

## **Response on behalf of CPA Ireland**

### **IPSASB Consultation Paper April 2017**

### **Financial Reporting for Heritage Assets in the Public Sector**

### **Response to requests for comments**

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

#### **Our view:**

*We suggest that the following be considered with regard to the characteristics that have been included:*

- *More clarity is needed on the treatment of plant life (see also Chapter 2.2 comments)*
- *There should be a clear distinction made between operational and non-operational heritage assets*

#### **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.**

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

#### **Our view:**

*We agree with the CPs Preliminary View*

#### **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.**

#### **Our view:**

*We do not agree that living plants and organisms should be excluded. They sometimes provide the main reason for public bodies with a heritage focus being set up. We recommend including them, though some further definition and nuances of accounting treatment might be needed given their differences from other non-living heritage 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.**

**Our view:**

*We agree with the Preliminary View, including the statement that some intangible cultural heritage activities will not meet the definition of an asset as laid out by the IPSAS framework.*

### **Specific Matters for Comment – Chapter 4.1**

**Do you support initially recognising 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 categorised 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.**

**Our view:**

*We do not support the concept of a nominal value which seems to us to lack real meaning. It also seems to be in contradiction of basic principles around asset recognition that they must be capable of being reliably valued. However, we feel that in the circumstances outlined in the CP there should be comprehensive disclosure explaining the situation though without the establishment of an artificial nominal value.*

### **Preliminary View – Chapter 4.1**

**Heritage assets should be recognised 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.**

**Our view:**

*We agree with the Preliminary View*

## Specific Matters for Comment – Chapter 4.2

**Are there heritage-related situations (or factors) in which heritage assets should not initially be recognised 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 recognised in these situations.**

**Our view:**

*It is not always possible to assign meaningful values for all heritage assets. This is so particularly in the case of natural heritage assets. It also applies to monuments that have been built many centuries ago or even longer. In such cases full note disclosures should be included in the financial statements making clear which heritage assets are involved, the fact that they have not been assigned a value and the reason/s why.*

## 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.**

**Our view:**

*We agree with the Preliminary View though note that one measurement approach might be more appropriate than others in a given circumstance. To make this clearer, the inclusion of examples in future documentation would be useful. We also feel that 'Value in Use' could be included as a suitable measurement approach in some circumstances.*

## 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?**

**Our view:**

*We think that including a set of criteria giving definitions and tests of uniqueness to be used when categorising the various assets would be helpful. So too would including examples of when to apply one or more of the various measurement bases in given circumstances.*

## 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.**

### Our view:

*Heritage assets will often not depreciate and may indeed appreciate in value over time though care needs to be taken to avoid a blanket avoidance of depreciation. Expenditure on assets will often be in the nature of maintaining rather than increasing their value and therefore should be expensed as incurred. However it would be appropriate to include disclosures relating to such amounts to demonstrate that appropriate maintenance expenditure is being assigned to the assets involved – inadequate maintenance may pose a high and increased risk of deterioration for some heritage assets which may affect their state irrecoverably. Annual impairment reviews should be carried out on all material heritage assets. From time to time, the nature of heritage assets might change e.g. a possibility of selling them may emerge; in such cases, it would be appropriate to reclassify them from heritage assets to assets held for resale and relevant accounting adjustments made accordingly: this could be made more explicit than it currently is.*

## 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.**

### Our view:

*See previous answer 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 recognise a liability. Do you agree with the IPSASB’s Preliminary /view? If not, please provide your reasons.**

**Our view:**

*Our view is that a liability for heritage assets can be created in specific circumstances. There should however be no specific liability recognised just because the public sector is committed to maintaining an asset in the future. But if funding is received from other sources to undertake a specific project relating to heritage assets then that does create a liability on the part of government. Also, if services are provided for the maintenance of a heritage asset, then a liability for those services rendered should be established. These items should be fully disclosed in the financial statements if the amounts involved are material, either by value or by nature.*

**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.**

**Our view:**

*We do not agree with the suggestion that reporting should be in line with other types of asset dealt with by the IPSAS framework. Heritage assets form a unique and distinctive category and are essentially different from other types of asset. In particular they are likely in some cases to have significant uncertainties involved in accounting for them especially around their valuation.*

*Because of their unique status they require further disclosure for the reader of financial statements to fully understand them. In particular, the following would be useful:*

- i) Details of the significance and nature of heritage assets held*
- ii) Rationale for inclusion/non-inclusion on the balance sheet*
- iii) Methodology of valuing the assets.*
- iv) The overall policy and how the asset is being preserved for future generations*
- v) What access, if any, is available to the public*

*If reported on the balance sheet a reconciliation of all movements during the year in line with a typical property, plant and equipment reconciliation per IPSAS 17 would also be of benefit if included as a disclosure.*



Wayne Bartlett  
Chair, CPA Ireland IPSAS Advisory Board

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