

Consultation Paper on Financial Reporting for Heritage in the Public Sector

**Meeting of the Task Force on
Accounting Standards**

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- Review the UN Secretariat views on the Consultation Paper (CP) on “Financial Reporting for Heritage in the Public Sector”
- Group discussion
- UN Agencies to submit their views or confirm their agreement with the UN Secretariat views

- The CP was published in April 2017

- Comments were due 30 September 2017

- The IPSAS Board has granted a late submission by the UN to allow for comments from this meeting to be incorporated in a consolidated response

- The CP is the first step in the standard setting process. The issuance of an Exposure Draft is scheduled for Q3 2018 for comments.

2.1 Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of rarity and/or significance in relation to their value:

- Archeological
- Architectural
- Agricultural
- Artistic
- Cultural
- Environmental
- Historical
- Natural
- Scientific
- Technological

UN Secretariat view on PV 2.1: Agree

2.2 For the purpose of financial reporting, natural heritage will exclude living plants and organisms

Comments:

- The IPSASB reached this conclusion because individual plants and organisms cannot be held indefinitely and preserved for present and future generations.
- UNESCO conventions include living plants and organisms within natural heritage.

UN Secretariat view on PV 2.2: Agree for the purpose of financial reporting

3. Heritage items are not prevented from being considered as assets for financial reporting

Comments PV 3:

- *We believe there are certain heritage items that are not assets. The following slide provides the definition of an asset per the CP and Conceptual Framework (CF)*

Comments PV 3:

- **Asset:** is a **resource** presently controlled by the entity as a result of a past event.

- **Resource:** is an item with service potential or the ability to generate **economic benefits**.

- **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.

- Thus for most heritage items the focus is on service potential.

Comments PV 3:

- *Using these definitions, if a heritage item does not have economic benefits or service potential it should not be a resource or an asset. However, neither the CF nor the CP explicitly state this. This is a conceptual gap that opens inconsistent interpretations.*
- *The CP does not provide a definition of Service Potential.*
- *However, the CP brings in two notions that are important in the determination of whether an item is an asset in paragraph 3.3 and 3.6.*

Comments PV 3:

■ **Paragraph 3.3**

- *Public sector entities' objectives can include providing services either directly or indirectly to individuals or institutions. The objectives of an entity holding heritage items may include, for example:*
 - *(a) Providing access to heritage items directly to individuals (for their education, appreciation, etc.);*
 - *(b) Holding heritage items indefinitely in a custodial capacity;*
 - *(c) Preserving heritage items to benefit the whole community; or*
 - *(d) Promoting heritage-related tourism.*

Comments PV 3:

■ Paragraph 3.6

- *The Conceptual Framework states that: “Control of the resource entails the ability of the entity to use the resource ... so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives.”*

- **Note:** The UN Secretariat receives unsolicited gifts from Member States that meet the definition of heritage items but are not used in the achievement of its objectives as established by the General Assembly.

- **UN Secretariat view on PV 3:**

Agree that the special characteristics of heritage items should not prevent them from being considered as assets for purposes of financial reporting

Consider that Chapter 3 of the Consultation Paper (CP) does not explicitly address whether heritage items are assets.

The CF and the CP failed to address items with no economic benefits or service potential which creates a conceptual gap

- **UN Secretariat view on PV 3 – Cont’d:**

As a result of this conceptual gap, inconsistent interpretations are likely to occur.

The UN Secretariat considers that in the absence of economic benefits or service potential, a heritage item is not a resource nor an asset.

Consequently it should not be recognized on the statement of financial position and should be disclosed in the notes instead.

- **UN Secretariat view on PV 3 – Cont’d:**

The UN Secretariat would like the IPSASB to provide indicators of service potential and propose that indicators should be (a) whether a heritage item is used in carrying out the objectives of the organization; or (b) whether in an event of loss or damage to the item, the organization would replace such item.

4.1 Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria in the Conceptual Framework

■ UN Secretariat view on PV 4.1:

Agree that if the criteria of an asset are met then heritage assets should be recognized on the statement of financial position. However, the CF and CP imply that heritage items with no economic benefits or service potential are not assets and should not be recognized. Clarifications are required as discussed in Preliminary View 3.

4.2 In many cases, it will be possible to assign a monetary value to heritage assets. Appropriate measurement basis are:

- **Historical cost**
- **Market value**
- **Replacement cost**

- **UN Secretariat view on PV 4.2:**
 - **For donated heritage items:**
 - **a) historical cost is not an applicable valuation basis as the asset was donated to the UN Secretariat;**
 - **b) considering the UN Secretariat would not sell the donated items due to legal, social or contractual restrictions, and these items were donated without sufficient documentation such as author/creator, year of creation, materials used, etc. it would be impossible to assign a market value that is verifiable. Consequently, valuation at market value is not an appropriate valuation basis;**

- **UN Secretariat view on PV 4.2 – cont’d:**
 - **c) considering i) the item is not used for operations and would not be replaced by the UN Secretariat if it were to be lost or damaged; and ii) details of the items are unknown (e.g. unknown materials), it would be impossible to assign a replacement cost that is verifiable. Consequently, valuation at replacement cost is not an appropriate valuation basis.**
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 - **In light of the above, the UN Secretariat does not agree with the IPSASB’s Preliminary View and requests the IPSASB to consider more appropriate valuation methods for items that have limited economic benefits or service potential.**

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.
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 - Comment on PV 5: If donated items are not resources or assets, this question is a moot point. We will defer engaging into measurement views until the Exposure Draft resolves the conceptual gap.
 - **UN Secretariat view on PV 5: No comment at this point.**

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.

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UN Secretariat view on PV 6: Agree

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

■ Comment on PV 7:

- This means no enhanced disclosure required
- Concept of materiality applies
- Each entity to determine what qualitative information is presented in Discussion and Analysis

■

UN Secretariat view on PV 7: UN Agrees

Discussion Points

1. Do you agree with the scope of natural heritage i.e. exclusion of plants and living organisms?
2. Do any UN agencies/entities have stated objectives for heritage items?
3. Additional comment?
4. Agreement with UN Secretariat views?

- **Specific Matter # 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?**

- **UN Secretariat view:**
- **The UN Secretariat agrees with the SMC # 1 that the characteristics of heritage items are fully captured in paragraphs 1.7 and 1.8. of the CP.**

- **Specific Matter # 4.1:**
- **Following paragraph 4.17 of Chapter 4 of the CP, 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?**
- **UN Secretariat view:**
- **No comment at this point.**

- **Specific Matter # 4.2:**
- **Following paragraph 4.40 of Chapter 4 of the CP, 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.**

- **Specific Matter # 4.2:**
- **UN Secretariat view:**
- **The UN Secretariat may have heritage items that could meet the definition of an asset as they have limited economic benefits or service potential and are retained due to restrictions on disposal.**
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- **However, it must be noted that assigning a monetary value to such items would not be possible due to the following factors:**

- **Specific Matter # 4.2:**
- **UN Secretariat view – cont'd:**
 - a) Items were donated to the UN Secretariat and have no historical cost;**
 - b) Items were donated without sufficient documentation such as e.g. author/creator, year of creation, materials used, etc. making it impossible to value in a verifiable manner;**
 - c) Items are retained due to restrictions on disposals; and**
 - d) Costs of valuing such items would exceed their limited benefits.**

- **Specific Matter # 4.2:**
- **UN Secretariat view – cont'd:**
- **In these situations, valuation could only be highly subjective and would not achieve the purpose of being relevant, faithfully representative, verifiable and comparable, hence would not achieve the qualitative characteristics of information reported in General Purpose Financial Reports.**

- **Specific Matter # 4.3:**
- **Following paragraph 4.40 of Chapter 4 of CP, What additional guidance should the IPSASB provide through its Public Sector Measurement Project to enable these measurement bases to be applied to heritage assets?**

- **UN Secretariat view:**
- **No comment at this point.**

- **Specific Matter # 5:**
- **Following paragraph 5.14 of Chapter 5 of the CP,
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.**
- **UN Secretariat view:**
- **No comment at this point.**

- **Specific Matter # 5:**
- **Following paragraph 5.14 of Chapter 5 of the CP,
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.**
- **UN Secretariat view:**
- **No comment at this point.**