

IPSASB Consultation Paper
Financial Reporting for Heritage in the Public Sector

response to consultation paper

28 September 2017

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As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

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International Public Sector Accounting Standards Board
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CANADA
Submitted electronically

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Dear IPSASB secretariat

Consultation Paper
Financial Reporting for Heritage in the Public Sector

CIPFA is pleased to present its comments on this Consultation Paper, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

As noted in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, one of the distinguishing features of public sector financial reporting relates to the fact that public sector entities may hold assets for their service potential, rather than as a means to generate income. The valuation of such assets raises a number of issues, given that the benefit received from the asset will often not directly equate to any monetary settlement which might be achieved through the sale or use of the assets.

It is against this background that CIPFA agrees with one of the core proposals in this Consultation Paper. While heritage assets undoubtedly have special characteristics, these do not affect the rationale for financial reporting. These characteristics may and often do affect the attribution of value to assets, and can require special explanation. But this is also the case for many assets held for their service potential, as well as for some income generating assets which are difficult to measure for other reasons.

Response to Preliminary Views and Specific Matters for Comment

Responses to the PVs and SMCs are attached as an Annex.

I hope this is a helpful contribution to IPSASB's work in this area. If you have any questions about this response, please contact Steven Cain (e: steven.cain@cipfa.org, t: +44(0)20 7543 5794).

Yours sincerely

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CIPFA RESPONSES TO ITEMS RAISED IN THE REQUEST 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.

CIPFA agrees that paragraphs 1.7 and 1.8 cover the key characteristics and consequences.

Preliminary View –Chapter 2.1 (following paragraph 2.11))

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.

CIPFA agrees with the IPSASB's Preliminary View on heritage items for the purposes of this CP.

This does not provide a comprehensive description of the nature of heritage, but does facilitate consideration of the particular characteristics of heritage items which make conventional asset accounting problematic.

Preliminary View–Chapter 2.2 (following paragraph 2.12)

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.

CIPFA agrees with the IPSASB's Preliminary View.

We recognise that living organisms can be heritage items in the wider sense used by bodies such as UNESCO. However, we agree with the more narrowly focused approach IPSASB has taken to the designation of natural heritage for the purposes of this CP.

Preliminary View—Chapter 3 (following paragraph 3.11)

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.

CIPFA agrees with the IPSASB's Preliminary View.

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

Do you support initially recognizing heritage assets at a nominal cost of one currency unit where historical cost is zero, such as when a fully depreciated asset is categorized as a heritage asset then transferred to a museum at no consideration, or an entity obtains a natural heritage asset without consideration?

CIPFA strongly disagrees with this suggestion, for several reasons.

We note and agree with paragraph 4.15 which states that

Where historical cost information is available but so old that it may not provide relevant information for achievement of the measurement objective, other measurement bases may be more appropriate.

In general, we would suggest that the fact that an item is considered to be a heritage asset indicates that it has a non-zero value for heritage purposes, which is unlikely to equate to a token value of 1 currency unit.

We suggest that heritage assets should be recognized in line with the Conceptual Framework. That is, when they meet the definition of an asset, and they can be measured in a way that satisfies the Qualitative Characteristics, having regard to the cost-benefit constraint.

While we can see that the approach suggested in this SMC has a low cost, we do not consider that it provides decision useful information.

Preliminary View—Chapter 4.1 (following paragraph 4.40)

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.

CIPFA agrees with the IPSASB's Preliminary View.

In practice for certain heritage items there may be conceptual difficulties in ascribing a value that meets the Qualitative Characteristics of financial reporting, and there may be cases where the cost benefit constraint is not satisfied.

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

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

In CIPFA's view, there are heritage-related situations in which heritage assets should not initially be recognized because of the circumstances outlined at (a) and (b) above.

An example under category (a) would include ancient monuments where the government determines that the asset cannot be sold, and should not be used for income generation. For these

- Historical cost is not relevant
- There is no meaningful market value
- Replacement is impossible

Examples under category (b) may occur, for example, for numerically large collections of artifacts held in museums or art galleries. For these

- Historical cost is not relevant
- While market value may in principle be measurable, the valuation process may be relatively expensive, so that for a large collection the cost of initial measurement may be very large
- Replacement may be impossible, and in cases where an appropriate substitute can be obtained, replacement cost will generally equate to market value and the practical considerations outlined in the previous bullet point may apply.

Preliminary View—Chapter 4.2 (following paragraph 4.40)

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.

CIPFA agrees with the IPSASB's Preliminary View.

Furthermore, we agree with the IPSASB that further explanation is required as to how these measurement bases should be applied, and that this should be covered as part of the Public Sector Measurement Project.

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

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

We note that guidance on measurement of heritage assets might be contained in a heritage specific standard, in other standards relating to asset measurement, or in separate guidance not framed as a standard.

Wherever guidance is placed, it will probably be helpful to outline certain cases for which it is straightforward to identify and use a measurement basis with is relevant, and to separately provide guidance on cases for which this is not a straightforward assessment.

For the latter, more difficult cases, the guidance will need to help preparers determine which measurement bases are sufficiently relevant, and how measurement might be achieved in a way which is compatible with the cost benefit constraint.

Furthermore, given the substantial variation in the nature and type of heritage assets in different national jurisdictions, it is likely that national guidance will need to be developed to help apply IPSASB developed criteria to the sorts of situations which will most often be encountered in the national context. It would be helpful if the IPSASB were to draft its guidance in a way which facilitated the production of interpretive guidance by national standard setters or other relevant authorities.

Preliminary View – Chapter 5 (following paragraph 5.14)

Subsequent measurement of heritage assets:

- (a) Will need to address changes in heritage asset values that arise from subsequent expenditure, consumption, 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 – Chapter 5? If not, please provide your reasons.

CIPFA agrees with the IPSASB’s Preliminary View.

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

In your view, 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 what guidance IPSASB should provide to address them.

As noted in our response to SMC Chapter 4.2, for some types of heritage item the valuation process may be relatively expensive. Where a reporting entity has very large numbers of such items, the cost of subsequent re-measurement may be very large.

Preliminary View—Chapter 6 (following paragraph 6.10)

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.

CIPFA agrees with the IPSASB’s Preliminary View.

Preliminary View—Chapter 7 (following paragraph 7.9)

Information about heritage should be presented in line with existing IPSASB literature.

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.

CIPFA agrees with the IPSASB’s Preliminary View. Information about heritage can be very important, and for some entities qualitative explanations in note disclosures may be as important or more important than the numerical information shown in the financial statements. However, the reasons for presenting heritage flows, balances and other information and the appropriate mode of presentation are not in principle different from other types of information about the entity.

We note that Chapter 7 sets out a number of types of situations where information may be presented, either in the financial statements or other GFPRs.

We suggest that there are a number of situations where information would be so important to the understandability of the financial statements that some disclosure, whether on the face of the main statements or in the notes should be mandatory.

Examples include:

- Where an asset or a collection of assets which are significant from the perspective of the entity have not been recognized in the financial statements for the reasons mentioned at SMC Chapter 4.2 above; it will normally be essential for these assets and their operational heritage significance to be explained, together with an explanation of why they have not been recognised
- Where a value has been attributed to heritage assets which is significant in the context of the financial statements, it may be necessary to explain that these do not contribute to the financial capacity of the entity in the same way as assets held primarily to generate income through use or sale of the asset.