

The Danish comments to the Consultation Paper, Financial Reporting for Heritage in the Public Sector

IPSASB

First of all, we would like to thank IPSASB for the opportunity to comment on the Consultation Paper “Financial Reporting for Heritage in the Public Sector”. Below you will find our comments both a general comment and comments regarding the preliminary views and specific matters for comment.

General comments

Currently, heritage (nationalejendom) is recognised and measured at zero in the financial statement in Denmark. It is initially recognised at the time of acquisition, but is neutralised in the financial statement, the same goes for subsequent maintenance. Which means heritage is registered as an asset with the value 0 DKK, this practice insures that the assets are recognized and presented in the financial reporting.

In Danish financial reporting in the public sector heritage is limited to buildings. This is a deliberate decision, based on a cost-benefit analysis of having a broader definition of heritage. It was concluded that the information value of including for example art in the definition would have a higher administrative cost, than what the information value to the users of the general purpose financial reports warranted. Museum items of national importance are already catalogued in central registers and the museums inventories and when heritage is measured 2 different places there are no added value of including it in the financial statement

When determining if a building is heritage it is considered whether it is unique, deemed worthy of preservation and a protected building with independent cultural historical value. Furthermore it is required that the decisions regarding preservation and disposition powers or restrictions related to the execution of construction or building maintenance are carried out by authorities other than the institution itself. Whether a property is classified as national property depends partly on the nature of the property and partly on the administrative powers of each institution in relation to the construction and maintenance work itself. A characteristic of heritage buildings are that they are not seen as being input in the state's normal operation.

A part of a discussion in Denmark regarding heritage and financial reporting have been to determine the desired purpose of financial reporting, which have been determined to be the cost to insure that the heritage items have the same usefulness at the end of the year as at the beginning of the year. The preservation of heritage items also includes a desire to insure that the heritage items have an equal

usefulness for future generations as for the present generation. A valuation of heritage buildings will not provide sufficient relevant information to justify the cost of the valuations.

Some buildings that fulfil the definition of being heritage will be treated as property after IPSAS 17 Property, Plant and Equipment, when they for example are used as office space. It has been decided that the cost of having an administration building should be shown in the financial reporting even if it is a heritage building. When the building is used for administration purposes it is a part of the entity's production and therefore the cost involved should be reflected in the financial reporting as it represents future benefits for the public sector.

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

In our opinion the descriptions in paragraphs 1.7 adequately capture the characteristic of heritage items, and the consequences for financial reporting. Regarding paragraph 1.8 we have some comments.

(a) Measurement: It is difficult to measure heritage items in a way that reflects their service potential and their ability to generate economic benefits. For many heritage items any future economic benefits or service potential are uncertain, for many heritage items these will not exceed the adherent economic responsibilities.

(b) Value: If assigning a financial value does not convey the heritage significance of heritage items or the future claims on public resources the users of GPFs would benefit from information reported outside the financial statement. Another problem arising from valuing heritage items is that the financial value one could attribute heritage items, is a value that an institution cannot freely use. The increase in the total amount of assets that would arise from valuation of heritage items, should not lead to an opportunity to incur further debt. Furthermore the value of heritage items is somewhat irrelevant as it does not pertain to the decision to possess heritage items, there are an obligation to preserve heritage for present and future generations and as stated in the CP it is often the case that there are restrictions regarding sales or destruction.

(c) Preservation: In general a heritage item is a resource; it is an asset with a value of zero. The asset has an adherent responsibility, but value of the obligation regarding maintenance cannot reliably be determined.

(d) Restrictions on use: Given restrictions on entities' ability to use, transfer or sell heritage items, there are some special complications connected to showing heritage items as assets in the financial statement. As stated in the comments to 1.8 (b) the value of a heritage items is not a value the entities can freely use.

(e) Benefits to others: Even though heritage is held for the benefit of current and future generations a reporting entity can be said to control a heritage item for financial reporting purposes, if they meet the criteria of being assets; if they are a result of past events and future economic benefits or service potential are expected to flow to the entity.

Preliminary View—Chapter 2.1 (following paragraph 2.11)

In general we agree, the description of heritage items in the CP reflects the special characteristics of heritage items and distinguishes them from other phenomena for the purposes of financial reporting.

However, it is unclear how a building that possess the characteristics of heritage but is used as for example office space should be categorised, as heritage or property according to IPSAS 17 Property, Plant and Equipment. After the current principles regarding heritage items in Denmark a building being used as office space will be treated as property after IPSAS 17 and not as heritage even though it possesses the characteristics of heritage.

Preliminary View—Chapter 2.2 (following paragraph 2.12)

Natural heritage for the purpose of the CP covers areas and features, but excludes living plants and organisms that occupy or visits those areas and features. We understand this to mean that areas preserved for their importance regarding, for example endangered/rare species are not included in the definition of heritage.

Preliminary View—Chapter 3 (following paragraph 3.11)

The special characteristics do not prevent them from being considered as assets for the purposes of financial reporting, when they meet the criteria of being assets if they are a result of past events and future economic benefits or service potential are expected to flow to the entity.

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

If it is the only way to ensure that an asset is visible in the financial reporting; initial recognition of heritage items at a nominal cost of one currency unit is an option. Another option is to recognise the assets in the asset register at the value 0 currency unit.

Preliminary View—Chapter 4.1 (following paragraph 4.40)

Heritage assets should be recognised in the financial statement, when they meet the recognition criteria in the Conceptual framework. However given the special characteristics of heritage items the financial statement should contain information regarding restrictions or conditions attached to their use.

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

In our opinion there are situations where it is not possible to assign a relevant and verifiable monetary value. If we look at Danish castles there are not an active marked, for some of the there are no know cost. Therefore, a valuation will essentially be based on estimates that cannot be verified, and will probably not yield relevant information to users of GPFR.

In some of these cases the cost-benefits constraint applies and the cost of the valuation is not justified by the possible benefits. Another situation where the cost-benefits constraints apply is art in museums, were it will be time consuming and costly to determine which items are in fact heritage items, and if they are heritage items what their monetary value are.

Preliminary View—Chapter 4.2 (following paragraph 4.40)

We agree in some instances it will be possible to assign a monetary value to heritage assets but it can be difficult and time consuming to assign a value, which might not be relevant and reliable. The method used to assign a value should reflect the purpose of the valuation.

If the purpose is to show the cost associated with heritage items it is appropriate to use historic cost. However using historic cost present problems when heritage items have been acquired through donation, gift and nationalisation, or where there are no records of acquisition.

Using market value, we find to be problematic as the items are not for sale and under restrictions regarding the realisation of the monetary value. Using market value contains the risk of giving an exaggerated impression of the unit's financial status, given heritage items special characteristics.

Given the special characteristics of heritage item, it is usually not possible to replace the items; it might be possible to find something with similarities, but most of the time it not possible to determine a replacement cost. It might be possible to determine restoration costs instead.

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

Additional guidance regarding how to assess if an item is a heritage item is needed, to insure that there are some consistencies in the use of the term.

Preliminary View – Chapter 5 (following paragraph 5.14)

Regarding (a) if a component solution is used we agree that subsequent measurement should address changes in component values that arise from subsequent expenditure and consumption. Do to the nature of heritage items and their value at zero, impairment and revaluation should not be reflected in subsequent meas-

urement as they pertain to the heritage item. We do not believe that subsequent changes in value should influence the financial opportunities for the institution.

Regarding (b) we agree that subsequent measurements of components can be approached in broadly the same way as subsequent measurement for other, non-heritage assets.

Regarding for example building an option could be too use a component-based approach, because like with other types of buildings, buildings that are heritage items is made up by components with different lifespans. The building itself may have an infinite or indeterminable lifetime, but components has a limited lifetime. This would give an opportunity to address changes in value that arise form subsequent expenditure.

If we use Kronborg as an example the castle itself has a practically infinite lifetime, while it is composed of a series of components that have at limited lifetime. For these components it is possible to determine the either cost or replacement cost. The components could be security systems, heating systems, ventilation systems, roofs, other installations and building components that serve the building itself, these components be seen as individual assets.

But this method means that the main asset does not have a value, but underlying assets do. This might be confusing and it is uncertain if the method provides relevant information to users of the financial reports.

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

Regarding heritage related factors, we find that the restrictions on sale and destruction present some issues for subsequent measurement. Any changes in value are unlikely to ever be realised, and therefore should not impact on the institutions financial opportunities.

Preliminary View—Chapter 6 (following paragraph 6.10)

We agree the special characteristics and the intention to preserve the for the 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.

Preliminary View—Chapter 7 (following paragraph 7.9)

We agree information about heritage should be presented in line with the existing IPSASB pronouncements.