

# ARE THE IPSASB AND ASB PROPOSALS ADEQUATE FOR PUBLIC HERITAGE ASSETS?<sup>1</sup>

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## ABSTRACT

Accounting systems of Public Administrations are the object of a reformation process in order to adequate them to the new informative demands, which emerge from the need, with independence of the sector they belong to, for the articulation of a homogeneous informative structure in the field of economic activities.

This means the incorporation to the accounting systems of all patrimonial elements of public entities, among which are some with special particularities, as in the case of “Heritage Assets”.

In this paper the different approaches adopted on these type of goods by two of the most important normalising professional worldwide organisms in the field of public accounting information: the “International Public Sector Accounting Standard Board” (IPSASB) of the “International Federation of Accountants”(IFAC) and the “Accounting Standards Board” (ASB) of U.K. are analysed.

The approaches followed by these institutions are the latest tendencies related to the application of the accrual basis which, as we will explain in our paper, it shows significant limitations when applied to some accounting concepts in the public environment.

A detailed analysis of the main controversial aspects of the application suggested by these approaches with regard to the incorporation of economic information of “Heritage Assets” to the financial statements of public administrations is presented in this paper.

The revision done of the accounting literature concerning this point shows the particular difficulties which arise from the application of these currents on elements, as the ones already mentioned, especially relevant in the activity of public entities.

The analysis realized reveals, in the authors’ opinion, the need for the search of new approaches when it comes to present real useful accounting public information for the users’ needs, beyond a mimetic application of approaches originated and developed in different environments for which rule management principles absolutely clash with the objectives pursued by public administrations.

**KEYWORDS:** Heritage assets, Non current tangible public assets, Public Accounting Harmonization, Public Accounting

## RESUMEN

Los sistemas contables de las Administraciones Públicas están siendo objeto de un proceso de reforma con el fin de adecuarse a unas nuevas exigencias informativas que se desprenden de que, independientemente del sector del

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que se trate, debe de articularse una estructura informativa homogénea en el campo de las actividades económicas.

Esto supone la incorporación a los sistemas contables de todos los elementos patrimoniales de las entidades públicas, entre los que se encuentran algunos con unas especiales peculiaridades, caso de los “Heritage Assets”.

En este trabajo se analizan las posiciones que sobre este tipo de bienes han sido adoptadas por dos de los más importantes organismos profesionales normalizadores a nivel mundial en el campo de la información contable pública, el “Internacional Public Sector Accounting Standards Board” (IPSASB) de la “Internacional Federation of Accountants” (IFAC) y la “Accounting Standards Board” (ASB) del Reino Unido.

Los planteamientos seguidos por estas instituciones representan las últimas corrientes en relación con la aplicación del criterio de devengo que, como veremos a lo largo de nuestro trabajo, presenta importantes limitaciones cuando se aplica a algunos conceptos contables en el entorno público.

En este trabajo se realiza un análisis detallado de los principales aspectos conflictivos que supone la aplicación de estos pronunciamientos cuando se trata de incorporar la información económica de los “Heritage Assets” a los estados financieros económico-patrimoniales de las administraciones públicas.

La revisión realizada de la literatura contable a este respecto ponen en evidencia las especiales dificultades que surgen de la aplicación de estas corrientes sobre elementos que, como los indicados, son de especial relevancia en la actividad de las entidades públicas.

El estudio realizado pone en evidencia, en opinión de los autores, la necesidad de la búsqueda de unos nuevos planteamientos a la hora de presentar una información contable pública que sea realmente útil a las necesidades de sus usuarios, más allá de la aplicación mimética de planteamientos originados y desarrollados en otros ámbitos en los que rigen unos principios de actuación que chocan frontalmente con los objetivos perseguidos por las Administraciones Públicas.

**PALABRAS CLAVE:** Bienes del Patrimonio Histórico, Artístico y Cultural: Activos no corrientes tangibles públicos; Contabilidad Pública; Armonización contable pública.

## 1. INTRODUCTION

Public entities present differential facts when compared to private entities that start at the very reason of its existence and the objectives they aimed at. These differentiated facts materialize in several aspects of financial kind and responsibility and have a major impact on the typology of fixed assets of their patrimonies as well as on their own role, not letting aside the way in which its incorporation was made and the kind of funding used or the significance of the authentic depreciation of these elements for the entity.

The proof of this differentiated complexity has already been stated on the interest on some of their assets, heritage asset, that lately have manifested several standardizing professional associations, of public or national environments. Evidence of this is to be found in various documents, which have been appearing in the two previous years: Discussion Paper (DP) of *Heritage Assets* of the Accounting Standard Board of South African Republic (ASBS) published in April 2005, Statement of Federal Financial Accounting Standards (SFFAS) 29: *Heritage Assets and Stewardship Land* by Federal Accounting Standards Advisory Board (FASAB (USA)), July 2005, DP: *Heritage Assets: Can Accounting Do Better?* by Accounting Standards Board of the United Kingdom,

January 2006, Consultation Paper (CP) *Accounting for Heritage Assets under the Accrual Basis of Accounting* by the International Public Sector Accounting Standards Board (IPSASB) of the “International Federation of Accountants”(IFAC), February 2006, which takes as the basis of the paper the previous document by the Accounting Standards Board (ASB) or the Exposure Draft for Financial Reporting Standard (FRED) 40: *Accounting for Heritage Assets* by the mentioned ASB, December 2006.

After some considerations about the problems that arise from the application of accounting systems created for a commercial approach, when they are transferred to a public sphere whose philosophy and objectives differ greatly, particularly in reference to tangible fixed assets, focusing in heritage assets taking as a basis the discussion document highly applied, institutional as well as spatial, CP *Accounting for Heritage Assets Under the Accrual Basis Of Accounting* (IFAC, 2006), analysing the prevailing doctrine with an international scope and going into those points that are taken as the keys or foundations to establish an adequate accounting treatment in the sphere of public administrations.

## **2. SOME CONSIDERATIONS ON PUBLIC TANGIBLE ASSETS**

The use of the cash basis for a long time as the grounds for the accounting system in the context of public accounting has led to the fact that the analysis of assets, in spite of its relevance, had not been considered with the importance it deserves since the above mentioned cash basis does not require a detailed knowledge of the complex problems around the concept of asset in this sector (Pallot, 1992, p. 41).

The interest derived from the process of privatisations in the 80s (Kay & Thompson, 1986), from the recognition of infrastructures which suffer a depreciation and require maintenance (Huggins, 1983) (Pallot, 1997) and the new management philosophy which has been applied in the public sector have caused that the study of the different categories of assets in the hands of public entities were the subject that is giving rise to deep thought in the framework of public accounting literature.

The attempt of incorporation of this kind of elements among tangible assets has involved the need to go deeply into the accounting concepts in a new environment in which the management philosophy and the objectives aimed at present significant differences.

The transfer of business accounting principles to public administrations rests on the fundamental supposition of a philosophic similitude in the efficient management of the physical resources employed in business sectors as well as in public ones of the economy. However, reality shows how among public assets there are many which do not follow the sequence when used: production of their service - sale - flow received, but this flow does not exist, or in the case it is received its quantity is much less than the charge of the service originating it (Glazer & Jaenicke, 1991).

Taking this premise as a starting point, we notice that there is a certain controversy that gave way, in the assertions of some authors, to the proposal of concepts of assets that differ in greater or lesser extent from the traditional concept which has its origin in the private sector, consequently this comes from the identification of the generic concept of propriety<sup>2</sup> as private propriety. This means that some difficulties might appear at the moment of considering some elements, usual in the public sector, as the assets of the holding entities. This is the case of infrastructures, museums or historic monuments (Hendriksen, 1982). The problem of an adequate consideration of the concept of asset in the public sector acquires its real perspective if we start at the

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<sup>2</sup> Inherent to every good as anyone will exert the right of control, use and disposal.

complexity, not solved for some authors yet, of its definition in the commercial sector; we take as an example the opinion Schuetze (1993, p. 67) gives when referring to the definition of asset of the Financial Accounting Standards Board (FASB) defines it as *a large empty box*.

The difference in life of these kinds of assets, the question of intergenerational equity they present (Pallot, 1990, p. 83), the temporary nature their control present at times on the part of many public entities (Lewis, 1995), the consequences the application of the concept of depreciation on them entail in relation to distortions caused on the priority of the programmes or on intergenerational equity (Aiken, 1994) (Lewis, 1995), or the fact that certain assets are not going to be replaced, this is the case of many infrastructures or heritage assets (Currie, 1987), would lead to the need for a different consideration.

Pallot's proposal follow the line of considering the existence of *community assets* which, based in the existence of a common property, would admit series of particular assets, distinguishing them from the majority of ordinary assets that are steadily used by public entities for the fulfilment of their own purposes. The extension of the traditional concept of private property with the concept of common property would not only fulfil some other purposes outside the sphere of accounting<sup>3</sup>, but it would facilitate and give a reasonable treatment in the accounting sphere to an important sector of fixed assets of public entities which due to their peculiarities give rise to some problems of heterogeneity when constituting a stable informative system. The term *community assets* could include infrastructure assets as well as heritage assets (Pallot, 1990, p. 80).

For other authors (Stanton & Stanton, 1997) the real reason of the problems of applying commercial accounting standards in the public sector, which are based in the accrual basis, and its resulting inclusion in the accounting system of all the assets under control of an entity, lies in the fact that commercial financial accounting is categorized within the neoclassical theory of value. This theory which is controversial in a private environment, it is even more questionable in public entities whose activity is to offer their services under guidelines outside the market offer and demand rules or the seek of an economical benefit. Generic use as valuation criteria of value-in-use or value-in-exchange, both with a ultimate direct or indirect foundation, in the existence of services derived from assets with a market price, are at least questionable and of doubtful practical use. We must consider that there are different types of assets in public entities such as parks, natural reserves, artworks, archaeological sites, historical buildings and so on. These offer services which do not have a reasonable price in the market due to their social character, they have a negligible price, their use is limited and they cannot be transmitted by legal, social and political reasons. These facts make their opportunity costs highly questionable. All these reasons lead us (Stanton & Stanton, 1997) to consider the need for a change in the approach to the treatment of fixed materials in public administrations since it is greatly questioned the suitability of financial statements with assets of the kind mentioned. These assets have been incorporated under valued criteria doubtfully coherent with the object they are applied. Besides these statements give an incomplete image of the patrimony of the entities because part of the assets under their control do not fulfil the established requisites to be considered as accounting assets or the fact that it is not reasonably feasible to obtain a value for these assets. Consequently the financial statements that do not fulfil the objective they claim to pretend with the incorporation of all the tangible fixed assets to their financial statements since the obtained information might mislead with a biased image of the entity. This may result into a negative image in the case the entity is the ownership of many particular assets.

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<sup>3</sup> It means the defence of values related to democracy, restriction of governors' power, and reasonable separation of society and government.

### 3. PUBLIC ACCOUNTING AND HERITAGE ASSETS

Lately the predominant theoretical line, which considers that the use of an accounting system with an accrual basis in the sector of public administrations has implied several practical problems in the countries where the process has been taken to its last consequences. Public administrations have opted for the use of the same practice of the commercial sector, since they consider this approach to be essential to reach consolidated financial statements supporting an efficient management of the resources administered by these public entities. This process has produced wide range of doctrinal literature, which appreciably differs from the dominant approaches which had been applied. Practical difficulties and doctrinal arguments had had, and are still having, a high degree of intensity when some fixed assets are subjected to the new approaches. This paper will focus on the most significant cases.

Heritage assets are elements of tangible nature characterised by historic, artistic, architectural, aesthetic, scientific, technological, geophysical or environmental features<sup>4</sup>. As we can see, they are elements with specific qualities which single them, make them unrepeatable, with an unlimited lifespan as such, their lifetime does not cause a depreciation but in some occasions increases their intrinsic virtues since their origin goes back to hundreds or thousand of years ago. On the other hand, their historic cost is unknown due to the fact of the conditions of their production or acquisition as most of the times they come from donations or rescues paid by the present entity which owns it whose individuality means there has not been a parallel transactional process that allows to apply a price according to similarity.

This brief explanation let us show the inherent difficulties these elements present to be framed in a normalized accounting system designed for decider-users, which start at some premises which must permit the accounting *description* of the element dealt with, among which the measurable *utility* of the element is a key premise for its own existence and subsequent valuation.

The claims in favour of the already signalled situation of relocation of management techniques, used in accounting in the private sector entities. These claims take as their reference in the international environment the following paper: International Accounting Standards (IAS) n° 16, *Property, Plant and Equipment* (IASB, 2005), starting point for its counterpart International Public Sector Accounting Standards (IPSAS) n° 17, on behalf of the IPSASB.

We must point out that although IAS n° 16 does not specifically deal with heritage assets, they are not excluded from the application<sup>5</sup> sphere. IPSAS n° 17, due to the particular problems these assets can present when elaborating useful financial standards for their addressees' needs, make some declarations differentiating them from the beginning from the rest of elements as regards their recognition and valuation (IFAC, 2001, paragraphs 7-10).

IPSASB, being aware of the special complexity the presence of heritage assets supposes for the reading of financial statements in the sphere of public institutions, starts in 2006 its own work-mechanisms, which are initially defined in the above mentioned publication *CP Accounting for Heritage Assets Under the Accrual Basis of Accounting*, taking as a reference *DP Heritage Assets: Can Accounting Do Better?* (ASB 2006a) which raises

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<sup>4</sup> They are characteristics taken from the definitions in different standards dedicated to this type of assets, particularly, or to non financial fixed assets in general (FASAB, 1996; 1999; 2005), (IFAC, 2001), (Financial Reporting Standards Board (FRSB), 2004) from New Zealand, (ASB, 1999; 2006a; 2006b), (Chartered Institute of Canadian Accounting (CICA), 2006).

<sup>5</sup> Since only are excluded from their influence biological assets related to agricultural activities and rights and mineral reserves.

some questions which are established as the work basis for a deeper development, from the point of view of accounting, on information about these assets of such a special nature, information given in the initial contents on this matter on their IPSAS n° 17 (IFAC, 2001).

### 3.1. CONCEPTUAL ASPECTS

CP (IFAC, 2006) starts from the consideration that these elements represent assets for their controlling institutions, following the ASB<sup>6</sup> criterion. This last organization justifies its argument explaining that they represent true assets for the entities that control them since they fulfil their objectives for the supply of present and future services, not because of the cash flows they can generate but because they constitute community services and they are “the true future economic benefits”. Also, ASB arguments that the theoretical inalienable condition of these assets for the entities which control them cannot be considered as solid restriction (ASB, 2006, paragraph 7) for these elements to be excluded from the set of assets since these are the central axis of the activity in many occasions, so it would be unconceivable the prohibition of their sale were an obstacle for the recognition of these elements. Different factors such as their utility, their contribution to the objectives of the entity or the reliability of their measurement that determined their accounting treatment (ASB, 2006a, paragraph 1.18), apart from the fact that these appear differentiated from the rest of assets of the entities’ balance sheet.

As we can observe the approaches of IPSASB (IFAC, 2006) and ASB (2006a; 2006b) consider heritage assets as assets regardless whether they can be sold or not. Consequently, financial statements, which should try to inform at the current value, should include heritage assets as such in the balance sheet of the entity provided that valuation approach be feasible (IFAC, 2006, preface paragraph 13) (ASB, 2006b, preface paragraph 6iii), and they are specifically used to obtain the objectives particular to their kind; in the case of their use for different purposes, such as administrative or educational uses, they will not be considered heritage assets but following the FRS 15 agreement (ASB, 1999; 2006b, paragraph 6). The case of a non-recognition approach of the elements<sup>7</sup> is also observed. In this case they will not figure in the balance sheet of the entity, an adequate explanation of the reasons to do so must be given and also mention the elements under this situation (IFAC, 2006, paragraph 3.18) (ASB, 2006b, paragraphs 15,16,20 and 22). This seems logical if we consider the starting point of these studies IPSAS 17 *Property, Plant and Equipment* (IFAC, 2001) and FRS 15 *Tangible Fixed Assets* (ASB, 1999).

However, this attitude should not lead us to the hasty conclusion of an existing unanimity in the doctrine, contrariwise there is plenty of literature that adopts a critical position on this matter, and there exist also dissenting professional approaches<sup>8</sup>.

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<sup>6</sup> We must point out that, at first, the objective of the origin of DP *Heritage Assets: Can accounting do Better?* (ASB, 2006a), is different from that leading IPSASB (IFAC, 2006) to the question of these problems in public administrations. The first tries to solve or give a reasonable answer to the problems in entities whose finality is their own management of this type of assets such as museums and art galleries obliged to report their balance sheet after the publication of the Financial Reporting Standard (FRS) 15 *Tangible Fixed Assets* (ASB, 1999).

<sup>7</sup> Regarding situations in which these elements do not have to be reported in the asset, when it is not feasible to obtain an appropriate information of the cost and conventional valuation methods cannot be applied being the cost to obtain the information excessive compared to the benefit the information provides.

<sup>8</sup> Thus, CICA (2006) in its PS 3150 considers that “artworks and artistic treasures” should not be recognised as fixed assets in public financial statements although in a previous study (1989) *Accounting and Reporting for Physical Assets by Governments*, had been in favour of the opinion that heritage assets fulfilled the requirements to be recognized as assets; ASBS (2005) considers that they should not be reported as assets in the entity’s financial statements but relevant information should be given in complementary notes; FASAB (2005) prefers a mention of acquisitions, improvements and renewals, ...of heritage assets as the cost of the period, including non- monetary information in the notes; New Zealand Society of Accountants opted for the description in physical terms of these elements in a Resources Statement. Contrariwise other professionals pronouncements share the general approach of IPSASB (IFAC, 2006) and ASB (2006a; 2006b),

Regarding heritage assets there are many authors who consider problematic their inclusion within the category of asset due to several reasons. Among these we can mention Mautz (1981; 1988), Pallot (1987; 1990), Barton (1999; 2000; 2005), Hooper et al. (2005), Glazer & Jaenicke (1991), Carnegie & Wolnizer (1995; 1999) and Stanton & Stanton (1997).

For some authors, the problem has a generic origin, which lies in the evolution followed by public accounting since concepts developed in a market environment were transferred to a different context outside the market sphere. This fact makes this process arguable since it is based on weak suppositions which ignore social, institutional and legal contexts and also the subjectivity of the concept of cost when it is applied to particular elements as heritage assets (Stanton & Stanton, 1998, p. 201).

The most critical position is that represented by Mautz (1981), who basing his approach in the true fact that many elements which originally comprise the patrimonies of the public sector entities originate a net permanent flow of funds outside the entity. This is due to the fact that the services provided by these elements are freely offered to the community or with a very low price but its maintenance cannot be covered by the revenues, if any. Mautz rejected the character of asset to these goods and denominates them liabilities and subsequently, due to the severe criticism, he had to clarify his opinion (Mautz, 1988). He considers that these goods do not agree with the requisites of generating such obligations as to qualify them as liabilities, so he creates a new typology that of *facilities* to define those assets that generate negative cash flows in their habitual performance in the entity and considers that they can become assets in the case their sale was decided, in this way they would consequently provide a positive net flow to the entity (Mautz, 1988, p. 125). The clarifications introduced in the definition of “asset” in their standards and used by several British professional accounting associations<sup>9</sup> which incorporate the expression “potential services or future benefits” could be considered an argument to overcome the above mentioned objections and make “heritage assets” become a part of the accounting category of asset. Nevertheless, for this to be so, there should be accepted the argument, controversial for some, that benefits which in fact accrue to the community at large, are benefits for the managing entity whose task is to facilitate their supply (Pallot, 1997, p. 231).

Pallot (1990) challenges Mautz’s (1981; 1988) position although she sustains the same opinion in some aspects. She proposes a special category of elements of assets for public entities with the nomenclature of *community assets* as a better option than Mautz’s *facilities*. She bases his proposal upon the fact that many of the elements which comprise public patrimony, basically infrastructures and “heritage assets”, require an specific accounting treatment whose pillar relies on the analysis of their presence in financial statements, valuation problems and considering the depreciation (Pallot 1987; 1990).

The accounting treatment to be given to public fixed assets should be first to analyse their condition of accounting assets, which is determined essentially by two aspects: assets as resources and assets as propriety (Pallot, 1990, p. 81-83). In the case of assets as resources, Pallot distinguishes the assets as mere inputs from those assets in the activity of the entity which come close to the output and of free access to citizens. This is the case of parks, monuments or highways. Both categories would be conceptually different and, consequently, should receive a separate treatment in informative reports, being the latter specific and typical of public entities and should be included under the nomenclature of *community assets*. Three are the characteristics that define

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as in the case of Government Accounting Standard Board (GASB) (1999), Australian Accounting Standard Board (AASB) (2004) or New Zealand Financial Reporting Standard Board (FRSB) (2004).

<sup>9</sup> Reference in IPSAS 1: *Presentation of financial Statements* (IFAC, 2000, paragraph 7).

them as propriety: The right to manage them and make decisions on their regard, the right to the deriving benefits and the right to dispose of the elements either for its sale or mere destruction. This second aspect has not been given the importance it deserves (Pallot, 1990, p. 82) though some contributions such as the one provided by Ijiri (1975, p. 51) regarding the degree of control on the assets in the process of accounting. Among special fixed assets there are frequently limitations regarding the use to be given to the element, as well as regarding its disposal, for legal reasons as well as for other reasons derived from firm social positions that prevent it. Besides, this type of goods suffers from limitations regarding the possibility of restriction of use or access to them, beyond the imposition of some fees or organised restrictions that could rationalize their use. All these are questions that complicate their consideration as assets for this type of goods.

Another criticism that should be highlighted is Barton's claim. He maintains (Barton, 2000, p. 222-24) that, given the appreciable differences among the assets in the patrimonies of commercial entities and those he prefers to call public heritage facilities<sup>10</sup>, according to Mautz's nomenclature, making accounting principles that are usually used in the lucrative sector is not appropriate for this type of goods.

*Public heritage facilities* satisfy, according to Barton (2000), the requirements to be considered *public goods*<sup>11</sup>, normally called by Musgrave & Musgrave (1988) *mixed public goods*. Barton sustains that they do not satisfy the conditions established to be considered an asset for two reasons. First, no future economic benefit can be expected from them, either as a rent, services are free for the people or at a negligible charge, or as added value from disposal, being limited their availability by law and /or determining social conditioning. Second, the managing entity does not usually have full control of it as in private properties since the positive consequences from its use fall on the society via externalities without existing the possibility of excluding from the benefits of use those individuals who do not pay the negligible price. Contrariwise these individuals will benefit from them instead of the managing entity (Barton, 2000, p. 224-25). This opinion basically agrees with Mautz's (1988) denying the condition of asset to these elements which are part of the patrimony of public local entities.

However, unlike in Mautz's (1981) claim they are not liabilities (Barton, 2000, p. 228-29) either since there is not any specific future commitment towards an external particular individual as negative cash flows will appear as the result of the services they will be rendering.

Barton (2000, p. 230-32) considers "goods in trust" as the most adequate nomenclature since their propriety belongs to the citizens rather than to the entity that elaborates their financial statements.

This is due to all the peculiarities these goods objectively show, which led to their nomenclatures of *facilities*, *community assets*, or to be included within the category of *public goods*. Among their characteristics are: they have an unlimited life, they generate services for the people's benefit and not for the managing entity which has a limited control over them not only of their use but also of their disposal, they should be regarded as cultural, historic, artistic or environmental values that have to be preserved for future generations. In consequence the assets used by administrations for their current management should not be mixed with those other elements under their custody, they should be reported separately.

Glazer & Jaenicke's (1991) starting point is a generic position reluctant to the present tendency related to the transfer of behaviour and accounting rules originally from the lucrative environment to the non-lucrative one.

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<sup>10</sup> Apart from the particularities that are usually cited as distinctive of heritage assets compared to the rest of fixed assets, Barton pointed out that they are not physical characteristics what differentiate them, as a last resort, since many types of *heritage assets* are also included in private entities' patrimony, but public entities' objectives for these goods (Barton, 2000, p. 222).

<sup>11</sup> The nature of public good comes from the existence of externalities which make some type of good or service be socially better offered by public governments than by private entities through market.



Thus, they are critical with the application of the concept of asset to the heritage assets. They consider that this concept has been defined for a different sphere and does not take into account the special circumstances these elements present. In their opinion these circumstances hinder the criteria of recognition of them as such.

On the other side, we can find researchers who defend the reality and need of such recognition. Thus, Micallef & Peirson (1997) argue against Carnegie & Woltzner's (1995) position about the fulfilment or non-fulfilment of the definition of asset and the satisfaction of the requirements of recognition as such of heritage assets since their approaches lack an adequate foundation although they admit that there exist problems related to the measure and valuation of some types of these elements. Hone (1997) stated his strong support for the need for recognition of heritage assets, reasoning about management aims and control of the activity of their managers. Serious valuation problems are recognised by Hone mainly in the case that the services heritage assets offer the community, and upon which their consideration as an asset is conceptually based, have no market for a referential value to be found.

In view of the disagreements regarding whether these elements should be considered as assets or not and taking as a starting point that they are, we should deal with the elements that can be considered heritage assets. Our basis for this paper will be the CP (IFAC, 2006) taking as a reference DP of ASB (2006a, paragraph 1.16) which defines it as "an asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture and this purpose is central to the objectives of the entity holding it". In this definition there are three fundamental aspects that must be distinguished: in the first place the intrinsic characteristics of the element; secondly the objectives justifying its use; thirdly that such objectives are configured as central in the activity of the holding entity.

The first aspect does not present any problem since it is a mere enumeration of the *virtues* which cover a broad spectrum and whose philosophy does not create appreciable arguments by themselves. It could only require the explicit incorporation of any specific nuance.

The second aspect of the definition, its contribution to knowledge and culture, requires a thorough consideration. The case of some assets should be considered. Assets such as historical, artistic or symbolic buildings, which are given administrative, or accommodation uses, for example, should be considered. The aspect of the definition does not seem to be fulfilled in these circumstances. Consequently, they should not receive the consideration and accounting treatment of heritage assets. This seems to be the opinion of the SFFAS 29: *Heritage assets and stewardship land* (FASAB, 2005). For this standard in the case of predominance of some other functions of the entity's activity, the elements would not be heritage assets in accounting terms but Multi-use Heritage Assets and would receive an accounting treatment that would not differ from that applied to any other tangible fixed assets. In this last norm where the above-mentioned virtues are basically pointed out, there should be distinguished those which can be shown or are object of exhibition from those without a collectable character. This differentiation will explain in great measure the subsequent applications and the direction followed by the definition given by ASB (2006a) and assumed by IPSASB (IFAC, 2006).

The last of the differentiated aspects of the definition about the need of a coincidence of the objectives of the heritage assets and those of the public entity in control, has received dissenting opinions. For example, a public entity of general character, such as a local entity, giving a variety of services to the citizens, not being the basic aspect of its existence a cultural purpose. However, in many cases it has the ownership of these type of goods, an

as such they should be recognised and treated<sup>12</sup>. The many critics and opinions signal that the definition of this type of assets should be neutral. It should only take into account only the own nature of the elements. In consequence, similar transfers made by different type of entities should have identical accounting criteria. All this seems to have been enough for ASB to eliminate the third point of the definition of the concept in the elaboration of the accounting ED related to these type of goods (ASB, 2006b, paragraph 4).

### 3.2. VALUATION APPROACH

Both IPSASB (IFAC, 2006) and ASB (2006a) have chosen the preferential already mentioned criterion, if possible, of the valuation approach recognizing heritage assets at current value applying the most reasonable methods (ASB, 2006b, paragraphs 8-11). This means, where possible, the cost of acquisition for the elements incorporated to the current period and for those previously incorporated at market current values (IFAC, 2006, paragraph. 4.6). Considering that the informative objective aimed at with the inclusion of heritage assets in the financial statements of non-lucrative entities which require frequent valuations to their current value (ASB, 2006b, paragraph 14), the use of depreciative and impairment accounting policies is unnecessary for these elements (ASB, 2006b, appendix 1- paragraph 28)<sup>13</sup>.

As we can see these documents favour a purely financial accounting approach in one of the most extreme options<sup>14</sup> being many and different the received critical opinions, we have already mentioned, about the accounting consideration of such goods. There have been many proposals of valuation in the last years. Thus, Micallef et al. (1994) after having analysed several alternatives of valuation criteria to be applied to heritage assets, such as deprival value, historic cost, current value, net market value, concluded that deprival value<sup>15</sup> was the best proposal. Rowles (1992) proposes several criteria according to the type of goods: sale price in the case of museums art collections or national parks, current replication cost for historical buildings or zero value for assets without alternative use for monuments.

Glazer & Jaenicke (1991) following the critical position to the present accounting system for *heritage assets*, and given the peculiarities of these elements, old age among them, consider that a fair valuation of them may be questionable, what makes very difficult the possibility of recognition as assets of these elements.

Barton (2000, p. 228), inspired by arguments inclined to the social purpose, circumstance that should always be present in their valuation, considers that commercial valuation may not be a reasonable approach since it ignores social benefits.

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<sup>12</sup> This aspect provoked the most critical responses to CP we can make reference to those of 21st July by New Zealand Institute of Chartered Accountants, or 11th May by Financial Reporting Advisory Board, indicating not to understand the broad scope of definition for heritage assets which includes natural reserves, coasts, historical buildings or archaeological sites, when according to the objectives of the entities' in charge and control of them, usually so generic, not being their central and operational objectives, they should never be accounted for as heritage assets.

<sup>13</sup> In coherence with that (ASB, 2006b, paragraphs 2and 28) tries to correct paragraph 5 of FRS 11 *Impairment of Fixed Assets and Goodwill* (ASB, 1998) in order to exclude heritage assets from its application.

<sup>14</sup> IPSAS 17 (IFAC, 2001), which contemplates up to now accounting treatment of heritage assets, recommends a valuation behaviour similar to that of the rest of elements of the operational tangible fixed assets whose option is between the cost method and revaluation on the basis of fair value, consequently depreciation and impairment of limited useful life goods should be determined. Impairment need not be determined in the case the revaluation method is applied as frequently as the norm dictates. Similar indications are gathered by FRSB (2004, paragraphs 29-31) and AASB (2004, from paragraph 29 on). Different indications given by FASAB (2005), ASBS (2005), NZSA (1987) and CICA (2006) which do not deal with this matter due to the initial lack of recognition. FASAB (2005) favours the criterion of historic cost applying adequate depreciations in case the elements have a limited useful life and the character of multi-use, inspired in the philosophy of accounting statements as adequate management elements for the determination of costs of public services.

<sup>15</sup> Being this defined as the least between the entry and the fair value, considered the former as the replacement value. For more information see Peasnell (2005).

Such as existing accounting systems are articulated, Stanton & Stanton (1998, p. 200) highlight that, usually, when recognising an element in a financial statement, its valuation should be realised in terms of its capacity to contribute to the objectives of the controlling entity. If the value of these services cannot be measured, the opportunity cost cannot be established with reference to arbitrary alternatives that could be in conflict with the entity's objectives. We must not forget that the opportunity cost of any resource is its own value in some other possible uses, provided that the use can be transferred to a different one. This quality is difficult to be established for unique assets such as monuments or artworks (Stanton & Stanton, 1998, p. 199).

In any case, the accounting treatment to be applied to heritage assets does not depend univocally of the nature of the element, but we would find ourselves in a ground where two conditioning basic factors would meet since, together with this aspect, the kind of entity the element depends on should be considered (Hooper et al., 2005, p. 414). Rentschier & Potter (1996), Carnegie & Wolnizer (1999) and Barton (2000) share the same opinion that when a good considered as heritage assets is under control of a non-business public entity their accounting treatment should be different from that applied to the other type of assets of the same entity. Whereas in the case of being in business entities, whose goods have the same physical characteristics as this kind of elements that could be accounted for in a similar mode to those without these characteristics. This could happen because it is the role the good plays in the entity's activity, the destiny of the services they provide (offered freely to individuals belonging to a community in a non-excludable mode in contrast to the services offered in an excludable mode under market price), characteristic that gives or denies them their condition as heritage asset rather than their own nature and determines their accounting treatment. "The markets in which the assets and their services are provided are the relevant determinant of the appropriate method of accounting for them, and the markets provide the basis for their valuation" (Barton, 2005, p. 436). Considering that the economic sector is neutral with regard to the valuation treatment to be given to a concrete element is not an adequate approach because "it ignores this fundamental determinant<sup>16</sup> of value" (Barton, 2005, p. 436).

Together with the problem of the valuation criterion is the consideration of depreciation. For Mautz (1989, p. 62) as they are not assets, it is not reasonable to think that these goods can be object of depreciation. This negative opinion is also maintained by Pallot (1990, p. 83-84) for different reasons: the problems related to the difficulties of calculating reasonably their cost due to its unique character or age; the long or indefinite length of their useful lives; the non-existent of a procedure of substitution for irreplaceable elements.

Pick (1970), without forgetting that *depreciation* is not a univocal term but it has different connotations, identifies six basic components of depreciation: impairment, provision for replacement, cost measurement, valuation, capital maintenance and taxes, among these components it has to be considered that some present serious incompatibilities for elements which have among their characteristics those of an indefinite useful life and the fact that they are irreplaceable.

In any case, in this public context we are, we should point out that political managers as well as citizens are reluctant to incorporate this concept with its traditional meaning to their management reasoning.

### **3.3. DISCLOSURES AND USEFULNESS OF THE INFORMATION**

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<sup>16</sup> The argument that explains in terms of considering physical conditions of an element as non-determinant of its accounting treatment, conditioned by the role it plays in its entity, being similar to that used within the European plans of continental accountings, in which a specific good receives the name and treatment within the category of use or exchange good, even differentiated within this category, by virtue of the role it plays in the firm, the type of firm to whose patrimony it belongs.

Proposals of IPSASB (IFAC, 2006, paragraphs 18-25) and ASB (2006, paragraphs 5.1-5.18) are aimed at and justified toward the objective of providing enough information for appropriate process of decision taking on behalf of the usual user of the entities' financial statements which include these type of assets in their patrimonies. This information will allow comparison within successive periods and between similar entities, detailing the destiny of investments made in acquisition, maintenance and restoration, as well as the resources derived of their disposal

Depending of the possibility or impossibility of the application of the recommended approach, it means, its recognition in the entities' patrimonial assessment, informative requirements might obviously be different. In the case these elements could be gathered as assets the patrimonial statement, among some other circumstances, there should be specified: the criterion of valuation applied at the corresponding date, whether this process has been carried out by external experts and their identification, as well as valuation limitations that might have led to non inclusion of certain assets. In the case these goods are not reported in the statement of the patrimonial position, since they do not fulfil the corresponding requirements, this information should be disclosed through notes apart from being justified, information related to the operations carried out during the last five exercises will be included, also the present period, informing about the costs of acquisition, the value ascribed to those acquired through donations, the income received from the sale of these elements, among others. In any case and independently of the option taken, description and the number of elements under the same circumstances, management, accounting, conservation, acquisitions and financing methods respectively must be provided.

This justification based on the usefulness of the information from public entities about the elements of this nature for their habitual users in the process of decision taking. This approach is argued by Glazer & Jaenicke (1991, p. 42-43) who declared that, it is arguable whether it could become useful the incorporation of these type of elements following the orthodox mode of considering them assets and their financial valuation as such for habitual users of financial statements of these entities of non-lucrative nature. This is due to the particularities and special aims justifying the presence of these goods in many non-lucrative entities' patrimonies.

Furthermore, and following a similar line of argument it could be considered that these goods, as already explained, lack a certain measurable value since they are not assets, Barton (2000, p. 229-30) explains that their inclusion in the titular entity's financial statements would provide a misleading and useless information on the entity's situation. This problem is originated not only from the point of view of their possible profitability, which they do not provide, but also about the liquidity or solvency, which can doubtfully be expected from their contribution. This last aspect is due to the fact that these elements do not originate positive cash-flows neither from offered services in most occasions nor from disposal according to the reasons we have already mentioned. Consequently when informative statements are elaborated by public entities with this type of goods in their patrimonies they should take into consideration their specific nature and information be reported separately including physical characteristics, number of visitors, description of their physical conditions, prevision of maintenance costs and major restoration as well as income and expenditure related to their activity. Depreciation charges of heritage assets should not be included in the entities' ordinary financial statements of assets and liabilities (Barton, 2000, p. 232-34).

The informative separation between *community assets* and the rest of fixed assets takes shape as essential for Pallot (1990, p. 84-85), at the moment of reporting financial statements which reflect clearly the reality of the public entity from which they come from, given the different roles and importance everyone of them play for the

establishment of financial variables of the entity (guarantee, liquidity, ...). On the other side the useful information to be given should not be that related to financial values, but the one that which provides data of the degree of expenditure for the maintenance of these elements (Mautz, 1989, p. 62).

Carnegie & Wolnitzer (1995, p. 37-38) are equally critical with the usefulness of the report on heritage assets in financial terms due to the non-lucrative character of public entities and the recognition of their nature more social than economic of their objectives.

In any case, it must be mentioned that contrariwise to the different opinions shown which support a differentiated treatment of recognition and valuation for heritage assets controlled by non-lucrative entities, other authors committed themselves to an accounting approach of this type of elements, closer to the traditional method applied to assets in lucrative entities, these must be object of recognition and valuation. The argument of usefulness of traditional financial information, elaborated for heritage assets, on which CP (IFAC, 2006) and DP (ASB, 2006a) are supported, is defended as such by authors as Micallef & Peirson (1997, p. 34). In the same sense Rowles (1991) as Micallef & Peirson (1997) think that heritage assets are quantifiable according to market criteria, although they are not the object of a sale procedure. The former argues that many of the characteristics used as the reasons to differentiate and, consequently, give them a special accounting treatment to heritage assets as shared by many usual assets: in the case they do not have a fluent market to assign them value, their indivisible nature, their useful life without established duration, or the fact that their costs are not perfectly determined.

#### **4. FINAL CONSIDERATIONS**

The concept of what has been called “New Public Management” is supported by the idea that accounting in the activity of public entities should allow, besides the strict compliance of current legislation, the valuation of its management under economic and efficiency parameters. This has entailed a process of renewal of the traditional accounting systems.

It has been understood that structures and established and traditionally developed systems in a business environment following the accrual basis criterion could offer adequate solutions for this new approach of public work and this is due to the fact that it does not lose sight of economic and efficiency currents.

In this context, this paper focuses on a type of the tangible assets that frequently can be found in the public sector. We refer to Heritage Assets. These elements present by themselves special difficulties when they have to be reflected in a report system of economical character. Besides, as we have checked through the analysis of different and numerous criticisms, these difficulties exponentially increased when we are placed in the public environment.

Awareness of these special problems has recently been recognised and demonstrated in an institutional way with the recent documents published by IPSASB and ASB taken into account in this paper. These documents have opted, basically, to give them their own treatment but sensibly close to the treatment applied to tangible fixed assets. Nevertheless, they have incorporated some particularities as a result of the differential facts this set of elements obviously present.

The positions taken by these institutions, although they have important theoretical ground and doctrinal support, have suffered a firm opposition from part of the doctrinal sector who bases their disagreement on grounds concerning functions and objectives of public entities: their role in public entities in general, specific problems of

this group of goods (age, lifespan, permanence, indefinite useful life, ...). Besides the impossibility of availability, the fact that they do not generate cash-flows and the subsequent difficulty of valuation are fundamental aspects for the accounting treatment of these elements. One part of this critical sector rejects the character of assets of these elements and propose alternative informative treatments specifically created for these goods. For this treatment the financial aspect is replaced by qualitative ones.

The doctrinal arguments developed on this matter have shown many difficulties and different criteria which a priori find differentiate justifications. All this shows that the transfer from techniques, structures and systems which were developed in a sector which bases its activity following a philosophy exclusively focused on markets present some incoherence in a different sector that, as in the public one, covers aspects outside market explanations.

Transcendence of the problem becomes strengthened if we consider that heritage assets in many cases have a weight of enormous relevance in the body of patrimonies to be managed by public administrations.

Consequently, everything stated justifies the necessity to redefine the general approach followed in the reform of accounting reporting systems in public administrations. There are grounds to take into account the need for proper and differentiated treatments, at least with regard to some questions and elements for which public specificities become of greater transcendence.

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