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**IPSASB CONSULTATION PAPER: FINANCIAL REPORTING FOR HERITAGE IN THE PUBLIC SECTOR**

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The Public Sector Accounting Standards Board (PSASB) was established by the Public Finance Management Act (PFM) No.18 of 24<sup>th</sup> July 2012. The Board was gazetted by the Cabinet Secretary, National Treasury on 28<sup>th</sup> February, 2014 and has been in operation since.

The Board is mandated to provide frameworks and set generally accepted standards for the development and management of accounting and financial systems by all state organs and Public entities in Kenya and to prescribe internal audit procedures which comply with the PFM Act, 2012.

The Public Sector Accounting Standards Board is pleased to submit its comments on the Consultation Paper (CP) *financial reporting for heritage in the public sector to the International Public Sector Accounting Standards Board*. PSASB supports the work of IPSASB in providing guidelines for heritage reporting in the public sector in order to meet the needs of users of General Purpose Financial Reports for information for the purposes of accountability and decision making.

PSASB responses on Specific Matters for Comment and the Preliminary Review are documented in the attachment for your consideration.

**BERNARD NDUNGU, MBS**  
**CHAIRMAN, PUBLIC SECTOR ACCOUNTING STANDARDS BOARD**



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**Financial Reporting For Heritage in the Public Sector: Responses to the Consultation Paper by Public Sector Accounting Standards Board- Kenya**

**Specific Matters for Comment – Chapter 1**

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? If not, please give reasons and identify any additional characteristics that you consider relevant.

*PSASB does not agree that all characteristics related to heritage items have been captured.*

*Under the Kenyan Law, we have the National Museums and Heritage Act which provides for the establishment, control, management and development of national museums and the identification, protection, conservation and transmission of the cultural and natural heritage of Kenya. Under section 25 of the law, a criterion has been set out for consideration when making heritage declarations. One of the characteristics that comes out of this section of the Act is that these heritage items are protected, conserved or maintained.*

*Heritage items contribute to the knowledge, history and culture of a society or a people. In most cases, these assets are unique to a particular people or society for example, the pyramids in Egypt, the Kaya Forests in Kenya which are unique to the Mijikenda people due to the spiritual/ sacred significance they hold for this community.*

*Another characteristic with heritage items is that their value or significance tends to increase over time. For example, consider the Fort Jesus in Mombasa which was designed by an Italian and used as a prison during colonial times by the British. Over time, the significance of this heritage item has increased over time. It is the most visited site in coastal Kenya.*

*PSASB considers that the main objective of assigning characteristics to items is to facilitate their identification and definition. The three characteristics outlined in section 1.7 may assist in identification of some heritage items but not all. We therefore suggest addition of the following characteristics which will also contribute to consequences of financial reporting outlined in section 1.8 of the CP particularly to the characteristic of value.*

- 1. There are often legal or moral obligations to protect, conserve or maintain heritage items*
- 2. They often contribute to knowledge, history and culture of a people or society*
- 3. Their significance/value tends to increase over time.*
- 4. Their value/ heritage significance may not be reflected in monetary terms*

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**Preliminary View- Chapter 2.1**

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 archaeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features

*We agree that the description outlined reflects the special characteristics of heritage items and distinguishes them from other phenomena for financial reporting. PSASB however opines that the description may be extended to separate cultural and religious heritage items especially within the African Context where these two are quite distinct.*

*The description should therefore read 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 archaeological, architectural, agricultural, artistic, cultural, **religious**, environmental, historical, natural, scientific or technological features.*

*PSASB would however prefer that IPSASB defines heritage items instead of offering a description for the items. In standard setting, it has been the practice of IPSASB to define terms used in a standard in order to give specific meanings to those terms and this was expected to be the case for heritage items. The description above should be used to develop a definition of heritage items.*

**Preliminary View- Chapter 2.2**

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

*PSASB does not agree that natural heritage covers areas and features, but excludes living plants and organisms that occupy or visit those areas and features. Some items of natural heritage acquire their significance from the living organisms within them for example, a national park or a marine park that has rare types of fish. If the animals within a park were to cease to exist/die, the national park would no longer be considered heritage. This is the same case for rare fishes in a marine park. It is therefore not possible to separate living organisms from some items of natural heritage. Other examples within our jurisdiction include the Kaya Forests that are considered sacred and the 'Mugumo' tree. The Mugumo tree is considered sacred by the Kikuyu community in Kenya and is known to exist for over 100 years. This tree is considered to have heritage significance in Kenya. Although it may not be possible to preserve the living organisms and plants for present and future generations, it is possible to conserve the environment to ensure that the species do not become extinct. PSASB opines that the definition of heritage items should be extended to cover these plants and living organisms as heritage items.*

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**Preliminary View- Chapter 3**

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.

*We agree that the special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting. PSASB considers control to be the most difficult attribute to assess while considering whether a heritage item is an asset. However, section 3.7 of the Consultation Paper outlines criteria for determining control that goes beyond legal ownership. The Paper should be extended however to cover assets that may be controlled by more than one entity and offer guidance on how control should be identified. For example, a natural asset that cuts across two or more jurisdictions and all jurisdictions are involved in preservation of the item and therefore have control for example parks, lakes, mountains etc.*

**Specific Matters for Comment- Chapter 4.1**

Do you support initially recognizing heritage assets at a nominal cost of one currency unit where historical cost is zero, such as when an asset was fully depreciated before being categorized as a heritage asset and transferred to the entity, or an entity obtains a natural heritage asset without consideration? If so, please provide your reasons

*PSASB supports initially recognising heritage assets at a nominal cost of one currency unit where historical cost is zero or where an entity obtains a natural heritage item without consideration. PSASB considers that this approach provides useful information to users of GPFs for purposes of accountability and decision making. By recognising these assets at one currency unit, an entity will be compelled to provide information on preservation of this item and will be held accountable by users of the financial statements on preservation or failure to do so. In order for this objective to be met and for the information to be useful, entities will need to make full disclosures on the heritage assets recognised at nominal cost. For example, where an entity recognises a mountain at nominal cost, disclosure needs to be made on the altitude, acreage/size, location, and special features within the mountain, amounts incurred to preserve it during the period, among other quantitative and qualitative disclosures. Such a disclosure would compel the reporting entity to ensure the items are for example safeguarded from being excised since users will demand explanations for reduction in the asset acreage.*

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**Preliminary View- Chapter 4.1**

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.

*PSASB agrees with IPSASB's preliminary view that assets should be recognised in the statement of financial position if they meet the recognition criteria in the Conceptual Framework. Heritage assets meet the definition of an asset which is the first criteria of recognition. Based on the comment above, where nominal cost of one currency is used, full disclosures should be made to provide useful information to the users of GPFs.*

**Specific Matters for Comment- Chapter 4.2**

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.

*PSASB does not consider heritage related factors or situations in which heritage assets should not be initially recognised. Where it is not possible to assign a relevant or verifiable value or where the cost- benefit constraint applies and the costs of doing so would not justify the benefits, heritage assets should be recognised at a nominal cost of one currency unit. This therefore means that it will be possible to recognise all identified heritage assets. For instance, it is difficult to apply historical cost, market value or replacement cost as measurement bases to determine their monetary value of a natural heritage asset. However, when recognised at a nominal cost of one currency unit, important information for accountability and decision making is obtained from the GPFs.*

**Preliminary View- Chapter 4.2**

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.

*PSASB disagrees that in many cases it will be possible to assign a monetary value to heritage assets. Our opinion is that in majority of cases it will not be possible to assign a monetary value to heritage assets. There are limitations for each of the measurement basis outlined in the CP as follows:*

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*Historical cost: Historical cost information may not be available where the heritage items are very old and where available, the cost would not provide useful information. This therefore means that historical cost as a measurement basis is only applicable to recently acquired or recently constructed heritage items.*

*Market value: In practice, obtaining market values for heritage assets is quite difficult. Most heritage items are unique and an active, open and orderly market may, for those items not exist. There are also restrictions on sale of heritage assets and therefore obtaining a market value for these assets becomes difficult.*

*Replacement cost: One of the characteristics of heritage items is that they are often irreplaceable. By proposing use of replacement cost as a measurement basis therefore, a contradiction emerges because on one hand these assets are irreplaceable while on the other hand it is proposed that we can measure the asset using replacement cost.*

*Although in some instances a monetary value can be attached to a heritage asset, PSASB's opinion is that it is not possible for that monetary value to capture the heritage significance attached to an asset. This significance goes beyond monetary values which may be obtained from the measurement bases suggested.*

*Based on PSASB's views above, we opine that most heritage assets will eventually be recorded at nominal cost of one currency unit. We also consider that recognition of heritage assets using the measurement bases above may not meet the measurement objectives of cost of services and financial capacity. However, the objective of operational capacity is not lost by recognising the asset at a nominal cost of one currency unit since the reporting entity will be held accountable to preserve, safeguard, keep custody and provide access to the asset so recorded.*

**Specific Matters for Comment- Chapter 4.3**

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

*IPSASB should provide additional guidance in the following areas:*

- *Value in use as a basis of measurement where heritage assets are cash generating. In cases where heritage assets are cash generating and therefore there is economic benefit flowing to the entity, then value in use as a measurement basis should be considered.*
- *Whether use of the term 'replacement cost' is appropriate given that one of the characteristics of heritage assets is that they are often irreplaceable. PSASB considers restoration cost more appropriate.*
- *Explore other measurement bases that can capture the heritage significance of heritage items.*

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**Preliminary View- Chapter 5**

Subsequent measurement of heritage assets:

- (a) Will need to address changes in heritage asset values that arise from subsequent expenditure, depreciation or amortization, 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.

*PSASB does not agree with the IPSASB's preliminary view on subsequent measurement of heritage items. Our reasons are as follows:*

*Subsequent expenditure: Subsequent expenditure incurred on heritage assets is incurred mainly to preserve its form for present and future generations. To this end subsequent expenditure may not necessarily increase the economic benefit or the service potential of a heritage asset. Consider an example where a government constructs roads to a mountain to make it more accessible, does that expenditure constitute to increase in the carrying amount of the mountain?*

*For example, suppose subsequent expenditure is incurred on a natural heritage asset that was initially recognised at a nominal cost of one currency unit by capitalising subsequent expenditure may not provide useful information to the users of GPFs. PSASB therefore proposes that subsequent expenditure on heritage assets should be expensed in all circumstances.*

*Depreciation: One of the characteristic of heritage items is that they are expected to have a long, possibly indefinite, useful life due to their increasing rarity and / or significance. This means that it is difficult to estimate the useful life of a heritage asset for purposes of depreciation. Where an attempt is made to estimate the useful life, an entity will need to determine whether by so doing, the qualitative characteristics of relevance, faithful representation, understandability, timeliness, comparability and verifiability will be met.*

*Impairment: In many instances, the value of heritage assets tends to increase even though their physical aspect deteriorates. By assessing these assets for impairment at each reporting date, will only deal with its physical aspect and will not deal with the increasing significance.*

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**Specific Matters for Comment- Chapter 5**

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.

*Reference is drawn to Specific Matters for Comment- Chapter 1 where PSASB identified four more characteristics of heritage items. We draw attention to the following three characteristics:*

- 1. Their significance/value tends to increase over time even if their physical form deteriorates.*
- 2. Their value/ heritage significance may not be reflected in monetary terms.*
- 3. They are expected to have a long, possibly indefinite useful life due to increasing rarity/ significance.*

*These characteristics raise issues for subsequent measurement with regards to depreciation, impairment and subsequent expenditure as detailed in Preliminary view- chapter 5 above. IPSASB should provide guidance on subsequent measurement in light of each of the characteristic listed above.*

**Preliminary View- Chapter 6**

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

*PSASB agrees that the special characteristics of heritage items do not result in a present obligation such that an entity has little or no alternative to avoid outflow of resources. The entity should not therefore recognise a liability.*

**Preliminary View- Chapter 7**

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.

*PSASB disagrees with this preliminary view. The characteristics of heritage items distinguish them from other elements included in GPFs. The nature of information to be presented on heritage assets is largely descriptive. Disclosure of such information therefore requires further guidance in addition to the existing PSASB pronouncements.*