

## Comments and suggestions IPSAS Consultation Paper Financial Reporting for Heritage in the Public Sector

### Task force IRSPM A&A SIG, CIGAR Network, EGPA PSG XII 25th September 2017

The IPSAS CP asks the following questions in its REQUEST FOR COMMENTS. The responses prepared by the Task Force IRSPM A&A SIG, CIGAR Network and EGPA PSG XII are presented hereafter.

The IRSPM A&A SIG, CIGAR Network and EGPA PSG XII are three research networks that focus on Public Sector Accounting. The Task Force is made up of 15 researchers from these networks. The responses being presented are based on an analysis of the Consultation Paper, the IPSASB Conceptual Framework, relevant IPSAS, and various published research papers on the subject. Following various meetings and discussions, the members of the Task Force have reached the following common conclusions and suggestions.

The views expressed in this document represent those of the members of the Task Force and not of the whole research community represented by the networks, and neither of the Institutions/Universities with which they are affiliated.

#### Q1 Specific Matters for Comment—Chapter 1 (following paragraph 1.8)

*Do you agree that the IPSASB has captured all of the characteristics of heritage items and the potential consequences for financial reporting in paragraphs 1.7 and 1.8?*

Comment: No.

*Firstly*, IPSASB should keep in mind that if a government decides to assign a tangible or intangible good the status of a heritage item, then this heritage item is not intended to deliver economic benefits (they are not held to generate economic profits nor can they be sold or alienated); instead they are available for direct use by the public at large (Barton, 2005)<sup>1</sup>. As such, the benefits (e.g. cultural, educational, etc.) provided by heritage items **are not in favour of the government** as an accounting entity, but **flow back to the citizens who are different entities** and which are not part of a government's general ledger (Christiaens et al., 2012, p. 437-438)<sup>2</sup>. In other words, capital goods that *per se* provide cultural and social benefits for current and future generations are not assets in accounting terms and do not belong on the balance sheet, but need to be disclosed off-balance sheet.

Differently, items of property, plant and equipment that a public sector entity uses **in order to provide tangible services for citizens, which results in revenues for that entity** (for example, office furniture, fixtures and fittings; motor vehicles; university computers available to students; energy-generating plant and machinery), should be categorized as assets. The same reasoning applies to the example of the ticketing equipment for a historic building, which would have nothing to do with the heritage item itself.

The Consultation Paper should indicate that, in line with the definition, heritage items being

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<sup>1</sup> Barton, A. (2005) The conceptual arguments concerning accounting for public heritage assets: a note, *Accounting, Auditing & Accountability Journal*, Vol. 18(3), pp.434-440.

<sup>2</sup> Christiaens J., Rommel J., Barton A., Everaert P. (2012), Should All Capital Goods of Governments be Recognised as Assets in Financial Accounting? *Baltic Journal of Management*, Vol. 7(4), p. 429-443.

given a societal status, cannot and should not be measured in monetary terms. Indeed, government has decided to preserve them for certain cultural or societal goals whereby there is no **usufruct** for the government itself, nor the right to **alienate**, nor the right to **destroy**; on the contrary there is the duty to preserve and maintain those heritage items.

In the case of a heritage item that can be visited, e.g. a historic church building, there may be equipment necessary to organize this economic activity which may be assets. It will be necessary to account for and disclose these, like any other property, plant and equipment. In terms of accounting, this business-like activity has nothing to do with the heritage item itself.

*Secondly*, the characteristics under 1.7 whereby adverbs such as “often” and “possibly” appear, are insufficiently precise as the basis for a financial reporting standard.

### **Q2 Preliminary View—Chapter 2.1 (following paragraph 2.11)**

*For the purposes of this CP, the following description reflects the special characteristics of heritage items and distinguishes them from other phenomena for the purposes of financial reporting:*

*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.*

*Do you agree with the IPSASB’s Preliminary View? If not, please provide your reasons.*

Comment: As such the description is not wrong, but it is just a non-exhaustive enumeration and not a conceptual definition which determines the accounting policy, see also comment Q1 above.

### **Q3 Preliminary View—Chapter 2.2 (following paragraph 2.12)**

*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.*

*Do you agree with the IPSASB’s Preliminary View? If not, please provide your reasons.*

Comment: In our opinion, it is not necessary to exclude living plants and organisms out of the natural heritage. As a matter of fact, there are many examples of governments which are responsible for landscapes, gardens, monuments in parks, historic world war cemeteries, rivers, historic caves, protected forests, etc., including the organisms inhabiting such environments.

It remains unclear why the Consultation Paper suggests the exclusion of living plants and organisms that occupy heritage areas. There appears to be no conceptual reason for this exclusion above all because, as heritage items, they do not need to be measured. Thus, even if these living plants and organisms do not remain stable in the natural heritage, this is just part of the life-cycle and does not affect permanently the relevance of the item.

#### **Q4 Preliminary View—Chapter 3 (following paragraph 3.11)**

*The special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting.*

*Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.*

Comment: No, see also response to Q1; the accounting treatment is not determined by characteristics of the heritage items themselves, but depends on the government's decision in line with certain legislation or regulations, namely whether or not preserving certain heritage items for the benefit of present and future generations and assigning them as heritage. Using the term 'assets' for heritage items is misleading as they have nothing to do with the financial performance and financial position of a government because they are like 'family heirlooms' - they are the inheritance of a community over generations.

The following example might clarify this reasoning. A statue belonging to a government (e.g. a monument with the names of the casualties of a war) and preserved by the government for future generations without any economic objective in terms of revenues has a societal/cultural status and is not an asset. On the other hand, a statue of a former hero belonging to a trader in antiques is an economic/business good and is an asset (i.e. inventory) for the owner.

The fact that heritage items cannot be assets, does not prevent them from being reported off-balance sheet. In fact, heritage items do require comprehensive and transparent reporting either in the notes to the financial statements or in a separate report. A government can document its heritage items in a separate report showing preservation and maintenance costs and efforts.

#### **Q5 Specific Matters for Comment—Chapter 4.1 (following paragraph 4.17)**

*Do you support initially recognizing heritage assets at a nominal cost of one currency unit where historical cost is zero, such as when a fully depreciated asset is categorized as a heritage asset then transferred to a museum at no consideration, or an entity obtains a natural heritage asset without consideration?*

*If so, please provide your reasons.*

Comment: The use of one currency unit to recognize a heritage item on the balance sheet should be rejected for the following reasons. *Firstly*, the use of a nominal value of one currency unit confuses the distinction between recognition and non-recognition of assets and introduces a measurement basis that is not within the IPSASB Conceptual Framework. *Secondly*, just showing one currency unit does not provide enough information on the heritage items; it is meaningless and does not add any information value. *Thirdly*, a balance sheet is not a reminder of assets; it should provide an overview of investments and financing. *Finally*, the use of one currency unit would be unnecessary should IPSAS require a fully transparent system of reporting and documenting of heritage items in the Notes to the financial statements or in a separate report.

**Q6 Preliminary View—Chapter 4.1 (following paragraph 4.40)**

*Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria in the Conceptual Framework.*

*Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.*

Comment: See remarks on previous questions.

**Q7 Specific Matters for Comment—Chapter 4.2 (following paragraph 4.40)**

*Are there heritage-related situations (or factors) in which heritage assets should not initially be recognized and/or measured because:*

*(a) It is not possible to assign a relevant and verifiable monetary value; or*

*(b) The cost-benefit constraint applies and the costs of doing so would not justify the benefits?*

*If yes, please describe those heritage-related situations (or factors) and why heritage assets should not be recognized in these situations.*

Comment: It is not because a heritage item cannot be given a verifiable monetary value, that it should be excluded from the government's balance sheet. If certain historic and cultural goods that are defined by the government or suchlike regulations as heritage, then these are not assets and should not be valued monetarily. They should be reported and documented qualitatively in the Notes to the financial statements or in a separate report.

**Q8 Preliminary View—Chapter 4.2 (following paragraph 4.40)**

*In many cases it will be possible to assign a monetary value to heritage assets. Appropriate measurement bases are historical cost, market value and replacement cost.*

*Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.*

Comment: See remarks on previous questions. Since heritage items are not held to realise economic benefits (no value-in-use, nor value-in-change (Barton, 2009<sup>3</sup>), they cannot be considered as assets and therefore there is no reason to assign a monetary value to heritage items. Indeed, they should not be sold, alienated or destroyed and the usufruct (value in use) is mostly for citizens, not for the government itself.

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<sup>3</sup> Barton A. (2009), The Use and Abuse of Accounting in the Public Sector Financial Management Reform Program in Australia, *Abacus*, Vol. 45(2), p. 221-248.

**Q9 Specific Matters for Comment—Chapter 4.3 (following paragraph 4.40)**

*What additional guidance should the IPSASB provide through its Public Sector Measurement Project to enable these measurement bases to be applied to heritage assets?*

Comment: See other remarks and comments. To summarise, in line with the IPSASB Conceptual Framework, it would be incorrect to refer to heritage items as ‘assets’ in the first place. Once an item is ‘heritage’, its economic, societal and cultural values become subsumed, and one aspect cannot be verifiably measured without affecting the other (Ellwood and Greenwood, 2016)<sup>4</sup>. Therefore, whatever basis of measurement is used, it would not provide a ‘true and fair view’ of the complete picture.

**Q10 Preliminary View – Chapter 5 (following paragraph 5.14)**

*Subsequent measurement of heritage assets:*

*(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.*

*Do you agree with the IPSASB’s Preliminary View? If not, please provide your reasons.*

Comment: See other comments: since heritage items cannot be regarded as assets, the subsequent measurement is not relevant. This implies that subsequent expenditures for heritage items as well as acquisitions of heritage items will have to be treated as expenses and will not be capitalized. Of course, in the separate heritage reporting, governments should disclose and clarify such expenses for heritage items in the light of their budgetary appropriations.

**Q11 Specific Matters for Comment—Chapter 5 (following paragraph 5.14)**

*Are there any types of heritage assets or heritage-related factors that raise special issues for the subsequent measurement of heritage assets?*

*If so, please identify those types and/or factors, and describe the special issues raised and indicate what guidance IPSASB should provide to address them.*

Comment: See previous remarks and comments.

**Q12 Preliminary View—Chapter 6 (following paragraph 6.10)**

*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. The entity should not therefore recognize a liability.*

*Do you agree with the IPSASB’s Preliminary View? If not, please provide your reasons.*

Comment: Yes.

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<sup>4</sup> Ellwood, S., Greenwood, M. (2016), Accounting for Heritage Assets: Does measuring economic value ‘kill the cat’? *Critical Perspectives on Accounting*, Vol. 38, pp. 1-13.

### **Q13 Preliminary View—Chapter 7 (following paragraph 7.9)**

*Information about heritage should be presented in line with existing IPSASB pronouncements.*

*Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and describe what further guidance should be provided to address these.*

Comment: See other comments.

#### **Additional comment regarding off-balance sheet heritage reporting**

As indicated several times in our comments, it is important to encourage governments to disclose in the Notes to their financial statements or in a separate report (equally part of the GPF and subject to audit), the following information about their heritage items.

An overview and listing of the different heritage items, together with the budgets the government spends yearly for acquisitions, maintenance, preservation, archaeological and historical examinations, and the actual amounts spent in the relevant year.

It is possible that the government defines a certain fund for heritage items and it would be good practice to show the contributions and spending together with documenting and clarifying the changes in heritage items. This is not at all a kind of a profit/loss statement for heritage items; the key concern is the enabling and maintenance of resources for the maintenance of heritage items. This enables the government to provide an accountable view on the service efforts and accomplishments regarding the governmental heritage items.

Aversano et al. (2014)<sup>5</sup> examined user needs regarding the reporting on heritage items and recommends certain quantitative and qualitative information regarding heritage items, which should be disclosed off-balance sheet in the Notes to the financial statements or in a separate report. In this respect, the papers of Adam et al. (2011)<sup>6</sup> and of Biondi et al. (2014)<sup>7</sup> can also offer some suggestions.

Since heritage items are relevant not only for the local community where the item is located, but also for the citizens of a whole region or nation (and in most cases, of world-wide concern), attention should also be paid to nation-wide heritage reporting.

Furthermore, it is important that the specific heritage report is certified by an independent auditor in order to guarantee its usefulness to external stakeholders. In fact, if a “separate heritage report” is prepared, it should nevertheless be part of the financial report, thus (i) forcing the auditors to assess it; and (ii) reducing the possibility for laggard governments to just ignore the whole matter.

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<sup>5</sup> Aversano N., Christiaens J. (2014), Governmental Financial Reporting of Heritage Assets from a User Needs Perspective, *Financial Accountability & Management*, Vol. 30, No. 2, p. 150-174.

<sup>6</sup> Adam B., Mussari R, Jones R. (2011), The Diversity of Accrual Policies in Local Government Financial Reporting: an Examination of Infrastructure, Art and Heritage Assets in Germany, Italy and the UK, *Financial Accountability & Management*, Vol. 27, No. 2, p. 107-133.

<sup>7</sup> Biondi L, Lapsley I. (2014), Accounting, Transparency and Governance: the Heritage Assets Problem, *Journal of Qualitative Research in Accounting & Management*, Vol. 11 No. 2/2014, p.146–164.

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