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29th September 2017

Comment on the Consultation Paper on Financial Reporting for Heritage in the Public Sector

Dear John and Gwenda,

This response was prepared by the IPSAS working group. The IPSAS working group is an internal group of professionals from the Austrian Federal Ministry of Finance and the Austrian Court of Audit. We meet regularly to present and discuss IPSASs and IPSAS related issues as well as the implications for the Federal level.

Summary

From our experience we mostly agree with the CP on Financial Reporting for Heritage in the Public Sector. The main points/arguments of our discussions evolved around:

- The characteristic of a heritage item to have a “possibly indefinite, useful life” (SMC 1 & PV 2.1)
- The definition of natural heritage seems too comprehensive including natural features and areas (PV 2.2)
- We don’t support symbolic values for (natural) heritage assets (SMC 4.1)

Please see below for our detailed comments.

Chapter 1, Introduction to Financial Reporting for Heritage in the Public Sector

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.

We mostly agree but in our discussions some comments and questions arose.

- 1.7 Heritage items usually have a material and a non-material/ideal value. Sometimes the non-material value of a heritage item exceeds the pure material value. This raises the question of how to deal with useful life of a heritage item from a practical perspective? Do you have a material part that will be depreciated and a non-material which isn't? How could a useful life table for heritage assets look like?
- 1.7 Regarding the characteristics "possibly indefinite, useful life": the value of a heritage asset (e.g. pictures) may depend on cultural, political, economic trends that change over time or sometimes even very suddenly (e.g. due to political turmoil). The wording "are expected to have a long, possibly indefinite, useful life" may suggest that a heritage item is treated as an asset though it has lost its value due to changed external circumstances.
- General Comment: In our jurisdiction we distinguish between immovable and movable assets, a distinction is also made for heritage assets

Chapter 2, Descriptions of Heritage

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 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.

In general we agree with the PV but we have thought about an alternative description as well. This description may reflect better that from time to time a decision has to be made whether a heritage item is benefitting present and future generations. Our proposal for an alternative description would be:

"Heritage items are items that are intended to be held ~~indefinitely~~ and preserved for the as long as they benefit of present and future generations..."

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.

No, we don't agree because of the following considerations:

- The definition of natural heritage seems too comprehensive including natural features and areas like mountains, lakes, rivers etc. To us it seems very subjective which areas are natural heritage and which aren't. Additionally, to us it seems rather difficult to draw a line between an ensemble and individual parts of features and areas.
- What about certain plants (or organisms) that may be of cultural importance as a species like "Edelweiss" or the Kiwi bird?
- From an accounting perspective what would happen if UNESCO withdraws cultural heritage from a City like Vienna?

Chapter 3, Heritage Items as Assets

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.

Yes, we agree.

Chapter 4, Recognition and Initial Measurement of Heritage Assets

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.

No, we don't support recognition with a symbolic value. If a heritage asset is fully depreciated it should be recognized with the historical cost amount of zero.

In our discussions there were also some questions arising:

- Why is there a restriction to natural heritage?
- Why should a natural heritage asset obtained without consideration be treated differently from a natural heritage asset that had been acquired or already owned by an entity?
- Are there technical reasons for favoring a symbolic value?

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.

Yes, we agree.

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.

- a) Example of the building of the Austrian Parliament: In Austria the historic building of the parliament hasn't been recognized in the opening balance sheet. The assumption was that the building was fully depreciated as it was in a very bad condition at this time. Only a part at the entrance ("the ramp") was recognized that was renovated in 2005. After the complete refurbishment of the parliament (started in 2017) it will be recognized at cost.
- b) In Austria only existing expert reports were used for the opening balance sheet. In case that there was no reliable information on the cost of a heritage asset available estimation methods were used to value a heritage item. Immovable cultural heritage were disclosed but not recognized.

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.

Yes, we agree. And we do have some questions:

- Is there a hierarchy of the measurement bases?
- Is fair value also a measurement base for heritage assets and is there a difference to market value regarding accounting for heritage assets specifically?
- Are replacement costs appropriate for heritage assets with a high non-material/ideal value?

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?

No additional to the questions mentioned above in PV 4.2

Chapter 5, Subsequent Measurement of Heritage Assets

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.

Yes, we agree.

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.

We just had 2 broader questions coming up in our discussions:

- Which categories of heritage assets would have to be revalued regularly?
- Relating to heritage assets what could “regularly” mean?

Chapter 6, Heritage-Related Obligations

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.

Yes, we agree.

In Austria a few legal examples – e.g. by law historical monuments have to be conserved so that they are in a proper condition according to the local building code– exist where a law or regulation explicitly stipulates that a (part of a) heritage item has to be preserved.

Although not directly related to (natural) heritage: The federal entity responsible for cultivation and management of the Austrian federal forests lakes, etc. (“Österreichische Bundesforste”) is legally obliged to manage its ecological resources sustainably. This obligation could also have implications on preservation and management of natural heritage.

Chapter 7, Presentation of Information on Heritage Items

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.

Yes, we agree.

Question: If heritage assets are recognized with a symbolic value are there any specific disclosure requirements for those?