied property, rather than investment property because the main purpose and most significant use of the property is the provision of services to residents.

.16 It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, entities ~~an entity~~ which ~~is the~~ own~~er of a~~ stadiums or other sporting facilities ~~hotel~~ often ~~may~~ transfer certain responsibilities to third parties under a management contract. The terms of such contracts vary widely. At one end of the spectrum, the entity's position may, in substance, be that of a passive investor in a property. At the other end of the spectrum, the entity may simply have outsourced the actual performance of the day-to-day functions while retaining significant exposure to variation in the volume or quality of services provided and in the cash flows generated by ~~the~~ operating ~~of~~ the stadiums or sporting facilities ~~hotel~~.

.17 Judgement is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of investment property and with the related guidance in paragraphs .07 to .18. Paragraph .84(c) requires an entity to disclose these criteria when classification is difficult.

.18 In some cases, an entity owns property that is leased to, and occupied by, its controlling entity or another controlled entity. The property does not qualify as investment property in the consolidated financial statements, because the property is owner-occupied from the perspective of the economic entity as a whole. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition (see paragraph .05). Therefore, the lessor treats the property as investment property in its individual financial statements. This situation may arise where government establishes a property management entity to manage part of government's property portfolio on a commercial basis~~office buildings~~. ~~The b~~Buildings are then leased out to other entities, which may include government entities. ~~on a commercial basis~~. In the financial statements of the property management entity, the property would be accounted for as investment property. However, in the consolidated financial statements of the government, ~~entity the~~ any property leased to other government entities would be accounted for as property, plant and equipment in accordance with the Standard of GRAP on *Property, Plant and Equipment*.

...

Disclosures

Fair value model and cost model

.84 An entity shall disclose:

(a) whether it applies the fair value model or the cost model;

(b) if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property;

(c) when classification is difficult (see paragraph .17), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes in accordance with paragraph .11A(c);

(d) the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;

(e) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;

(f) the amounts recognised in surplus or deficit for:

(i) ***rental revenue from investment property;***

(ii) ***direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and***

(iii) ***direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period;***

(g) ***the existence and amounts of restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal; and***

(h) ***contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.***

Part B – Amendments to the Standard of GRAP on *Property, Plant and Equipment* (GRAP 17)

1. Using an indicator-based approach to assess useful lives of assets

Background

1.1 GRAP 17 currently requires an entity to review the useful lives of assets at each reporting date. During the post-implementation review, preparers indicated that this requirement is onerous. While a number of reasons were provided about the possible reasons for this requirement being onerous, most indicated that the volume of assets held by entities meant that a detailed review was not possible. It was also observed that some preparers had undertaken detailed condition or similar assessments on assets every year when in fact this may only have been necessary if specific factors indicated that such an assessment was needed.

1.2 One of the suggestions proposed during the review was the use of an "indicator-based approach" to assess changes in useful lives of assets, similar to that used to assess whether assets are impaired.

Proposal and its impact

1.3 Using an indicator based approach means that an entity should assess whether there is any indication that the expected useful life of the asset has changed from the previous reporting period. Only if there is an indication that a potential change may have occurred, and the change is material, will an entity be required to undertake a more detailed analysis of the useful lives of an asset.

1.4 The use of an indicator based approach does not compromise the principles in the Standard as the appropriateness of the useful lives is still considered; it merely provides an intermediate step before undertaking detailed analysis, assessment and revision.

1.5 The proposal put forward during the post-implementation review focused on the use of an indicator based approach for the review of useful lives. No specific views were expressed about the use of an indicator based approach to the review of residual values.

1.6 The existing requirement in GRAP 17 relates to both the review of the useful lives and residual values. The review of residual values has been included in the proposed change. Many of the indicators that are relevant to the review of useful lives are also relevant to the review of residual values. Apart from one additional indicator related to the timing of disposal, no other specific indicators have been developed for the review of the residual values of assets.

Other considerations

1.7 Although the current requirements of GRAP 17 require that an entity assesses whether the depreciation method is still appropriate at each reporting date, no changes have been proposed. Respondents did not raise any issues regarding the application of this requirement. Almost all preparers indicated that the straight line method is applied and is the most appropriate in their circumstances.

Proposed amendment

1.8 The amendments to GRAP 17 in relation to the review of the useful lives and residual values of assets are outlined in the paragraphs below. New text is underlined, deleted text is struck through, and text that has been relocated is indicated with a double underline.

Measurement after recognition

…

Depreciable amount and depreciation period

.55 ***The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.***

.56 ***<u>An entity shall assess at each reporting date whether there is any indication that t</u>~~T~~he <u>entity's expectations about the </u>residual value and the useful life of an asset <u>have changed since </u>~~shall be reviewed at least at each~~ <u>the preceding</u> reporting date<u>. If any such indication exists, the entity shall revise the expected useful life and/or residual value accordingly. </u> ~~and, if expectations differ from previous estimates, t~~The change(s) shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.***

.56A ***<u>In assessing whether there is any indication that the expected useful life of an asset has changed, an entity considers the following indications:</u>***

- ***(a)*** ***<u>The composition of the asset changed during the reporting period, i.e. the significant components of the asset changed.</u>***
- ***(b)*** ***<u>The use of the asset has changed, because of the following:</u>***
  - ***(i)*** ***<u>The entity has changed the manner in which the asset is used.</u>***
  - ***(ii)*** ***<u>The entity has changed the utilisation rate of the asset.</u>***
  - ***(iii)*** ***<u>The entity has made a decision to dispose of the asset in a future reporting period (s) such that this decision changes the expected period over which the asset will be used.</u>***

(iv) ***Technological, environmental, commercial or other changes that occurred during the reporting period that have, or will, change the use of the asset.***

(v) ***Legal or similar limits placed on the use of the asset have changed.***

(vi) ***The asset was idle or retired from use during the reporting period.***

(c) ***The asset is approaching the end of its previously expected useful life.***

(d) ***Planned repairs and maintenance on, or refurbishments of, the asset and/or its significant components either being undertaken or delayed.***

(e) ***Environmental factors, e.g. increased rainfall or humidity, adverse changes in temperatures or increased exposure to pollution.***

(f) ***There is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period.***

(g) ***The asset is assessed as being impaired in accordance with the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets.***

.56B In assessing whether there is any indication that the expected residual value of an asset has changed, an entity shall consider whether there has been any change in the expected timing of disposal of the asset, as well as any relevant indicators included in paragraph .56A above.

.56C The list of indicators in paragraphs .56A and .56B are not exhaustive. There may be other indications that the expected useful lives or residual values of the assets have changed.

.56D The use of an asset may have changed, or will change, based on a variety of events that occurred during the reporting period. These events are listed in paragraph .56A(b). These events may also indicate that there has been a change in the residual value of an asset.

(a) The entity has changed how an asset is used in its operations, e.g. a vehicle used in making deliveries and performing other administrative tasks is now used to undertake site inspections of infrastructure in rural areas.

(b) The entity has changed the utilisation rate of an asset, e.g. a substation previously only operated at 50% of its capacity but because of new developments in an area, it now operates at 80% capacity.

(c) The entity decides to dispose of an asset in a future reporting period (which includes its sale, or transfer to another entity) which affects the period over which an asset will be used (as well as its residual value). For example, an entity previously agreed to replace a particular class of assets every 10 years, but changes its policy during the year to replace these assets every 7 years.

(d) Changes both external and internal to the entity can affect the useful lives of assets. Examples of these changes are listed below.

   (i) External changes: New technology available in the market may make infrastructure obsolete either in the current or future reporting period.

   (ii) Internal changes: The entity institutes a policy to make infrastructure more environmentally friendly or sustainable, which means that existing infrastructure will be replaced at specific intervals.

   (iii) Internal changes: Due to the high cost of maintaining specific infrastructure, the entity makes a commercial decision to replace this infrastructure over a specific time period.

(e) An entity often operates or uses assets subject to specific legal or other limits, e.g. a lease, a license, safety or environmental specifications etc. Any changes in these legal or other limits affect the period over which related assets can be utilised.

(f) If an asset is not used during the reporting period or is taken out of active use, then the useful life may need to be reconsidered.

.56E An entity should assess whether there is any indication that the expected useful life of the asset has changed based on whether the condition of the asset has improved or declined. This is based on any condition assessments undertaken by the entity on its assets during the reporting period. Paragraph .56D(f) should not be read as requiring a condition assessment at each reporting date. Condition assessments will be undertaken by entities on selected or identified assets as part of its ongoing asset management. Instead, any information available from any condition assessments undertaken during the reporting period should be used to assess whether the useful life of particular assets should be changed.

.56F In assessing whether the condition of an asset has improved or declined, the stage of the asset's lifecycle needs to be considered. As assets age, a certain level of deterioration is expected. It is only where a decline in the condition is above what is expected, would a thorough analysis of the impact on the useful life of the asset be required. The same applies if an asset is in a better condition than expected.

~~.57~~ ~~***Reviewing the useful life of an asset on an annual basis does not require***~~

~~***the entity to amend the previous estimate unless expectations differ from the previous estimate.***~~

Useful life

.57 The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life.

.57A The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets. An entity considers all facts and circumstances in estimating the useful lives of assets, which includes the consideration of financial, technical and other factors.

Depreciable amount

.58 Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset do not negate the need to depreciate it. ~~Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life is reassessed and adjusted accordingly.~~

.59 The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

.60 The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

Depreciation

.61 Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

~~.62~~ ~~The future economic benefits or service potential embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits or service~~

~~potential that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:~~

~~(a) Expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.~~

~~(b) Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.~~

~~(c) Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.~~

~~(d) Legal or similar limits on the use of the asset, such as the expiry dates of related leases.~~

~~.63 The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets.~~

.64 Land and buildings are separable assets and are accounted separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

.65 If the cost of land includes the costs of site dismantlement, removal and restoration, the portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.

…

2. Use of external valuers

Background

2.1 A number of respondents to the post-implementation review indicated that the requirements regarding the use of valuers to determine the fair value of property, plant and equipment and investment property is unclear. In particular, it is unclear whether an independent valuer, such as a member of the valuation profession who holds a recognised and relevant professional qualification, is required to be used in all instances by the Standards.

2.2 Respondents from municipalities noted that they often use internal property experts to value land and buildings, and engineers to determine the depreciated replacement cost of specialised assets such as infrastructure.

Proposal and its impact

2.3 In response to the concerns raised, the relevant requirements and disclosures have been reviewed. While it is clear in GRAP 16 that the use of a professional valuer is encouraged, the wording in GRAP 17 is ambiguous. The wording in both Standards has been revised to make it clear that a professional valuer may be used.

2.4 The revised wording refers to both a member of the valuation profession and "another expert". This addresses those situations when an entity uses its own internal experts who might not necessarily be members of the valuation profession, but are competent to undertake the required valuations in accordance with the requirements of the applicable Standards.

2.5 The disclosure requirements have been amended so that an entity is required to disclose whether a professional valuer or other expert is used.

2.6 A consequential amendment has been proposed to the equivalent wording in GRAP 103 *Heritage Assets* to align the wording. As no equivalent paragraphs exist in GRAP 27 *Agriculture* and GRAP 31 *Intangible Assets*, no consequential amendments are proposed to these Standards.

Proposed amendments

2.7 The amendments proposed to GRAP 17 in relation to the use of valuers is outlined in the paragraphs that follow. New text is underlined, deleted text is struck through, and text that has relocated is indicated with a double underline.

Revaluation model

.34 ….

.35 The fair value of items of land and buildings is usually determined from market-based evidence by appraisal. The fair value of items of plant and equipment is usually their market value determined by appraisal. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialised buildings, motor vehicles and many types of plant and equipment. An appraisal of the value of the asset may be ~~is normally~~ undertaken by a member of the valuation profession~~,~~ who holds a recognised and relevant professional qualification, or by another expert with the requisite competence to undertake such appraisals in accordance with the requirements of the applicable Standards of GRAP. The valuer or other expert may be employed by the entity. ~~For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialised buildings, motor vehicles and many types of plant and equipment.~~

.36 ….

Disclosure

.80 ….

.84 If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:

(a) the effective date of the revaluation;

(b) whether a valuer or other expert was used in appraising the value of the assets ~~independent valuer was involved~~;

(c) the methods and significant assumptions applied in estimating the items' fair values;

(d) the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;

(e) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners of net assets.

…

2.8 The following amendments are proposed to GRAP 16 in relation to the use of valuers:

Measurement after recognition

Accounting policy

.38 This Standard requires all entities to determine the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model). An entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. Another expert with the requisite competence to undertake such appraisals in accordance with the requirements of the applicable Standards of GRAP may also be used. The valuer or other expert may be employed by the entity.

Disclosure

Cost model

.84 An entity shall disclose:

(d) ….

(e) the extent to which the fair value of investment property ~~(as measured or disclosed in the financial statements)~~ is based on a valuation by a valuer or other expert ~~independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.~~ If there has been no such valuation, that fact shall be disclosed;

…

2.9 As a result of amending the wording in GRAP 16 and GRAP 17, a consequential amendment is necessary to the Standard of GRAP on *Heritage Assets* (GRAP 103) in relation to the use of valuers:

Revaluation model

Determining fair value

.44 The fair value of a heritage asset can be determined from market-based evidence determined by appraisal. The fair value will be ascertained by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for certain collections of butterflies and other movable objects, such as coin or stamp collections. The existence of published price quotations in an active market is the best evidence of the fair value, such as the quoted price from recent auctions. A restriction on the disposal of a heritage asset resulting from a stipulation imposed by, a trust, statute or law, or from the transferor's stipulations, for instance, does not preclude the entity from determining its fair value. An appraisal of the value of the asset may be ~~is normally~~ undertaken by a member of the valuation profession~~,~~ who holds a recognised and relevant professional qualification, or by another expert with the requisite competence to undertake such appraisals in accordance with the requirements of the applicable Standards of GRAP. The valuer or other expert may be employed by the entity. ~~The fair value will be ascertained by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for certain collections of butterflies and other movable objects, such as coin or stamp collections. The existence of published price quotations in an active market is the best evidence of the fair value, such as the quoted price from recent auctions published in local newspapers. A restriction on the disposal of a heritage asset resulting from a stipulation imposed by, a trust, statute or law, or from the transferor's stipulations,~~

~~for instance, does not preclude the entity from determining its fair value.~~

Disclosure

…

.90 ***If a class of heritage assets is stated at revalued amounts, the following shall be disclosed:***

(a) ***The effective date of the revaluation.***

(b) ***Whether ~~an independent valuer was involved~~ a valuer or other expert was used in appraising the value of the assets.***

(c) ***The method used to determine the heritage asset's fair value.***

(d) ***The significant assumptions applied in estimating the heritage assets' fair values.***

(e) ***The extent to which the heritage assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms, or were estimated using other valuation techniques.***

(f) ***The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners of net assets.***

3. Presentation and disclosure of capital work-in-progress

Background

3.1 Several users consulted during the post-implementation review indicated the need for more information about capital work-in-progress. In particular, users requested information about capital work-in-progress per class of asset, as well as information about the "ageing" of the capital work in progress.

3.2 Users indicated that they need information on the capital work-in-progress per class of asset as this provides valuable information about the type of asset being constructed, developed or refurbished. Information is needed about the "ageing" of the capital work-in-progress as this provides users with an indication of the progress on capital projects over a period of time, including whether any projects have been delayed or suspended.

Proposal and its impact

3.3 Additional disclosure requirements related to capital work-in-progress have been proposed. These include the following:

- The cumulative expenditure capitalised as work-in-progress should be disclosed per class of assets.
- An analysis of expenses incurred to construct assets that are taking a significant period of time to complete and reasons for any delays.

- An analysis of expenses incurred to construct assets where the construction has been stopped, the reasons for stopping construction, as well as whether the assets are impaired or not.

3.4 Although the comments made by respondents to the post-implementation review were made in the context of property, plant and equipment, similar disclosures would be useful for investment property, intangible assets and heritage assets in the course of development or construction. As a result, equivalent paragraphs have been proposed for GRAP 16, 17 and 103.

Proposed amendments

3.5 The following amendments are proposed to GRAP 17 in relation to the additional disclosures on capital work-in-progress. New text is underlined, deleted text is struck through, and text that has been relocated is indicated with a double underline.

Disclosure

.80 *…*

.81 ***The financial statements shall also disclose for each class of property, plant and equipment recognised in the financial statements:***

(a) the existence and amounts of restrictions on title and property, plant and equipment pledged as securities for liabilities;

~~***(b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;***~~

(b~~c~~) the amount of contractual commitments for the acquisition of property, plant and equipment; and

(c~~d)~~ if it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.

.81A ***An entity shall disclose the following in the notes to the financial statements in relation to items of property, plant and equipment which are in the process of being constructed or developed:***

(a) The cumulative expenditure recognised in the carrying value of such items of property, plant and equipment. These expenditures shall be disclosed in aggregate per class of asset.

(b) The carrying value of property, plant and equipment that is taking a significant longer period of time to complete than expected, including reasons for any delays.

(c) The carrying value of property, plant and equipment where

construction or development has been halted either during the current or previous reporting period(s). The entity shall also disclose reasons for halting the construction or development of the asset and indicate whether any impairment losses have been recognised in relation to these assets.

3.6 The following amendments are proposed to GRAP 16 in relation to the additional disclosures on capital work-in-progress.

Disclosures

Fair value and cost model

.84 *…*

.84A ***An entity shall disclose the following in the notes to the financial statements in relation to investment property which is in the process of being constructed or developed:***

- *(a)* ***The cumulative expenditure recognised in the carrying value of investment property.***
- *(b)* ***The carrying value of investment property that is taking a significant amount of time to complete, including reasons for any delays.***
- *(c)* ***The carrying value of investment property where construction or development has been halted either during the current or previous reporting period(s). The entity shall also disclose reasons for halting the construction or development of the asset and indicate whether any impairment losses have been recognised in relation to these assets.***

Fair value model

…

3.7 The following amendments are proposed to GRAP 31 in relation to the additional disclosures on capital work-in-progress.

Disclosures

General

.116 *…*

.116A ***An entity shall disclose the following in the notes to the financial statements in relation to intangible assets which are in the process of being developed:***

- *(a)* ***The cumulative expenditure recognised in the carrying value of such intangible assets. These expenditures shall be disclosed in***

aggregate per class of intangible asset, distinguishing between internally generated and other intangible assets.

(b) ***The carrying value of intangible assets that are taking a significant amount of time to complete, including reasons for any delays.***

(c) ***The carrying value of intangible assets where development has been halted either during the current or previous reporting period(s). The entity shall also disclose reasons for halting the development of the asset and indicate whether any impairment losses have been recognised in relation to these assets.***

.117 …

3.8 The following amendments are proposed to GRAP 103 in relation to the additional disclosures on capital work-in-progress.

Disclosures

.84 …

.84A An entity shall disclose the following in the notes to the financial statements in relation to heritage assets which are in the process of being constructed or developed:

(a) ***The cumulative expenditure recognised in the carrying value of such heritage assets. These expenditures shall be disclosed in aggregate per class of heritage asset.***

(b) ***An analysis of the carrying value of heritage assets that are taking a significant amount of time to complete, including reasons for any delays.***

(c) ***An analysis of the carrying value of heritage assets where construction or development has been halted. The entity shall also disclose reasons for halting the construction or development of the asset and indicate whether any impairment losses have been recognised in relation to these assets.***

.85 …

4. Review of encouraged disclosures

Background

4.1 The Board requested both users' and preparers' views on the encouraged disclosures in GRAP 16 and GRAP 17. Preparers indicated that they often did not provide the disclosures because (a) they were not required by the Standard and users had not requested this information, (b) they are onerous and costly to provide, e.g. the fair values of property, plant and equipment or investment property measured using the cost model, or (c) the information is not available, e.g. assets that were not used during the year. Some preparers were of the view that the disclosure of fully depreciated assets still in use was confusing, because if the requirements of the Standards are being applied correctly, then there should be no fully depreciated assets still in use (unless they are immaterial).

4.2 Based on the feedback received, the Board agreed to review the encouraged disclosures to either confirm that the information should be disclosed, or the specified disclosure deleted from the Standard.

Proposal and its impact

Disclosure of fair values where the cost model applied

4.3 The views expressed by users about the relevance of fair value for the subsequent measurement of assets was mixed. Given that preparers indicated that determining fair values requires additional cost and effort, the encouraged disclosure of fair value where the cost model is used has been proposed for deletion from both GRAP 16 and GRAP 17.

4.4 An inconsistency was noted between paragraph .38 of GRAP 16 which requires entities to determine the fair values of investment property even if only for disclosure, while paragraph .89 merely encourages these disclosures. As a result, the first sentence of paragraph .38 in GRAP 16 has been proposed for, along with the whole of paragraph .89.

Information on assets that were not utilised during the reporting period

4.5 Preparers indicated that they did not have the information available to support the disclosure of information on assets that were not used during the reporting period. This information is meant to provide information about how assets are utilised during the period, which may be more appropriate for reporting outside the financial statements. Consequently, this disclosure has also been proposed for deletion.

Fully depreciated assets still in use

4.6 If the requirements of the cost model in GRAP 17 are applied correctly to both property, plant and equipment and investment property, then entities should not have fully depreciated assets that are still in use, unless they are immaterial. The Board agreed that disclosing this information would contradict the requirements of GRAP 17 to regularly reassesses the useful lives of assets, and has proposed deleting this disclosure.

Assets retired from active use but not classified as a discontinued operation

4.7 The objective of this disclosure is to provide information about assets that are available for disposal. The Standard of GRAP on *Presentation of Financial Statements (GRAP 1)* requires that when management makes a decision to dispose of significant assets, then information is disclosed about the nature and value of the assets along with details of the planned disposal. It is unclear whether the types of assets that are retired from active use will be material as they are likely to be old assets, or have no or low service potential to the entity.

4.8 Given that the information value of these disclosures is questionable, this disclosure has been proposed for deletion.

Proposed amendments

4.9 The amendments to GRAP 17 in relation to the encouraged disclosures are outlined in the paragraphs below. New text is underlined, deleted text is struck through, and text has been relocated is indicated with a double underline.

Disclosure

.80 ***…***

.86 ~~Users of financial statements may also find the following information relevant to their needs:~~

~~(a) the carrying amount of any item of property, plant and equipment that was not used for any period of time during the reporting period that significantly impacted the delivery of goods and services of the entity;~~

~~(b) the gross carrying amount of any fully depreciated property, plant and equipment, per class, that is still in use.;~~

~~(c) the carrying amount of property, plant and equipment retired from active use and not classified as a discontinued operation in accordance with the Standard of GRAP on *Discontinued Operations*; and~~

~~(d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount~~.

~~Therefore, entities are encouraged to disclose these amounts.~~

4.10 The following amendments are proposed to GRAP 16 in relation to the disclosure of fair value where the cost model is used:

Measurement after recognition

Accounting policy

.38 ~~This Standard requires all entities to determine the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model).~~ An entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued…..

Disclosure

Cost model

.88 …

~~.89 Entities are encouraged to disclose the fair value of investment property when this is materially different from the carrying amount.~~

4.11 The following amendments are proposed to GRAP 31 for fully depreciated assets still in use:

Disclosure

General

…

Other information

.126 An entity is encouraged, but not required, to disclose ~~the following information:~~

~~(a) A description of any fully amortised intangible asset that is still in use.~~

~~(b) A~~ a brief description of significant intangible assets controlled by the entity but not recognised as assets because they did not meet the recognition criteria in this Standard.

5. Repairs and maintenance

Background

5.1 A number of users who participated in the post-implementation review indicated the need for clear information on the expenditure incurred to repair and maintain assets. Users typically want information of this nature to assess whether planned repairs and maintenance are being undertaken. They also want to assess the adequacy of resources made available to fund this activity, which is assessed by comparing repairs and maintenance spent against the carrying value of the assets reflected in the statement of financial position.

Proposal and its impact

5.2 There is currently no requirement in either GRAP 17 or GRAP 1 to disclose this information in the financial statements. As this information is highly relevant to users, a proposed disclosure requirement has been added to GRAP 1, with consequential amendments proposed to GRAP 16, 17 and 103. These proposals require that an entity separately disclose expenditure incurred to repair and maintain an asset in the notes to the financial statements.

Proposed amendment

5.3 The following amendment is proposed to GRAP 1 in relation to the disclosure of repairs and maintenance. New text is underlined, deleted text is struck through, and text that has been relocated is indicated with a double underline.

Information to be presented either on the face of the statement of financial performance or in the notes

.98 …

.99 Circumstances that would give rise to the separate disclosure of items of revenue and expense include:

(a) the write-downs of inventories to net realisable value or current replacement cost or property, plant and equipment to recoverable amount_or recoverable service amount, as well as the reversals of such write-downs;

(b) restructurings of the activities of an entity and the reversals of any provisions for the costs of restructuring;

(c) <u>expenditure incurred on assets to repair and maintain them;</u>

(d) disposals of items of property, plant and equipment;

(e) disposals of investments;

(f) discontinued operations;

(g) litigation settlements; and

(g) other reversals of provisions.

5.4 The following amendment is proposed to GRAP 16 to require the separate disclosure of repairs and maintenance incurred on investment property:

Disclosure

Fair value model and cost model

…

.84B An entity shall separately disclose expenditure incurred to repair and maintain investment property in the notes to the financial statements.

…

5.5 The following amendment is proposed to GRAP 17 to require separate disclosure of repairs and maintenance incurred on property, plant and equipment:

Disclosure

…

.81B An entity shall separately disclose expenditure incurred to repair and maintain property, plant and equipment in the notes to the financial statements.

…

5.6 The following amendment is proposed to GRAP 103 to require separate disclosure of repairs and maintenance incurred on heritage assets:

Disclosure

…

.84B An entity shall separately disclose expenditure incurred to repair and maintain heritage assets in the notes to the financial statements.

…

Part C – Basis for conclusions, transitional provisions and effective date

Introduction

1.1 A number of amendments have been proposed to GRAP 16 and GRAP 17 in Part A and B of this Exposure Draft. A number of consequential amendments have also been proposed to other Standards, such as GRAP 1, 31 and 103. The transitional provisions and effective date paragraphs of these amendments are outlined in this section of the Exposure Draft. The Basis for Conclusions for significant departures from the equivalent international standards is also outlined in this section.

Transitional provisions

2.1 When the Board proposes amendments to Standards of GRAP, it outlines the transitional provisions of those amendments in the affected Standards. So as to not repeat the transitional provisions paragraphs for each amendment proposed, this section outlines combined transitional provisions paragraphs for the amendments that affect each Standard.

2.2 The transitional provisions for the proposed amendments are outlined in the table below. In considering whether amendments should be applied prospectively or retrospectively, the Board considered the nature of the changes, i.e. whether clarification was merely provided or fundamental principles changed, the extent to which information is available to support the new requirements, and whether the information is fundamental to users' assessments of the financial statements.

Affected Standard of GRAP	Amendment	Transitional provisions
GRAP 1	Separate disclosure of repairs and maintenance on assets (all assets, whether property, plant and equipment, investment property or heritage assets)	Retrospective. As the sufficiency of repairs and maintenance is a key metric used by users of the financial statements, comparative information will be useful, and as a result, retrospective application is proposed.
GRAP 17	Indicator based approach to the assessment of useful lives and residual values	Prospective. Assessments of useful lives and residual values are done at each reporting date. Hindsight cannot be applied to such assessments and prospective application is therefore

		proposed.
	Capital work-in-progress	Prospective. The information may not be available for prior periods and prospective application is therefore proposed.
	Deletion of encouraged disclosures	Retrospective. Comparative information should be restated (if provided).
	Use of external valuers	Prospective. The amendment provides guidance about the user of valuers, and should therefore be considered in future reporting periods.
	Separate disclosure of repairs and maintenance on assets.	Retrospective. See the reasons outlined above.
GRAP 16	Distinction between investment property and property, plant and equipment, and disclosure of what properties classified as strategic properties	Retrospective, except where hindsight needs to be applied about management's intention in prior reporting periods. As the amendments clarify rather than amend the requirements, retrospective application is proposed.
	Fair values of investment properties (encouraged disclosure deleted as a consequential amendment to GRAP 17)	Retrospective. See the reasons outlined above.
	Capital work-in-progress	Prospective. See the reasons outlined above.
	Use of external valuers	Prospective. See the reasons outlined above.
	Separate disclosure of repairs and maintenance on assets.	Retrospective. See the reasons outlined above.
GRAP 31	Capital work-in-progress	Prospective. See the reasons outlined above.
GRAP 103	Use of external valuers	Prospective. See the reasons outlined above.
	Capital work-in-progress	Prospective.

		See the reasons outlined above.
	Separate disclosure of repairs and maintenance on assets.	Retrospective. See the reasons outlined above.

2.3 The detailed transitional provisions for each of the affected Standards of GRAP are outlined in the paragraphs that follow.

2.4 The following transitional provisions paragraph is added to GRAP 1:

Transitional provisions

Amendments to Standards of GRAP

…

.143A ***Paragraph .99(c) was amended by the Amendments to the Standards of GRAP on Investment Property and Property Plant and Equipment (2014) issued on [Date Month Year]. An entity shall apply these amendments retrospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.***

2.5 The following transitional paragraphs are added to GRAP 16:

Transitional provisions

Amendments to Standards of GRAP

…

.92A ***Paragraphs .07A, .07B .07C, .08, .08A, .10, .10A, .10B, .11, .11A, .13, .16, and .84(c) were amended by the Amendments to the Standards of GRAP on Investment Property and Property Plant and Equipment (2014) issued on [Date Month Year]. An entity shall apply these amendments retrospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors, unless applying these requirements retrospectively requires the application of hindsight about management's intention in prior periods.***

.92B ***Amendments to paragraph .89, relating to the deletion of encouraged disclosures, shall be applied retrospectively.***

.92C ***Amendments to paragraph .84B relating to the disclosure of expenditure incurred to repair and maintain investment property, shall be applied retrospectively.***

.92D ***Paragraphs .38, .84(e) and .84A, were amended by the Amendments to the Standards of GRAP on Investment Property and Property Plant and Equipment (2014) issued on [Date Month Year]. An entity shall apply these amendments prospectively in accordance with the Standard of***

GRAP on Accounting Policies, Changes in Estimates and Errors.

2.7 The following transitional paragraphs are added to GRAP 17:

Transitional provisions

Amendments to Standards of GRAP

…

.89A ***Paragraphs .56, .56A to E, .57 to .63, .81, and .81A were amended by the Amendments to the Standards of GRAP on Investment Property and Property Plant and Equipment (2014) issued on [Date Month Year]. An entity shall apply these amendments prospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.***

.89B ***Amendments to paragraph .86, relating to the deletion of encouraged disclosures, should be applied retrospectively.***

.89C ***Amendments to paragraph .81B relating to the disclosure of expenditure incurred to repair and maintain property, plant and equipment, shall be applied retrospectively***

2.8 The following transitional paragraph is added to GRAP 31:

Transitional provisions

Amendments to Standards of GRAP

…

.128A ***Paragraphs .116A, and .126 were amended by the Amendments to the Standards of GRAP on Investment Property and Property Plant and Equipment (2014) issued on [Date Month Year]. An entity shall apply these amendments prospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.***

2.9 The following transitional paragraph is added to GRAP 103:

Transitional provisions

Amendments to Standards of GRAP

…

.99A ***Paragraphs .44, .84A and .90(b) were amended by the Amendments to the Standards of GRAP on Investment Property and Property Plant and Equipment (2014) issued on [Date Month Year]. An entity shall apply these amendments prospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.***

.99B ***Amendments to paragraph .84B relating to the disclosure of expenditure incurred to repair and maintain heritage assets, shall be applied retrospectively***

Effective date

3.1 When the Board proposes amendments to Standards of GRAP, it outlines the effective date of those amendments in the affected Standards. So as to not repeat the effective date paragraphs for each amendment proposed, this section outlines combined effective date paragraphs for the amendments that affect each Standard. The effective date of the proposed amendments will be determined by the Board once the consultation process has been completed.

3.2 The effective date paragraph is to be inserted into the following Standards of GRAP:

- GRAP 1 – At paragraph .145A.
- GRAP 16 – At paragraph .94A.
- GRAP 17 – At paragraph .91A.
- GRAP 31 – At paragraph .130A.
- GRAP 103 – At paragraph .99A.

Effective date

Entities already applying Standards of GRAP

…

.94A ***An entity shall apply amendments to this Standard of GRAP for annual financial statements covering periods beginning on or after [Date Month Year]. Earlier application is encouraged. If an entity applies this Standard for a period beginning before [Date Month Year], it shall disclose that fact.***

Basis for conclusions

4.1 Many of the changes to GRAP 17 result in departures from the principles in the equivalent International Public Sector Accounting Standard, IPSAS 17 *Property, Plant and Equipment.* Where the Board departs from the principles in the IPSASs, it publishes a Basis for Conclusions outlining the reasons for the departure or amendment. A comprehensive Basis for Conclusions to GRAP 17 is outlined below. Where applicable this Basis for Conclusions refers to consequential amendments made to other Standards of GRAP as a result of amendments to GRAP 17.

4.2 The Board is of the view that the changes to GRAP 16 merely clarify, rather than amend, the existing principles. As a result, no Basis for Conclusions has been developed for the changes outlined in Part A of this Exposure Draft.

4.3 The basis for conclusions to be added to GRAP 17 as a result of the amendments proposed in Part B are as follows:

Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain solutions related to the accounting for statutory receivables. This basis for conclusions accompanies, but is not part of, the Standard of GRAP on Property, Plant and Equipment.

Introduction

BC1. The Board completed the first post-implementation review of the Standard of GRAP on *Property, Plant and Equipment* in 2014. Based on the responses received as part of that review, it was requested that the Board re-consider certain requirements in the Standard. These are as follows:

- Introducing an indicator-based assessment of the useful lives of assets.
- Clarifying whether the use of an external valuer to determine the fair value of assets is required or merely encouraged.
- Reviewing the encouraged disclosures to determine if they could be deleted, or if any should be made mandatory.
- Developing additional disclosures related to capital work-in-progress.
- Separately disclosing repairs and maintenance in the notes to the financial statements.

Amendments identified as part of the post-implementation review

Indicator-based assessment of the useful lives of assets

BC2. Preparers noted that undertaking a detailed assessment of the useful lives of assets on an annual basis is onerous, particularly given the nature and volume of assets held by entities in the public sector. Preparers also noted that the requirement of the Standard had been interpreted as requiring a conditional assessment of all assets at each reporting date. Preparers suggested that using an indicator-based assessment, similar to that used to assess whether an asset is impaired, may provide sufficient relief from the requirements of the Standard, but still achieve the overall objective of the requirement.

BC3. The Board agreed that an indicator approach is a feasible compromise as it would still require entities to assess the useful lives of assets on a regular basis. The key difference is that entities would not be required to review the useful lives of assets every year, only when specific circumstances exist or have changed from the prior year.

BC4. The Board developed a list of indicators, in consultation with preparers and engineers, which reflect those circumstances or events that would require a more detailed assessment of the useful lives of assets to be undertaken. The indicators have been developed based on key principles of asset management. One of the key principles of asset management is that conditional assessments are done on specific assets more frequently than others, based on an entity's risk assessment of its assets. As a result, the revised requirements in the Standard make it clear that only where conditional assessments have been undertaken, is this information used in assessing the appropriateness of the useful lives of assets; it is not a requirement that conditional assessments should be undertake for all assets annually.

Use of external valuers

BC5. Preparers that responded to the post-implementation review observed that the Standards are ambiguous about whether external valuers must be used to determine the fair values of assets or whether this is encouraged. Preparers also noted that internal experts employed by entities, such a property valuation experts and engineers, are often used because they are knowledgeable about their respective entities' assets and because it more cost effective to use employees rather than appoint consultants.

BC6. The Board agreed that the existing wording could be more precise about the encouragement to use external valuation experts to determine the fair value of assets, and has been revised accordingly. The Board also agreed that internal experts could be used, as long as they possessed the requisite competence to undertake these valuations using the principles established in the Standards of GRAP. Additional wording has therefore been added to this effect.

BC7. The Board agreed that if an expert is used, then an entity should disclose this fact in the notes to the financial statements. The Board debated whether or not it should require an entity to disclose whether the expert is internal or external to the entity, but agreed that this may perpetuate the existing issue as this may be seen as giving more prominence to the use of external valuers.

BC8. As a result of the change made to the text of this Standard, consequential amendments have been made to similar paragraphs in other Standards of GRAP. Consequential amendments have been made to the Standards of GRAP on *Investment Property*, *Heritage Assets* and *Intangible Assets*.

Encouraged disclosures

BC9. With the exception of the disclosure of fully depreciated assets still in use, users and preparers noted the limited informational value of the encouraged disclosures. Preparers also noted that there is often insufficient information available to support some of the disclosures, in particular, the disclosure of assets that were not used during the reporting period.

BC10. As users find limited value in these disclosures, the Board agreed to delete the following encouraged disclosures:

- Disclosure of fair values of assets where the cost model applied.
- Information on assets that were not utilised during the reporting period.
- Assets retired from active use but not classified as a discontinued operation.

Consequential amendments were made to the Standard of GRAP on *Investment Property* in relation to the disclosure of fair values of investment property where the cost model is applied.

BC11. Users and preparers indicated mixed views about the encouragement to disclose information on fully depreciated assets still in use. Some argued that if the requirements of the Standard are applied correctly, then this situation should not exist, or it would be immaterial. Others argued that this disclosure is useful because it provides information about whether entities have in fact regularly reviewed the useful lives of assets. The Board agreed to eliminate the disclosure because providing this information in the notes to the financial statements contradicts the principle in the Standard of GRAP on *Property, Plant and Equipment* that requires regular assessments of the useful lives of assets. A similar consequential amendment has been made to the Standards of GRAP on *Investment Property* and *Intangible Assets.*

BC12. The Board noted that eliminating encouraged disclosures goes some way to simplifying and streamlining the requirements of the Standards, as it requires entities to apply less judgement is deciding whether or not to provide these disclosures.

Capital work-in-progress

BC13. Given the amount of resources that are spent annually on assets, whether to construct or develop new assets, or refurbish and maintain existing, users expressed a strong need for more disclosure about capital work-in-progress and expenditure on repairs and maintenance.

BC14. For capital work-in-progress, users indicated that they needed more information about the types of assets being constructed or developed. The Board has therefore required that entities disclose the expenditure incurred on capital work-in-progress per class of asset. Users also observed that capital work-in-progress often includes amounts spent on projects that are taking a significant amount of time to complete, or have been halted. They therefore requested information about the ageing of projects included in capital work-in-progress. As a result, the Board has added a requirement for entities to disclose information on amounts that are included in capital work-in-progress that are long outstanding or relate to projects that have been stopped, and whether impairment has been considered. A similar requirement has been added to the Standards of GRAP on *Investment Property, Intangible Assets* and *Heritage Assets.*

Expenditure incurred on repairs and maintenance

BC15. Users measure the adequacy of repairs and maintenance by comparing this expenditure to the value of assets recognised in the statement of financial position. There is however no requirement to separately present this information in the financial statements. Given the importance of this information, a requirement to disclose this information in the notes to the financial statements has been added to the Standard of GRAP on *Presentation of Financial Statements.* Consequential amendments have been made to the Standards of GRAP on *Investment Property* and *Heritage Assets*.