

Consultation Paper: Financial Reporting for Heritage in the Public Sector

This is an overview of the Consultation Paper (CP), *Financial Reporting for Heritage in the Public Sector*.

Project objectives:

This Consultation Paper (CP) asks constituents for their views on financial reporting for heritage in the public sector. The objective is to:

- Improve financial reporting for heritage by public sector entities; and
- Support the comparability of heritage-related information in general purpose financial reports (GPFs), while providing information that users need for accountability and decision making.

This is the first step towards guidance on heritage information in GPFs.

The project stage:

The IPSASB issued this CP in April 2017.

Next steps:

The IPSASB seeks feedback to develop guidelines on recognition, measurement and presentation for heritage.

Comment deadline:

The CP is open for public comment until September 30, 2017.

How to respond:

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link on the CP page. Please submit comments in both a PDF and Word file. All comments will be a matter of public record and will be posted on the website.

Why has the IPSASB issued this Consultation Paper?

The IPSASB aims to improve financial reporting for heritage in the public sector, by considering the type of information that should be reported about heritage items and heritage-related responsibilities, including approaches to their recognition and measurement.

The holding of heritage items is a distinguishing feature of the public sector. Public sector entities preserve heritage on behalf of present and future generations. GPFR users may need information to:

- Hold entities accountable for their preservation of heritage items; and
- Make decisions on resources needed for heritage preservation.

Constituents indicated, in their responses to the IPSASB's 2014 strategy and work plan consultation, that better coverage of financial reporting for heritage should be an IPSASB priority.

IPSAS presently allows entities to report on heritage items using different practices. There are inconsistent practices with respect to classifying items as heritage. Heritage items may or may not be recognized in an entity's financial statements and different measurement approaches are used. This diversity has negative consequences for the public interest because it reduces the comparability of information reported in the financial statements.

This CP discusses financial reporting for heritage. It is an important step towards determining the appropriate reporting for heritage in the public sector. It is underpinned by *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework).

In this CP the IPSASB asks for constituents' views on:

- Identification of heritage items;
- Whether heritage items are assets for financial reporting purposes;
- Heritage asset recognition and measurement;
- Whether heritage-related obligations could be liabilities for financial reporting purposes; and
- Presentation of information on heritage items and related responsibilities.

What are heritage items?

Description: 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.

IPSASB's preliminary view: Chapter 2 of the CP has the IPSASB's preliminary view on a description of heritage items that reflects their special characteristics and distinguishes them from other phenomena for the purposes of financial reporting.

Heritage items' rarity and/or significance are in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features.

Categories of heritage items: Heritage items could be cultural or natural heritage. Cultural heritage consists of man-made items that could be either tangible or intangible.

Tangible cultural heritage: Examples include:

- Monuments, archaeological sites, historic buildings, works of art, and scientific collections;
- Underwater cultural heritage, for example, underwater buildings or sunken ships; and
- Natural history collections such as collections of insects, or mineral collections.

Intangible cultural heritage consists of:

- *Knowledge-in-action:* Practices, representations, expressions, knowledge; and skills that are heritage items. Examples include languages and rituals.
- *Intellectual property* such as rights over recordings of significant historical events.

Natural heritage covers natural features or areas. Examples include mountains, lakes and waterfalls.

Are heritage items assets?

The special characteristics of heritage items do not prevent them from being considered as assets.

Heritage items as assets

IPSASB's preliminary view: Chapter 3 of the CP has the IPSASB's preliminary view that the special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting.

Conceptual Framework: This preliminary view draws on the Conceptual Framework, which defines an asset to be “a **resource** presently controlled by the entity as a result of a past event”.

Resource: A resource is an item with service potential or the ability to generate economic benefits:

- Service potential is the capacity to provide services that contribute to achieving the entity's objectives, without necessarily generating net cash inflows.
- Economic benefits are cash inflows or a reduction in cash outflows, which may be derived from, for example, an asset's use in the production and sale of services.

Heritage items as controlled resources

Service potential could arise, for example, when an entity that holds heritage items:

- Has objectives that include heritage-related services such as providing access to heritage items; or
- Uses heritage items to provide services independent of their heritage characteristics. For example, a heritage building used for offices.

Economic benefits could arise, for example, when an entity that holds heritage items:

- Uses them in the production and sale of services;
- Sells tickets to view the heritage items; or
- Loans or rents them to other entities.

Control over a heritage resource exists if the entity:

- Can demonstrate legal ownership (for example through a purchase document);
- Has other enforceable rights; and/or
- Can direct its use to achieve its objective.

Should heritage assets be recognized in the financial statements?

Recognition: Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria.

Measurement: In many cases it will be possible to assign a monetary value to heritage assets.

Subsequent measurement of heritage assets is broadly the same as subsequent measurement for other, non-heritage assets.

Recognition of heritage assets

IPSASB's preliminary views: Chapter 4 of the CP includes the IPSASB's preliminary views on recognition and measurement of heritage assets. Chapter 5 has its preliminary view on subsequent measurement.

Recognition involves existence of an asset and an ability to measure the asset.

Measurement of heritage assets involves:

- Attachment of a monetary value;
- Choice of an appropriate measurement basis that meets the measurement objective; and
- Determination of whether measurement achieves the qualitative characteristics, taking into account the constraints on information.

The **measurement objective** is to select those measurement bases that most fairly reflect the entity's:

- Cost of services,
- Operational capacity, and
- Financial capacity.

Measurement bases

Three measurement bases are identified to attach a monetary value to heritage assets:

- Historical cost;
- Market value; and
- Replacement cost.

Measurement objective and heritage assets

Initial measurement of heritage assets could provide useful information to assess:

- *Cost of services:* For example, the initial asset expenditure provides useful information about the cost of services where heritage assets are being used over time or restored to build a current collection.
- *Operational capacity:* Information on the monetary value of heritage assets may be useful to assess resources available for the entity's operations, including service delivery.
- *Financial capacity:* Heritage assets can appreciate in value over time or generate cash flows through, for example, access fees. The monetary value of heritage assets could be relevant to assessments of financial position.

Heritage-related obligations

The special characteristics of heritage items 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.

Preservation of heritage items and obligations

Preservation of heritage items: The CP considers whether an intention to preserve heritage items for present and future generations could give rise to a present obligation.

Existence of a present obligation: The CP draws on the Conceptual Framework to consider this question, and notes that:

- A moral duty to preserve heritage items does not, by itself, give rise to a present obligation.
- A present obligation is binding, so that the entity has little or no realistic alternative to avoid it.
- An obligation must be to an external party.

Outflows of resources

Liabilities must involve both a present obligation and an outflow of resources. Chapter 6 of the CP notes that:

- Heritage items often involve outflows of resources to preserve heritage items for present and future generations.
- There could be *deferred* outflows of resources, by comparison to an agreed cycle of maintenance, for example.
- An ability to defer preservation resource outflows suggests that there is no present obligation.

Heritage-Related Past Events

There appears to be no reason why events that could indicate existence of an obligation should be accounted for in a different way, special to heritage.

Presentation of heritage-related information

Information on heritage items should be presented in line with existing IPSASB pronouncements.

Presentation of information on heritage items

The CP discusses whether the special characteristics of heritage items warrant special presentation.

Chapter 7 of the CP proposes that:

- The special characteristics of heritage items do not warrant presentation objectives specific to heritage.
- Existing IPSASB pronouncements, including Recommended Practice Guidelines can be applied.
- Materiality is considered when deciding:
 - Whether a line item for heritage assets should be displayed on the face of the financial statements; and
 - What information to disclose in the notes to the financial statements.

Heritage-related information

Heritage assets: Information on heritage assets might include:

- The main types of assets;
- How they are measured; and
- Resource outflows and inflows as a result of holding, acquiring and disposing of heritage assets.

Financial statements discussion and analysis: An entity could present information in its financial statements discussion and analysis or another GPFR.

The information presented on heritage could help users to understand the:

- Effect of heritage items on entity's operational capacity, cost of services and financial capacity;
- Extent of heritage holdings and heritage-related expenses; and
- Heritage custodial responsibilities and legislation on such responsibilities.

Next Steps

The deadline for comments is September 30, 2017.

During the comment period, IPSASB members are available to discuss the proposals with a wide range of parties.

How can I comment on the proposals?

The CP requests comments on both the Preliminary Views and the Specific Matters for Comment.

Respondents may provide comments and answers on all the Preliminary Views and all Specific Matters for Comment or just selected views or matters for comment. They are also welcome to comment on any other matter they think the IPSASB should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the “[Submit a Comment](#)” link. Please submit comments in both a PDF and Word file.

All comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will consider all feedback and discuss responses at its public meetings after the comment period has ended.

Stay informed

The IPSASB’s website will indicate the meetings at which feedback on the CP will be discussed. The dates, and, where known, the locations of 2017 and 2018 meetings are at:

<http://www.ipsasb.org/meetings>

To stay up to date about the project, please visit:

<http://www.ipsasb.org/projects/heritage>