

Financial Reporting Advisory Board

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From the Chairman

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Dear Paul

ACCOUNTING FOR HERITAGE ASSETS UNDER THE ACCRUAL BASIS OF ACCOUNTING

The Financial Reporting Advisory Board (the Board) welcomes the opportunity to comment on the proposals set out in the International Public Sector Accounting Standards Board's (IPSASB) Consultation Paper on accounting for heritage assets under the accruals basis of accounting.

Background to the Board and its interest in accounting for heritage assets

2. The Board acts as an independent element in the process of setting accounting standards for government. The Treasury is required by the Government Resources and Accounts Act 2000 to consult the Board on financial reporting principles and standards. The Board exists to promote the highest possible standards in financial reporting by government and to ensure that any adaptations of, or departures from, generally accepted accounting practice are justified and properly explained. The Board reports annually to Parliament about its activities and highlights areas of concern. More details about the work of the Board can be found on its website at www.frab.gov.uk.

3. The Statement of Recommended Practice for Accounting and Reporting by Charities (Charity SORP) for 2000 included guidance on accounting for heritage assets based on Financial Reporting Standard (FRS) 15 *Tangible Fixed Assets*. The Charity SORP provides that collections of historic assets may be exempted from capitalisation for cost-benefit reasons but does not exempt purchased or

donated additions where adequate purchase information is available without additional cost. These additions are capitalised, with the purchase cost being used as a proxy for value.

4. When discussing the implications of the Charity SORP for heritage accounts in the central government sector, the majority of my Board members expressed considerable unease as to whether balance sheet recognition of only additions, but not the total of a collection, can be seen as presenting a true and fair view. They also raised various questions about the detailed operation of the policy. The Board – with some misgivings – incorporated the policy into accounting guidance for central government. I wrote to the UK Accounting Standards Board (ASB) setting out the Board's concerns, and suggested that the ASB carry out a review of the accounting treatment of heritage assets in the light of experience.

The Accounting Standards Board review and Discussion Paper

5. I am pleased that the ASB has now carried out such a review, and has presented new proposals in its Discussion Paper *Heritage Assets: Can accounting do better?*. I also welcome the collaboration between the ASB and IPSASB, which has led to the publication of your Consultation Paper. I attach my letter to the ASB responding to the questions raised in the Discussion Paper, which I believe answer most of the questions you raise in the Consultation Paper. I have not duplicated the answers in this letter to fit in with your question numbers and hope this causes you no inconvenience.

Additional questions in the IPSASB Consultation Paper

6. The Consultation Paper asks (question 2) whether the proposals are applicable to all types of heritage asset. The ASB Discussion Paper includes in its definition museum, gallery and library collections, historic monuments, historic buildings and elements of the natural landscape and coastline. In principle, the Board sees no reason why the proposals should not apply to all these assets.

7. As you know, the UK public sector generally reports its assets at current value, and this is reflected in the proposals for heritage assets in the Discussion Paper. The Board recognises that IPSASB will need to take account of those jurisdictions that do not report assets at current value (question 5 of the Consultation Paper).

8. The inclusion of assets at valuation may, of course, have audit implications in relation to the reliability of the valuations (question 10). The Board assumes that the auditor would follow the requirements of International Standard on Auditing 620 *Using the work of an expert* in reviewing the valuations. The Board considers that the cost of the additional audit work might form part of the entity's assessment of the costs and benefits associated with the capitalisation approach.

9. IPSASB raises a question (question 8) in relation to the depreciation or impairment of heritage assets. Under the existing accounting requirements in the

UK, heritage assets are not depreciated, and the Discussion Paper proposes to continue with this treatment. The Board accepts this, believing that, because of the circumstances under which heritage assets are maintained, it is unlikely that heritage assets will depreciate, and that any changes in value will arise from other factors.

10. However, it must be right that heritage assets can be impaired, although it might be because of permanent diminutions in value due to damage rather than because of a loss of service potential. For example, in January 2006, three Qing dynasty Chinese vases at the Fitzwilliam Museum in Cambridge were accidentally smashed. On 29th March, it was announced that the vases will be restored. Inevitably, this will affect the value of the vases and, were they at valuation on the balance sheet, then an impairment will have occurred. The Board considers that 'impairment testing' of heritage assets might not be necessary in the same way that other assets are tested for loss of service potential because the impairments are self-evident.

11. The Board looks forward to considering this topic further once decisions have been taken on how to change the accounting requirements for heritage assets. The Board has no strong view on whether this should be as a separate standard (question 11) or as an amendment to IPSAS 17.

Yours ever



ELWYN EILLEDGE

Approved by the Chairman and signed in his absence