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CASLB/G/10

September 27, 2017

Mr. Ian Carruthers
Chairman,
International Public Sector Accounting Standards Board,
The International Federation of Accountants,
277 Wellington Street West,
Toronto, Ontario M5V 3H2 CANADA

Dear Ian Carruthers,

Sub: Comment on Consultation Paper on '*Financial Reporting for Heritage in the Public Sector*'

We are pleased to provide comments on the Consultation Paper on '*Financial Reporting for Heritage in the Public Sector*' issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC). Our comments are enclosed with this letter.

Please feel free to contact us, in case any further clarification in this regard is required.

Thanking you,

Yours sincerely,

(CA. Rajesh Sharma)
Central Council Member & Vice-Chairman
Committee on Accounting Standards for Local Bodies
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Encl.: As above



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Comments on the Consultation Paper on 'Financial Reporting for Heritage in the Public Sector'

General Comment:

Paragraph 3.4 of the Consultation Paper states that heritage items may also provide services that contribute to achievement of an entity's objectives, for reasons other than their heritage characteristics. For example, a heritage building being used as office space:

- It is not clear from the Consultation Paper (CP) whether accounting for heritage assets mentioned in paragraph 3.4 is within the scope of the proposed Standard on Heritage Assets, i.e., whether recognition and measurement principles as laid down as per this CP would apply to these assets as well or the same would be covered/ accounted for as per the other relevant IPSASs such as IPSAS 17 (for such tangible heritage items) and IPSAS 31 (for such intangible heritage items):
 - In case where IPSAS 17/31 is applicable, it needs to be considered that the said Standards only prescribe Fair Value measurement at initial recognition in case of assets acquired through non-exchange transactions. These IPSASs do not provide any option of valuing the assets at symbolic/ nominal value of one currency unit in any case. Therefore, the measurement basis provided in those Standards would require reconsideration so as to be applied to the aforesaid assets.
 - In case the said assets are to be covered within the scope of the heritage assets proposed to be covered by this Consultation Paper, the same need to be excluded from the scope of the IPSAS 17/31 as currently these IPSASs prescribe to meet the disclosure requirements prescribed therein if such heritage assets meet the definition of and recognition criteria for Property, Plant and Equipment/Intangible Assets. The option of applying the measurement requirements as prescribed in these IPSASs is also available to the entities in case of the said assets. Therefore, the said IPSASs would require appropriate amendments as a consequence of the principles being proposed in this Consultation Paper.
 - In situations where any heritage assets is being used partially as heritage and partially in the achievements of entity's objectives, e.g., as office building, explanation/clarification should be provided in the Consultation Paper with regard to their accounting.



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- We are, however, of the view that the heritage assets used by an entity for purposes other than heritage should continue to be covered by IPSAS 17/31.

Specific Matters for Comment – Chapter 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?

If not, please give reasons and identify any additional characteristics that you consider relevant.

ICAI's View:

We suggest that the following characteristic in paragraph 1.7, '*Characteristics of Heritage Items*' may be considered for inclusion:

These are generally inherited or discovered.

Paragraph 1.7(a) may be amended as follows:

These are often irreplaceable because of significant history attached to it.

Preliminary View - Chapter 2.1

For the purposes of this CP, the following description reflects the special characteristics of heritage items and distinguishes them from other phenomena for the purposes of financial reporting:

Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and/or significance in relation, but not limited, to their archaeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.



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ICAI's View:

There can be heritage assets with 'religious' significance, therefore, the term "religious" may specifically be considered for inclusion in the above description. In many jurisdictions, the term "religious" and "cultural" may have different connotations.

Preliminary View--Chapter 2.2

For the purposes of this CP, natural heritage covers areas and features, but excludes living plants and organisms that occupy or visit those areas and features.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

ICAI's View:

We broadly agree with the views of the IPSASB to exclude living plants and organisms from the scope of this Consultation Paper. However, it needs to be clarified that under which IPSAS, the same would be dealt with.

It is important because there can be heritage living plants/trees that are being preserved by an entity for generations. For example, in India the "Bodhi tree" situated in Bihar State is considered as a sacred tree and being preserved due to its significant religious history since Gautama, the Buddha, is said to have attained enlightenment under that tree.

Another example could be a tree named as "Parijaat" tree which is considered to be a symbol of divinity and sacredness. This tree is also being preserved from generation to generation in a state (Uttar Pradesh) in India due to religious history attached to it. It is one of its kind tree that is enshrined in the Hindu mythology.

Preliminary View – Chapter 3

The special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.



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ICAI's View:

Yes, we agree that the special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting.

Specific Matters for Comment – Chapter 4.1

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?

If so, please provide your reasons.

ICAI's View:

Yes, we agree with the views of IPSASB to initially recognise heritage assets at "nominal cost of one currency unit" in case of the situations described in Consultation Paper.

Preliminary View – Chapter 4.1

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

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

ICAI's View:

Yes, we agree with the views of IPSASB that Heritage Assets should be recognised in the Statement of Financial Position if they meet the recognition criteria in the Conceptual Framework.

Specific Matters for Comment – Chapter 4.2

Are there heritage-related situations (or factors) in which heritage assets should not initially be recognized and/or measured because:



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- (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.

ICAI's View:

We understand that ascertaining the true value of some heritage assets, especially those that have been inherited, is very cumbersome. However, keeping in view the benefits of recognising the heritage assets in the financial statements as stated in paragraphs 4.34 & 4.38, it is suggested to record all heritage assets in the financial statements even in cases where it is not possible to assign relevant and verifiable monetary value, as the same may be measured and recorded at symbolic/nominal value of one currency unit. In this case, the issue of cost-benefit constraints would also not arise.

Preliminary View – Chapter 4.2

In many cases it will be possible to assign a monetary value to heritage assets. Appropriate measurement bases are historical cost, market value and replacement cost.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

ICAI's View:

It is debatable whether the 'replacement cost' method of measurement would be relevant base of measurement in respect of Heritage Assets (as "irreplaceability" is one of the characteristics of the heritage assets as identified in this Consultation Paper). It is also felt that 'replacement' of any heritage asset would result in losing its significance as a heritage asset.

Paragraph 4.22 of the Consultation Paper refers to the Conceptual Framework that replacement cost equates estimated reproduction cost, and restoration means to reproduce as closely as possible, the heritage aspect of the original item. It is felt that 'replacement' and 'restoration' could have different connotations. While 'restoration'



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of a heritage asset may retain its heritage significance, its 'replacement' with another asset would not do so. It is, therefore, imperative to explain both of these terms and provide explanation and clarification how replacement cost can be an appropriate measurement base for heritage assets.

Specific Matters for Comment – Chapter 4.3

What additional guidance should the IPSASB provide through its Public Sector Measurement Project to enable these measurement bases to be applied to heritage assets?

ICAI's View:

As stated above, more explanation needs to be provided with regard to replacement cost and restoration cost. Also, it needs to be stated clearly how replacement cost measurement base can be considered appropriate in case of restoration costs.

Preliminary View – Chapter 5

Subsequent measurement of heritage assets:

- (a) Will need to address changes in heritage asset values that arise from subsequent expenditure, consumption, impairment and revaluation.
- (b) Can be approached in broadly the same way as subsequent measurement for other, non-heritage assets.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

ICAI's View:

We disagree with the aforesaid view of the IPSAS Board, i.e., to deal with the subsequent measurement of heritage assets in the same way as for other non-heritage assets. In this regard, it is mentioned that paragraph 1.7 (c) of this Consultation Paper states that heritage assets are expected to have a long and possibly indefinite life. If that be so, how the requirement pertaining to depreciation as required under IPSAS 17 would apply to the tangible heritage assets.

However, if IPSASB feels that such assets should also be depreciated, it needs to be further clarified that the heritage assets that are being recorded at symbolic/nominal



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value of one currency unit will not be depreciated/impaird/amortised but subsequent expenditure on their preservation and improvement that is being capitalised may be depreciated/impaird/ amortised.

Specific Matters for Comment – Chapter 5

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.

ICAI's View:

As discussed in response to above question.

Preliminary View – Chapter 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.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

ICAI's View:

Yes, we agree that the intention to preserve the heritage items should not result in recognition of a liability.

Preliminary View – Chapter 7

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

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and describe what further guidance should be provided to address these.



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ICAI's View:

It is felt that where heritage assets are being measured at symbolic/nominal value of one currency unit, extensive disclosures may be required which may be additional to those that are provided in other existing IPSASB pronouncements.

Examples of additional disclosures may be:

- Reasons as to why the asset has been measured at symbolic/nominal value of one currency unit.
- Where any subsequent expenditure has been capitalised for the assets recorded at symbolic/nominal value of one currency unit, an additional disclosure may be required to indicate that the amount recorded in the Statement of Financial Position does not indicate the true value of that heritage asset.
 - Expenditure subsequently capitalised in such cases should be disclosed separately otherwise it may create an impression that the said cost represent the full value of the whole asset.