



GUIDANCE ON ACCOUNTING FOR
HERITAGE ASSETS

MAY 2012

LASAAC [The Local Authority (Scotland) Accounts Advisory Committee] is constituted of volunteer members representing the five funding bodies: CIPFA, ACCA, ICAS, Audit Scotland and the Scottish Government. LASAAC is primarily concerned with the development and promotion of proper accounting practice for Scottish local government. A key task in achieving this is LASAAC's representation on CIPFA-LASAAC which produces the UK-wide 'Code of Practice on Local Authority Accounting in the United Kingdom'.

Further information about LASAAC can be obtained at <http://www.cipfascotland.org.uk/technical/lasaac.cfm>

The Chartered Institute of Public Finance and Accountancy (CIPFA) provide secretariat support for LASAAC. If you would like to contact LASAAC please communicate with

Contact: Gareth Davies
Policy & Technical Officer
CIPFA in Scotland
Beaverbank Business Park
22 Logie Mill
Edinburgh
EH7 4HG
lasaac@cipfa.org.uk

LASAAC Guidance: Background

1. This paper provides non-mandatory guidance on accounting for Heritage Assets as required by the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 ('the Code').
2. The objective of this paper is to ensure that an appropriate and proportionate approach is taken to the Heritage Assets accounting and disclosure requirements specified in the Code¹.
3. This paper does not replace or restrict the responsibility of finance staff and external auditors to exercise their professional judgement in relation to Heritage Assets. This paper is intended to provide assistance to all parties in fulfilling their statutory and professional obligations.
4. This paper does not seek to fully replicate or restate the requirements of the Code or other published guidance².
5. It is recognised that authorities will by now have already made determinations and set accounting policies for 2011/12. This paper may be used to support discussion between finance staff and external auditors of those accounting policies.

Objective of Heritage Asset Accounting

6. The requirements for tangible heritage assets are based on FRS 30 'Heritage Assets'³, issued by the Accounting Standards Board, which states:

"The objective of this FRS is to ensure that:

(i) enhanced disclosures apply to all heritage assets, regardless of whether they are reported in the balance sheet; and

(ii) where information is available on cost or value, heritage assets are reported in the balance sheet."

7. FRS 30 Appendix I provides details on the objectives and considerations leading to the publication of the standard. Paragraph 8 states "The Board has therefore concluded that the main improvement in the financial reporting of heritage assets will be secured by issuing a new FRS that requires enhanced disclosures for all heritage assets, regardless of whether they are reported in the balance sheet."

8. The requirements for intangible heritage assets are based on the content of IPSAS 31 'Intangible Assets'. The code requires recognition of intangible heritage assets on the balance sheet where the authority has information on cost or value.

¹ Primarily detailed in section 4.10 of the Code 2011/12

² Including (a) CIPFA Guidance Notes for Practitioners 2011-12 Module 4 Section N page 598 onwards; and (b) see also FRS 30 Heritage Assets Appendix II

³ FRS 30 is available at

<http://www.frc.org.uk/images/uploaded/documents/FRS30%20Web%20Optimised2.pdf>

9. LASAAC considers that a prime goal of applying FRS 30 and IPSAS 31 to heritage assets is to ensure that the financial stewardship and management of heritage assets is properly presented in an authority's financial statements. This presentation should be consistent with providing a true and fair view of the organisation as a whole in the financial statements.
10. In achieving this objective finance staff and external auditors may wish to consider the aspects noted below when exercising their professional judgement, including the assessment of the appropriateness of any de minimis level adopted.

Qualitative Characteristics of Information in the Financial Statements

11. The Code identifies five qualitative characteristics relating to information provision that should be considered by finance staff and external auditors. These are: Understandability; Relevance; Materiality; Reliability; and Comparability
12. The following Code excerpts may be relevant in this regard (NB only selected sentences from each paragraph are cited):
 - 2.1.1.4 "A true and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Code."
 - 2.1.2.7 "An authority need not comply with the Code, as to both disclosure and accounting principles, if the information is not material to the true and fair view of the financial statements and to the understanding of users" The paragraph also indicates that materiality assessment should consider the nature of the item. This may be particularly relevant in the context of heritage assets.
 - 2.1.2.8 "to be useful, information must also be reliable." The paragraph outlines criteria for assessing reliability, with more detail in paragraphs 2.1.2.9 - 2.1.2.13. Paragraph 2.1.2.13 notes that "To be reliable, the information contained in financial statements must be complete within the bounds of materiality and cost."
 - 2.1.2.15 "In practice, a balance between the qualitative characteristics is often necessary. Generally the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgement."
 - 3.3.2.9 "When the Code specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Code. Those policies need not be applied when the effect of applying them is immaterial."
 - 3.4.2.25 "A local authority need not provide a specific disclosure required by the Code if the information is not material."

Cost – Benefit Considerations

13. In relation to Heritage Assets the Code explicitly allows finance staff and external auditors to consider costs and benefits in determining the correct treatment of Heritage Assets. This occurs in relation to two specific decisions:

- Should a heritage asset be recognised on the balance sheet? – see paragraph 4.10.2.6
- Where a heritage asset is recognised on the balance sheet is a current valuation required? – see paragraph 4.10.2.8

Practice in Other Organisations

14. It may also be helpful to consider the practices and approaches adopted by other organisations, particularly national museums and galleries, in relation to their collections. It should be noted that the accounting requirements and legal framework for such bodies differs from that for local authorities.

15. FRS 30³ Heritage Assets (Appendix I paragraph 5) indicates the basis for the previous accounting arrangements were the requirements of FRS 15 '*Tangible fixed assets*' and the Recommended Practice (SORP) for Charities. Paragraph 3 of FRS 30 Appendix I states that, prior to FRS 30, "Although a few museums and galleries account for their heritage assets at valuation, most adopt an approach under which assets purchased in 2001 and later years are reflected in the balance sheet at cost but previously acquired assets are not."

16. Reference to current practices in other organisations could include:

- National Museums Scotland (see Annual Accounts 2010-11 at : http://www.nms.ac.uk/about_us/about_us/corporate_information/annual_review_and_accounts.aspx)
 - i. Accounting policy disclosures (Note 1(o) page 29) indicate:
 - Artefacts acquired since 1 April 2001 are included at cost
 - Depreciation is not charged
 - Artefacts held at (i.e. acquired before) 1 April 2001 are not included on the balance sheet
 - Reliable cost or valuation information cannot be obtained
 - Reference to the separately available management policy for heritage assets is made
 - ii. Analysis of Heritage Assets movement in year / five year history (Note 7 page 37) includes the statement: "National Museums Scotland considers that valuation of the 4 million objects in the collections would be impracticable."
- National Galleries of Scotland (see http://www.nationalgalleries.org/media/files/annual_accounts_101_1_final.pdf)

- i. Accounting policy disclosures (Note 1 (c) page 33) indicate:
 - o Acquisitions since 1 April 2000 have been capitalised at cost or value, where value is reasonably attainable
 - o Items are not depreciated "as the assets are deemed to have indeterminable lives"
 - o "... the Trustees do not consider that the cost of valuing this part of the collection is commensurate with the benefits to the users of the financial statements"

- ii. Analysis of heritage assets movements in year / five year summary (note 15 page 44) includes text disclosure of significant acquisitions