The current Consultation Paper is strongly inspired by a suchlike discussion paper “Heritage assets” of the UK Accounting Standards Board (ASB). There can be referred to the according comments we made in January 2006 and sent to the ASB.

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?

The definition is fine and emphasizes the aim that such capital goods are not held for business or economic purposes.

It is possible that certain ancient capital goods are completely or partly held for economic reasons and in that case they become business assets that have to be recorded on the asset side of the balance sheet, etc. An example is ancient tapestry: a city in Flanders (Belgium) collects those goods for cultural, historical reasons, but the ones that they have “double” are sold in order to fund the acquisition of other historically more valuable tapestries. An important criterion is: for what reason are heritage assets kept by a government or charity or…? If the answer is not economic as mentioned in definition 1.16, then they have no economic significance: they should not be accounted for as assets (“you don’t put your wife on the balance sheet even if she is beautiful and valuable”). If the answer is economic or at least partly, then they should be regarded as business assets. It should be noticed that leaving non-economic heritage assets out of a balance sheet does not mean that they are forgotten or neglected: they are recorded, maintained, guarded, but not in the accounting system.

In summary, if heritage assets are held and maintained partly or completely for economic reasons, they have an economic importance and should be accounted for and shown in the balance sheet. If heritage assets have no economic significance with respect to the objectives of the holder, then they should not be included in the accounting system.

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Two examples: a) a government owns an historical site consisting of a landscape, woods, etc. This territory is rented to a kind of a Disney-park for a substantive yearly amount and under certain environmental conditions in order to maintain the site. This historical site is clearly a business asset for the proprietary government; it should be valued and disclosed as an asset. b) a municipal region owns a forest consisting of beautiful and very old trees. This forest can be visited freely by the public. In terms of value of the wood (valuable oak, …), this property could represent a large amount of money, but, it is not at all the aim of the government to “dismantle” this forest and to sell the timber, the government wants to keep the forest in order to provide social benefits for the public in a continuous way. This kind of heritage asset is actually no business asset: it has no economic value in respect of its function and should not be disclosed in the balance sheet.

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.

One should be cautious considering the kind of ownership of heritage assets. Often, accounting standards neglect the kind of ownership and assume that all assets are kept as a full proprietor. However, in governments and particularly considering heritage assets there exist many examples of “assets” that do not meet all the conditions of ownership. Very often governments have only the “custody rights” connected to capital goods, not the economic rights of usufruct, alienation, destruction. Thus, governments often become an “agent” with respect to a number of capital goods; they lack the other economic rights. Examples are heritage assets such as collections, paintings, statues, historical sites, etc. but also roads, public goods, etc. In summary, attention could be paid to the kind of ownership and this issue is fairly acknowledged in the US GASB 34 considering capital assets.

Apart from heritage assets in the strict sense, a peculiar kind of governmental assets are military assets. For such capital goods a different perspective of valuation can be considered, e.g. in times of peace vs. war.

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.

There exists a generally accepted principle in many GAAP that one should not disclose balance sheet items that cannot be valued in a reliable way. Considering the
suggestion to capitalise recent acquisitions at cost, we refer to our comment above emphasizing that it has no sense to record the acquisition of recently acquired or purchased heritage assets on the balance sheet if they have no economic perspective. In economic terms and this is the function of a balance sheet, the acquired heritage assets that do not result in economic profits, which is often the case in governments, are from the point of view of accrual accounting worthless: there will be no economic return and they are not held or maintained for profit purposes.

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.

It is not the discussion heritage asset or not to start with; one has to start with questioning: is the subject an asset or not and then what kind of asset is it followed by valuation, disclosure and so on. Section 7 is correct in the way that the goods themselves are not so important, they may seem heritage assets, but what counts is their function. For what purpose are they held? E.g. for a trading firm in antiques a kind of a statue of a Roman emperor (assuming that legal regulations are respected) undoubtedly will represent an important economic value because for him it is a business asset with only an economic objective. One can call it a heritage asset and it will be regarded as to be included in his balance sheet. Another example: a local government or even an enterprise has an old picture of the organisation’s premises at the time it was established 60 years ago. This picture might be seen as an heritage asset, but it has no economic value from the point of view of the organisation and thus it should not be shown at the asset side.

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.

Current vs. historical cost is not the main problem. Valuation or not is the problem: it may sound odd, but heritage assets without an economic purpose (no intention to sell, no intention to usufruct in monetary terms) have no economic value. The golden jewels of a King have no accounting value, unless one decides that they are no longer
goods to be held. If a government decides to stop its heritage and cultural character and intends to sell or to alienate them, then they become business assets, but not before. In case the capital goods have at least partly an economic goal, then of course for that part they will be valued and disclosed in the balance sheet. As mentioned in par. 3.16 this valuation needs to take into account the economic benefits or service potential. However, two important problems are rising here:

A/ Most governments, museums, etc. have already existed for many years before accrual accounting had to be adopted. Thus, how shall we take care of the existing capital goods when drawing up the first balance sheet? Do we have to consider their original value e.g. 20 years ago and roll forward or consider their current value? We have developed a way of thinking and an accounting method to approach this problem emphasizing the zero-based approach and the continuity approach\(^2\). If the former accounting system is near to accrual accounting and all data are recoverable, then the so-called “continuity approach” is advisable. The concept of the historical value will applied as if the government were having an accrual accounting system from the beginning. If the former accounting system is not providing reliable data, then the “zero-based approach”, in which the current value will be assessed, is applicable. The “zero-based approach” is not looking back and tracing historical data, it focuses on the current situation.

B/ We would like to repeat that most of the heritage assets held by governments, museums, etc. do not have an economic and thus accounting value: they do not meet the definition of an asset mostly because of the lack of future economic benefits. We know that IFAC (IPSAS) has added “… or social benefits” (sometimes called service potential). So, if a governmental capital good has no future economic benefits, but a service potential leading to social benefits, then IPSAS recognizes these capital goods as assets. However, we should be careful: as also confirmed by A. Barton\(^3\) and J. Christiaens\(^4\) economic benefits are for the government or organisation and thus increase their net worth whereas social benefits are indeed merits, but for citizens, society and NOT for the government or the organisation itself! IPSASB must have overlooked the fact that the social benefits are for somebody else than the government.

\(^4\) Christiaens J. (2004), ibidem.
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.

To be interpreted in the context of the comments above.

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.

Although a number of heritage assets have no economic meaning or are not given an economic objective, it is certainly appropriate to report them in a rather qualitative way. Indeed governments spend huge amounts of money to safeguard historical, cultural heritage assets and therefore aiming at accountability they should be documented, reported if necessary with photographs, etc. but not in the annual accounts.

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.

If the assets can really be considered as business assets and taking into account that it is the objective to maintain them, a suggested approach is their accounting at a constant value. Indeed, e.g. an old town hall with its historical facade is at least partly used in economic terms. It is likely that the town hall will be preserved principally forever. Therefore, contrary to depreciating the building, a suggestion is to apply a constant value. This accounting technique is foreseen for Belgian non-profit organisations. Apart from this constant value, impairment should be taken into account as a consequence of e.g. damage, storms, etc.

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.

No specific comments other than the ones above.
10. Do you think that the proposals in the Discussion Paper have particular audit implications? If so, please outline what these implications are.

Regarding financial audit the major concern is that the Statement of Financial Performance (SFP) of a government being based on accrual accounting, particularly when heritage assets are around, will not provide an adequate view on the real results. The reason is quite simple: the SFP only records economic inputs and economic results. Social inputs (e.g. volunteers and this should not be underestimated) as well as social benefits (safety, health care, education, environment, elderly care, maintenance historical collections, etc.) cannot and should not be measured in accrual accounting. Consequently, the SFP is only measuring and disclosing a part of the governmental outputs, namely only economic outputs. In other words the bottom-line of the SFP gives an incomplete and wrong picture. This also creates a problem for financial audit where the audit opinion will support the true and fair view of the SFP next to the other Statements. An example: a government spends a huge amount on safety on the roads: this will lead to serious amounts in capital goods and costs, but there are no according revenues to record. The consequences are social benefits in terms of safety and this is very important, but is not to be reported in the financial statements.

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.

The heritage assets that have an economic significance in terms of profit generating could be discussed in IPSAS 17. In order to distinguish adequately the heritage assets for which the government has only an “agency function” or that are conceptually different from IPSAS 17, a separate standard is advisable.