

# Financial Reporting Advisory Board

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## From the Chairman

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*Dear Alan*

### HERITAGE ASSETS: CAN ACCOUNTING DO BETTER?

The Financial Reporting Advisory Board (the Board) welcomes the publication of the Discussion Paper on accounting for heritage assets. As you know, I wrote to the then Chairman of the Accounting Standards Board (ASB) in October 2000 to express the Board's concerns about the effect of FRS 15 *Tangible Fixed Assets* on the accounting treatment of heritage assets. I suggested that the ASB carry out a review of the impact on heritage accounts, perhaps in late 2002. I am pleased that the Committee on Accounting for Public-benefit Entities (CAPE) has been able to conduct what has obviously been a careful and well thought through review, which has culminated in a clear, well written Discussion Paper.

2. The Board was pleased to welcome Andrew Lennard to its meeting on 20<sup>th</sup> March, at which he discussed the proposals in the Discussion Paper.
3. The Board broadly supports the ASB's conclusions, although some members have concerns about the practicalities involved for smaller museums and galleries in determining whether they should adopt a capitalisation approach. The Committee might like to consider the practical implications of the proposals. The detailed responses to the questions raised in the Discussion Paper (attached) also pose some additional questions that CAPE might like to consider as it develops guidance for inclusion in an accounting standard.

4. I also attach a copy of my letter to the International Public Sector Accounting Standards Board in response to its Consultation Paper. You will be aware that IPSASB asked slightly different questions to those in the Discussion Paper, and you might be interested in the Board's responses to those on the scope, on depreciation and impairment and audit implications.

5. The Board looks forward to considering this topic further once decisions have been taken on how to change the accounting requirements for heritage assets.

*how ever*

*Dave*

pp **ELWYN EILLEDGE**

Approved by the Chairman and signed in his absence

## **HERITAGE ASSETS: CAN ACCOUNTING DO BETTER**

### **ACCOUNTING STANDARDS BOARD DISCUSSION PAPER**

#### **RESPONSES OF THE FINANCIAL REPORTING ADVISORY BOARD**

*(a) Do you agree with the definition of heritage assets proposed for financial reporting purposes? If not, what definition would you propose?*

The Board agrees with the definition in the context of the national museums and galleries, where it is clear that the holding and maintenance of heritage assets is central to their objectives. In a wider context, however, the Board asks the Committee on Accounting for Public-benefit Entities (CAPE) to consider whether the definition needs to be explained further. For example, the Board believes that the Ministry of Defence museums hold heritage assets (an example is HMS Victory) and that local authorities' collections are also heritage assets. But the Ministry of Defence's central purpose is not the preservation of the nation's naval heritage, and local authorities' central purposes focus on the delivery of local services (not on the preservation of local heritage). The Board is sure that CAPE would agree that these should be defined as heritage assets but fears that the definition as currently drafted could lead some to argue that they should be treated in the same way as corporate art.

*(b) The Discussion Paper proposes that where heritage assets are reported in the balance sheet this should be at a current value rather than at historical cost as this provides more useful and relevant information. Do you agree? If not, please give reasons.*

The Board agrees with this proposal.

*(c) The objective of the proposals is to improve the quality of financial reporting of heritage assets. Do you agree that, to meet this objective, it is impractical to require all entities to adopt a capitalisation approach for the financial reporting of heritage assets?*

The Board agrees that it is impractical to require all entities to adopt a capitalisation approach. It notes that this might give rise to questions about consistency of accounting treatments within the public sector (if, for example, some museums adopt the capitalisation approach and others do not). The Board believes that adequate disclosures

of accounting policies in individual accounts and, ultimately, in whole of government accounts ought to be sufficient explanation of the approaches adopted.

*(d) Do you consider the proposals in paragraphs 4.8 and 4.9 will encourage the adoption of a capitalisation approach in appropriate cases? If not, what modifications to existing reporting requirements would you propose?*

The Board hopes that the proposals, which provide more flexibility in the way in which valuations might be approached, will encourage the adoption of a capitalisation approach where appropriate.

*(e) Where it is clear that practical considerations prevent an entity adopting a policy of recognising heritage assets, a non-capitalisation approach should be adopted. Do you agree that, in reaching this decision, an entity should have regard to whether it can obtain – at a reasonable cost – reliable valuations on an ongoing basis for the majority, by value, of heritage assets held and that this should be explained clearly in the notes to the accounts? If you do not agree, how should an entity support a decision to adopt a non-capitalisation approach.*

The Board agrees that a non-capitalisation decision should be supported in the way suggested in the Discussion Paper.

*(f) Under a non-capitalisation approach, it is proposed that acquisitions and disposals of heritage assets should be presented outside of the income and expenditure account in a statement of change in recognised net assets. Do you support this proposal? If not, how should these transactions be reported?*

The Board agrees that acquisitions and disposals should be presented outside of the income and expenditure account. It considers that the presentation should be part of the primary financial statements and endorses, for charities, the suggested presentation in a Statement of Financial Activity (SOFA) (set out in Appendix 3 of the Discussion Paper). The Board takes the view that, in many cases, it might be possible to view heritage assets as being restricted assets held on trust. The national Museums and Galleries are increasingly using an extended SOFA that distinguishes between revenue and capital and between restricted and unrestricted activities, and it appears that this extended SOFA could accommodate the presentation in respect of heritage assets.

In cases where entities holding heritage assets are not charities, the Board believes that similar wording to that in the SOFA would be preferable to a title of 'statement of change in recognised net assets'. This is because the reported transactions relate only to heritage assets and not

to other assets held by the entity. And the proposed title could be misleading.

*(g) Do you consider that it is appropriate to report other transactions related specifically to heritage assets – such as donations, grants for their acquisition and restoration costs – in a statement of change in recognised net assets? If not, how should these transactions be reported?*

The Board agrees that it is important for users of the accounts to be able to gain an understanding of the other transactions related to heritage assets. Given the analysis in the extended SOFA between restricted/unrestricted and revenue/capital, and the possible separate identification of restricted heritage assets, the Board questions whether extra analysis is required on the face of the SOFA. Would not the current activity categories provide sufficient information? And if not, would that analysis be better disclosed in the notes?

*(h) Do you agree with the proposed disclosure requirements for heritage assets? Are there other disclosures that are practicable and would provide useful information?*

The Board agrees with the proposed disclosure requirements, and considers that they will also help enhance accountability and the transparency of financial reporting in heritage accounts.

*(i) It is proposed that, for financial reporting purposes, historic assets used by the entity itself and corporate art are not heritage assets. Is it appropriate at this stage to clarify the accounting treatment of these assets? If so, do you agree with the proposals in Sections 6 and 7 of the Discussion Paper?*

Some might argue that corporate art and historic assets used by an entity itself are heritage assets and thus would fall to be accounted for under the proposals for heritage assets in this Discussion Paper. The Board believes, therefore, that it is important to clarify at this stage that corporate art and historic assets are not heritage assets and should be accounted for in accordance with existing accounting standards. This clarification should be developed in the light of the need for an explanation of the definition (what is HMS Victory?).