

**Meeting:** IPSASB Consultative Advisory Group

**Meeting Location:** Toronto, Canada

**Meeting Date:** December 4, 2017

# Agenda Item 7

For:

☐ Approval

☒ Discussion

☐ Information

## Heritage

<b>Project summary</b>	Develop a consultation paper (CP) on financial reporting for heritage, then develop accounting requirements.	
	<b>Topics</b>	<b>Agenda Item</b>
<b>Heritage discussion</b>	<a href="#">Introduction</a> : Responses to the Consultation Paper	7.1
	1. <a href="#">Meaning of heritage</a>	
	2. <a href="#">Presentation of heritage-related information</a>	
	3. <a href="#">Responses on other issues</a>	
<b>Supporting items</b>	Heritage Project: Progress to Date and Roadmap: <ul style="list-style-type: none"> <li><a href="#">IPSASB decisions</a></li> <li><a href="#">Roadmap</a></li> </ul>	7.2

### Introduction: Responses to the Heritage Consultation Paper

#### Background

1. The IPSASB approved its Consultation Paper (CP), *Financial Reporting for Heritage in the Public Sector*, in March 2017, with a request for comments by 30 September 2017.
2. The CP asked respondents 13 questions; a mixture of specific matters for comment (SMCs) and Preliminary Views (PVs). These covered the following topics:
  - (a) Heritage items;
  - (b) Heritage assets;
  - (c) Recognition and initial measurement of heritage assets;
  - (d) Subsequent measurement of heritage assets;
  - (e) Obligations related to heritage; and
  - (f) Presentation of information about heritage.

#### Responses Received

3. 40 comment letters were received. This is a good number of responses, given an average (mean) of 30 responses over the last six CP-related consultations, with a range from 25 to 36<sup>1</sup>.
4. The responses reflect a good mix when considered in terms of respondents' function, perspective, expertise, their financial reporting background (e.g. IPSAS or another accruals basis set of standards) and their geographic region.
5. The majority of responses came from jurisdictions or entities where English is generally the official and/or the most commonly spoken language. There was a lack of respondents that are users of General Purpose Financial Reports (GPFRs). However, some respondents (e.g. Audit Offices and Standard Setters) aim to have a GPFR user perspective when they respond.
6. For a comprehensive understanding of respondents' views, CAG members may wish to read [IPSASB agenda paper 7](#).

#### Topics for Consideration

7. The first two topics of this paper focus on two areas where responses showed disagreement with the IPSASB's preliminary views<sup>2</sup>. Topic 3 provides a brief overview of responses on other topics covered in the CP, to allow for advice on other areas.

---

<sup>1</sup> Social Benefits (36), Service Performance Reporting (33), Public Sector Financial Instruments (31), Applicability of IPSASs (28), Combinations (26) and GFS Reporting Guidelines and IPSASs (25).

<sup>2</sup> This paper does not treat heritage measurement as a separate topic, because the IPSASB decided in September that heritage measurement should be considered as part of the Public Sector Measurement project. The IPSASB will review CP responses on measurement against that project's approach to measurement, once it has been developed. However, responses on heritage measurement are briefly summarized under Topic 3.

**Topic 1: Meaning of Heritage****Question**

1. What advice does the Consultative Advisory Group (CAG) have for the IPSASB, given issues raised by respondents on a description of heritage items and meaning of natural heritage?

**Summary of Responses**

1. Slightly over half of respondents (55%) agreed with the IPSASB's PV that heritage items could be described as follows:

Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features<sup>3</sup>.

2. However, many of those who agreed identified further points to improve the description.
3. The main issues raised on the description of heritage items were that:
  - (a) Additional examples of heritage types should be added; e.g. add "religious" or "social";
  - (b) The description should be strengthened so that it can operate as a definition;
  - (c) The significance of heritage items that are used operationally should be addressed; and/or
  - (d) The phrase "intended to be held indefinitely" should be amended.
4. On a related PV, the majority of respondents (60%) disagreed that.

For the purposes of this CP, natural heritage covers areas and features, but excludes living plants and organisms that occupy or visit those areas and features<sup>4</sup>.
5. The main issues raised on excluding living plants and organisms from heritage were that they:
  - (a) Meet the description of heritage items, including that they may live for such long periods that the distinction with other heritage items (a limited life) does not hold; and/or
  - (b) Are important for natural heritage areas and indistinguishable from the area.

**CAG Views Requested**

1. CAG members are asked to provide their views on how to address respondents' issues with respect to:
  - (a) The description of heritage items; and
  - (b) Exclusion of living plants and organisms from the meaning of natural heritage.

---

<sup>3</sup> PV–Chapter 2.1.

<sup>4</sup> PV–Chapter 2.2.

### Topic 2: Presentation of Heritage-Related Information

#### Questions

1. What advice does the CAG have for the IPSASB, given respondents' views on presentation of heritage-related information?

#### Summary of Responses

1. The CP asked constituents whether they agreed with the IPSASB's PV<sup>5</sup> that information about heritage should be presented in line with existing IPSASB pronouncements<sup>6</sup>. The majority of respondents agreed with the PV (57%). However, a significant proportion (61%) of those who agreed also proposed additional, heritage-related information to present as either note disclosures in the financial statements or information presented outside of the financial statements.
2. The main presentation issues raised were:
  - (a) In the financial statements there should be:
    - (i) A heritage line item on the face of the statement of financial position; and/or
    - (ii) Additional note disclosures on, for example, heritage assets held or heritage measurement, including information when heritage assets are measured at a nominal value or measurement is impossible.
  - (b) Other heritage-related information—more extensive and/or different in nature from that which would usually be presented in the financial statements—should be presented.
3. Some respondents highlighted that heritage information should not be viewed exclusively in terms of the financial statements. For example, R16 commented that:
 

Financial statements are not the most appropriate reports to provide heritage information that is most useful to those concerned with assessing management's stewardship over the item or collection of items. Many jurisdictions prepare reports on the extent and current condition of their heritage items, and plans for their restoration. As well, long-term sustainability reports which indicate the entity's future obligations to hold and preserve heritage assets would be useful for accountability and decision-making.
4. Similarly, R27 noted the limitations of financial statements, when reporting on heritage. This respondent highlighted service performance information, and noted that non-financial information, outside of the financial statements, has a role to play in communicating the value of heritage, from the community's perspective:
 

Although we support heritage assets that meet the recognition criteria being recognised in financial statements, we acknowledge the limitations of financial statements, and the role that disclosures, or other forms of reporting, have in providing information about heritage items.

---

<sup>5</sup> PV—Chapter 7

<sup>6</sup> Chapter 7 had highlighted that IPSASB pronouncements included both IPSASs, which address information presented in the financial statements and, through IPSAS 24, reporting against budget, and the Recommended Practice Guidelines (RPGs). The RPGs address information presented in other GPFs. There are three RPGs; RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, RPG 2, *Financial Statement Discussion and Analysis*, and RPG 3, *Reporting Service Performance Information*.

# Agenda Item

## 7.1

For example, it is relevant for an entity with responsibility for managing heritage assets to provide information on its management of heritage assets in its service performance report.

We acknowledge that the value obtained for financial reporting purposes is not the only value that a heritage item may have for a community. In particular, the significance of a heritage item to an ethnic group is not readily converted to financial value but is nonetheless an important indicator of heritage in the museum community. The seminal reference on significance is *Significance 2.0, a guide to assessing the significance of collections*, a publication of the Collections Council of Australia Ltd.<sup>7</sup> This guide promotes the writing of a statement of significance for heritage collection items.<sup>8</sup> The statement of significance would usually be a one page summarised pictorial and written statement of the meaning and importance of the specific heritage item. Information from these statements could form the basis for some non-financial disclosures about heritage items. In some cases, it is the human context that gives an item its value. For example, a weapon has more significance when it has been used by a famous person, than when it is just an example of 19<sup>th</sup> Century weaponry.

### CAG Views Requested

1. CAG members are asked to provide their views on how to address respondents' issues with respect to presentation of heritage-related information.

---

<sup>7</sup> <https://www.arts.gov.au/sites/g/files/net1761/f/significance-2.0.pdf>

<sup>8</sup> Ibid pp38-41.

### Topic 3, Responses on Other Issues

#### Question

1. What are the CAG's views on other issues raised by responses, as summarized below?

#### Summary of Responses

##### *Heritage Assets, Heritage-Related Obligations and Recognition of Heritage Assets*

1. The majority of respondents supported the IPSASB's preliminary views on the following topics:
  - (a) *Heritage assets*: 80% of respondents agreed that the special characteristics of heritage items do not prevent them from being assets for the purposes of financial reporting<sup>9</sup>.
  - (b) *Obligations related to heritage*: 77% of respondents agreed that the special characteristics of heritage items, including an intention to preserve them for present and future generations, do not, of themselves, result in a present obligation such that an entity has little or no realistic alternative to avoid an outflow of resources<sup>10</sup>.
2. The majority of respondents (77%) agreed that heritage assets should be recognized in the statement of financial position if they meet the recognition criteria in the Conceptual Framework<sup>11</sup>. However, a significant proportion of this support (35%) came from respondents who agreed that some or all heritage assets should be measured using 1 currency unit (CU). Furthermore, a majority of respondents (67%) consider that there are heritage-related situations (or factors) in which heritage assets should *not* initially be recognized and/or measured<sup>12</sup>.

##### *Measurement of Heritage Assets*

3. Only 35% of respondents agreed that:
  - (a) In many cases it will be possible to assign a monetary value to heritage assets, and
  - (b) Appropriate measurement bases are historical cost, market value and replacement cost<sup>13</sup>.
4. The main issues raised were:
  - (a) That particular measurement bases would be unavailable or are inappropriate.
  - (b) The resulting monetary values are irrelevant.
  - (c) There needs to be scope to use other measurement bases, including the one currency unit (or a symbolic value) either in some situations or for all heritage assets.
5. The following views, expressed by R10, are fairly representative of the "disagree" group:
 

Heritage assets, as defined, generally do not have active, open and orderly markets. Even where a market exists, for example for a work of art, restrictions on disposal will make such a

---

<sup>9</sup> Responses to PV–Chapter 3

<sup>10</sup> Responses to PV–Chapter 6

<sup>11</sup> Responses to PV–Chapter 4.1

<sup>12</sup> Responses to SMC–Chapter 4.2

<sup>13</sup> Responses to PV–Chapter 4.2.

value inappropriate Conceptual Framework Para 7.27 states that for an orderly market “There are no barriers that prevent the entity from transacting in the market”. Clearly restrictions on disposal would be a barrier.

By their nature heritage assets are typically irreplaceable, e.g. a work of art may be copied, but cannot be replaced. Therefore, whilst in principle the valuation bases are appropriate, in practice restrictions on disposal and/or irreplaceability make such valuation bases inappropriate for most heritage assets

Paragraph 4.24 refers to heritage assets that are to be sold—but the decision to sell heritage assets means that by definition they are no longer heritage assets.

This only leaves cost as a valuation base. However, many heritage assets have no cost, or only some items of a collection have a cost, or the acquisition was so long ago as to make the cost meaningless.

Our conclusion is therefore that it is only exceptionally that a monetary value can be assigned to a heritage asset.

6. Respondents from national jurisdictions that value and recognize heritage items generally saw this as feasible, while acknowledging the difficulties, including the cost of valuations.
7. A majority of respondents (80%) identified additional guidance that the IPSASB should provide through its Public Sector Measurement project, to enable the measurement bases proposed (i.e. historical cost, market value and replacement cost) to be applied to heritage assets.
8. Only 37% of respondents agreed<sup>14</sup> with the PV that subsequent measurement:
  - (a) Will need to address changes in heritage asset values that arise from subsequent expenditure, consumption, impairment and revaluation.
  - (b) Can be approached in broadly the same way as subsequent measurement for other, non-heritage assets.
9. The areas of disagreement covered all aspects of subsequent measurement. Issues included:
  - (a) Lack of usefulness of the resulting information;
  - (b) Inability to determine consumption given an indefinite useful life;
  - (c) Cost-benefit issues for revaluation and impairment; and
  - (d) Proposals that subsequent expenditures should be expensed.
10. 62% of respondents identified situations that raise special issues for the subsequent measurement of heritage assets<sup>15</sup>.

### CAG Views Requested

1. CAG members are asked to provide their views on responses above on:
  - (a) Heritage items as assets;
  - (b) Recognition of heritage assets;
  - (c) Measurement (initial and subsequent) of heritage assets; and

---

<sup>14</sup> Responses to PV—Chapter 5.

<sup>15</sup> Responses to SMC—Chapter 5.

- (d) Heritage-related obligations.



**HERITAGE PROJECT<sup>16</sup>: PROGRESS TO DATE AND ROADMAP****IPSASB Decisions—September 2017 meeting and earlier**

<b>Meeting</b>	<b>Decisions</b>
September 2017	1. Address measurement of heritage assets in the Public Sector Measurement Project.
March 2017	1. Approved the consultation paper for publication. 2. Request for comments to have a deadline of 30 September 2017.
September 2015 to December 2016	Decisions for development of the consultation paper, including the IPSASB's preliminary views included therein.
June 2015	Approved the "Heritage Assets" project brief.

---

<sup>16</sup> Further information on the Heritage Project is available from IPSASB website at: <http://www.ipsasb.org/projects/heritage>

**HERITAGE PROJECT ROADMAP**

<b>Meeting</b>	<b>Objective: IPSASB to consider:</b>
September 2015 to March 2017	Develop, approve and publish consultation paper
June 2017	Consultation Period
September 2017	
December 2017	Review of Responses
Subsequent meetings	<p>To be decided.</p> <p>The subsequent roadmap is expected to be developed after the December 2017 meeting, to reflect the IPSASB's:</p> <p>(a) September 2017 decision to transfer heritage measurement into the Public Sector Measurement Project; and</p> <p>(b) December 2017 discussion of project management issues.</p>