ACCOUNTING FOR HERITAGE ASSETS UNDER THE ACCRUAL BASIS OF ACCOUNTING

International Public Sector Accounting Standards Board, Consultation Paper

Comments from ACCA

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Executive Summary

The Association of Chartered Certified Accountants (ACCA) is pleased to have this opportunity to comment on the consultation paper, *Accounting for Heritage Assets under the Accrual Basis of Accounting*, issued by the International Public Sector Accounting Standards Board (IPSASB). These comments have been prepared in consultation with members of ACCA’s Public Sector Network Panel, a group of experienced accountants working in the public sector. They have also been considered by ACCA’s Financial Reporting Committee.

ACCA considers that the benchmark treatment should be that heritage assets are not capitalised in a public-sector entity’s balance sheet. This is because we do not believe that information on the current value of heritage assets has significant value for the users of financial statements of these entities. We believe that the definition of heritage assets proposed by the IPSASB should be amended so that their accounting treatment is not dependent on the objectives of the reporting entity.
Initial Comments

Introduction

ACCA believes that the core challenge is that there is a class of assets, held and managed by entities in the public sector, which do not have readily obtainable market values and which will not be a source of future net income.

We believe, however, in contrast to the approach proposed by IPSASB, that the benchmark treatment should be that such assets are expensed in the year of acquisition and so are not capitalised in the entity’s statement of financial position. The only exception should be if it is likely that the asset is to be subject to disposal.

We agree with the IPSASB’s proposal that if such heritage assets are used for operational reasons (for example, as a building) then they should be capitalised at depreciated replacement cost, although the option of the use of historic cost should be retained.

Definition

The IPSASB proposal is that heritage assets should be defined very closely as ‘assets with historic, artistic, scientific, technological, geophysical or environmental qualities, that are held and maintained principally for their contribution to knowledge and culture and this purpose is central to the objectives of the entity holding them’.

We believe that heritage assets should be accounted for in a comparable manner, irrespective of the nature of the objectives of the reporting entity. As a result we believe that the phrase ‘and this purpose is central to the objectives of the entity holding them’ should be deleted from the proposed definition of heritage assets.

Useful and Relevant Information
The IPSASB consultation paper suggests that ‘useful and relevant information’ (paragraph 2, page 14) should be provided on heritage assets which are held by public-sector entities. The paper does not, however, explain the uses for which such information may be required. There are a range of possible uses for such information, including:

- for insurance purposes
- to indicate the opportunity cost of capital
- to indicate that the entity is a going concern
- as security for a loan.

In each case ACCA believes that the information would have limited value for users of general-purpose financial statements. Thus many public-sector organisations self-insure and, in addition, as many heritage assets are irreplaceable, insurance has limited value for such assets. As there is little or no prospect of converting heritage assets into cash they do not have an opportunity cost. Heritage assets cannot be disposed of to repay a loan and so it is misleading to include an estimate of their value in the balance sheet, and they cannot be used as security for a loan.

We do not consider that the inclusion of the value of heritage assets in the balance sheet of a public-sector entity would be of significant use in assessing the management’s stewardship of the heritage assets. This stewardship should be measured mainly in terms of their standard of preservation and this would be covered more by the disclosures proposed in Section 5 of the consultation paper.

The IPSASB consultation paper argues that the current-cost valuation of heritage assets could be a proxy for the quality of their preservation. However, the inclusion of council housing in the balance sheets of local authorities in the UK did not avoid the problem of its lack of adequate maintenance in the 1990s. The resulting loss in value was more than masked by the overall increase in their value due to general house price inflation. The total figure of back-log maintenance of an estimated £19 billion was not available from the financial statements of local authorities, but had to be estimated separately.
To avoid the repetition of this situation, ACCA considers that public-sector entities which hold heritage assets should be required to make and separately disclose provisions for any planned maintenance of these assets which has not been undertaken.

Decision to adopt non-capitalisation approach

The IPSASB consultation paper proposes the option of non-capitalisation, relieving entities of the requirement to value their heritage assets, but only in the limited circumstances where the entity ‘can demonstrate that it cannot obtain reliable values at reasonable cost for the majority, by value, of its heritage assets’ (paragraph 5, page 15). We believe that in the majority of cases the cost of the valuation of heritage assets will exceed the value of the information which is then provided. The example of the motor museum given in the consultation paper would be very much an exceptional case.

ACCA believes that it would be more appropriate for public-sector entities to adopt the non-capitalisation approach to heritage assets. This would ensure that such assets were treated in a comparable manner across the sector and that such entities would not suffer the potential burden of having to value their holdings of heritage assets on a regular basis.

Public trust assets

ACCA believes that, in the public sector at least, there is a class of assets which are non-market goods, which the Australian academic Allan Barton has argued\(^1\) are public goods held in trust for the nation which ‘should be accounted for and reported on separately from normal commercial assets’. This, he argues, is because it is ‘legally wrong to mix together normal operating assets and trust assets because they are not legally accessible by creditors. The mixed information is grossly misleading and lacks representational faithfulness of the financial position of the entity’.

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We agree with this argument and so consider that public-sector entities should be allowed to designate appropriate assets as trust or public goods and so exclude their value from their balance sheets. This would be efficient as it would save the considerable expense currently incurred in valuing many such assets every five years, when such estimates have little or no practical value.
Specific Questions for Respondents Raised in the Consultation Paper

In this section we provide brief comments on each of the key matters for which the IPSASB asked for specific comment.

1. Do you think that the definition of heritage assets in paragraph 1.16 of the Discussion Paper is appropriate? If not what definition would you propose?

ACCA supports the definition proposed by the IPSASB with the exclusion of the final phrase (‘and this purpose is central to the objectives of the entity holding it’).

2. Do you think that the proposals in the Discussion Paper are applicable to all types of heritage asset? If not please give your reasons.

ACCA believes that the proposals in the Discussion Paper are applicable to all types of heritage asset.

We also consider that there is a wider class of trust or public goods which do not have an objective easily obtainable open-market value. These assets cannot usually be disposed of for practical or operational reasons and so there is no opportunity cost for holding them which should be considered. Such items may include, for example, infrastructural assets (roads and other public infrastructure) and community assets (parks and other recreational assets). We believe that such assets should be accounted for in a comparable manner to heritage assets.

3. Do you agree with the view in Section 4 of the Discussion Paper that, where a majority, by value, of heritage assets held by an entity cannot be recognized, because reliable valuations cannot be obtained, all other heritage assets should also not be recognized? Alternatively, do you support other approaches such as those outlined in Section 3 of the Discussion Paper? Please give your reasons.
ACCA agrees with the view in Section 4 of the Discussion Paper that, where a majority, by value, of heritage assets held by an entity cannot be recognised, because reliable valuations cannot be obtained, all other heritage assets should also not be recognised.

We believe that the value of the information made available by the capitalisation of heritage assets is limited compared to the costs of producing this information. Thus we believe that heritage assets should only be capitalised when the cost of producing this information is low compared to the likely value of this information to the users of the financial statements.

ACCA does not, however, agree with the proposals in paragraphs 4.8 and 4.9. We consider that they may encourage the capitalisation approach when this would not be appropriate and that the information provided in the balance sheet of the entity concerned would not be useful or relevant and may not be sufficiently objective to be comparable with information provided by other public-sector entities.

In addition, we consider that the Discussion Paper underestimates the problems with the capitalisation approach. The question of impairment of these assets would not be avoided by the revaluation model proposed and it is widely accepted as difficult to apply to non-income generating assets.

4. Do you think that, for financial reporting purposes, assets that might otherwise be regarded as heritage assets, but are not held for purposes central to the objectives of the entity, should be accounted for as property, plant and equipment or investment property in line with the proposal in paragraphs 7.2 - 7.4 of the Discussion Paper? Please give reasons.

ACCA believes that assets which have all the attributes of heritage assets, but are held by public-sector entities which do not have the holding of such assets as a central part of their objectives, should nevertheless be accounted for as heritage assets.

We believe, however, that some public-sector entities may also hold and maintain assets for reasons other than their contribution to knowledge and culture. Such entities may be able freely to dispose of such ‘ambiance’ or
‘corporate art’ and, as such, these assets should be accounted for as property, plant and equipment or investment property as required by IPSAS 17.

5. IPSAS 17 requires entities to initially measure property, plant and equipment at cost and allows the historical cost or a revaluation model to be adopted subsequent to initial recognition. In contrast, the Discussion Paper proposes at paragraph 3.16 that where heritage assets are recognized they should be carried at current value with valuations on a regular basis. What measurement basis or bases (fair value, historical cost or another basis) do you think should be allowed or required for heritage assets that are to be initially recognized as assets? Please give your reasons, and, if a basis other than fair value or historical cost, identify that basis.

ACCA considers that heritage assets and other assets with similar attributes (trust or public goods) should not be capitalised in the balance sheet of the reporting entity unless exceptional conditions apply. We do not consider that the current value of such assets is useful or relevant as such figures may not be accurate and for political or practical reasons such assets do not have an opportunity cost.

We note that in a number of jurisdictions public-sector entities are not given the option available in IPSAS 17 to use the historic cost basis for the valuation of property, plant and equipment. We believe that this reduces the comparability with private-sector entities which do commonly use this basis and so we believe that this option should be retained for assets which are capitalised in the balance sheet of public-sector entities.

6. Where heritage assets are carried on a revaluation basis do you think that it is appropriate to relax the requirements for their revaluation below the criteria for other items of property, plant and equipment as proposed in the Discussion Paper at paragraph 4.8? Please give your reasons.

ACCA does not agree with the proposals in paragraph 4.8. We consider that they may encourage the capitalisation approach when this would not be appropriate and that the information provided in the balance sheet of the entity concerned would not be useful or relevant and may not be
sufficiently objective to be comparable with information provided by other public-sector entities.

7. Where heritage assets are not recognized do you think that transactions such as acquisitions and disposals, restoration costs and grants and donations for the purchase of heritage assets should be presented in a separate statement other than the Statement of Financial Performance, as suggested and exemplified in paragraphs 4.14 - 4.16? Do you think that IPSASs should be amended to include such an additional statement? Please give your reasons.

ACCA supports this position and considers that the proposed statement of change in recognised net assets will provide useful information about the acquisition and disposal of heritage assets during the current reporting period.

8. IPSAS 17 and IPSAS 21, *Impairment of Non-Cash Generating Assets* specify requirements for the depreciation of property, plant and equipment and impairment of assets primarily held for service delivery purposes. What requirements, if any, do you think should be applied to heritage assets for depreciation and impairment testing? Please give your reasons.

ACCA believes that heritage assets by their nature should be held for posterity and thus they do not have a finite life and depreciation is not appropriate. We consider, however, that public-sector entities which hold heritage assets should be required to separately disclose any planned maintenance of these assets which has not been undertaken.

We also consider that the Discussion Paper underestimates the problems with the capitalisation approach. The question of impairment of these assets would not be avoided by the revaluation model proposed and it is widely accepted as difficult to apply to non-income generating assets.

9. Do you agree with disclosure requirements proposed in Section 5 of the Discussion Paper? If you think that the disclosures are too onerous or, alternatively, inadequate please indicate which disclosures should be omitted, or which further disclosures should be inserted.
ACCA supports these proposals as providing useful information at a reasonable cost.

10. Do you think that the proposals in the Discussion Paper have particular audit implications? If so, please outline what these implications are.

ACCA considers that the most significant proposal from an audit point of view is the decision on whether a particular asset, or class of assets, should be treated as a heritage asset. The proposed IPSAS would benefit from clear guidance on this issue.

11. IPSAS 17 specifies requirements in relation to property, plant and equipment held for operational purposes. Do you think that the IPSASB should develop requirements for heritage assets by amending IPSAS 17 or do you think that heritage assets should be addressed in a separate Standard focusing specifically on heritage assets? Please give your reasons.

ACCA considers that the accounting treatment of heritage assets should be included in a separate IPSAS. This is because the accounting treatment we are supporting is significantly different from that required for other property, plant and equipment.