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Our Ref: RTJ/SORP

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FRED 42: Heritage assets

The Charity Commission is established by law as the regulator and registrar for charities in England and Wales and the Office of the Scottish Charity Regulator is the independent regulator and registrar of Scottish charities; and together, we form the joint SORP-making body for UK charities. This response to your consultation is made in our capacity as the joint SORP-making body and reflects the views of our SORP Committee and is informed by round table consultations with those parts of our sector affected by the proposals.

We continue to favour the approach put forward in the discussion paper 'Heritage Assets: Can Accounting do Better?" whereby recognition is based on the practicability of valuing the majority of heritage assets held. We anticipate the retention of the existing FRS 15 based solution will come as a disappointment to many in the sub-sector affected by these proposals.

We welcome the emphasis placed on disclosures in the notes to the accounts. Our view is that good qualitative information as to the nature, scale and importance of heritage assets has greater relevance to the majority of users than is offered by the partial recognition of such assets within the balance sheet.

We remain unsure about how these proposals might be applied by medieval cathedrals, churches, abbeys and artefacts dedicated to worship rather than specifically for their contribution to knowledge and culture. It would be helpful to us to have your view on this issue.

We attach in an appendix to this letter our responses to the specific questions raised by your consultation and to other issues we have identified which we would be happy to discuss with you.

Yours sincerely

Andrew Hind
Chair of Charities SORP Committee

Kirsty Gray
Deputy Chair of Charities SORP Committee

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Question 1.

This exposure draft proposes enhanced disclosures for heritage assets. Do you agree with the proposed disclosures and are there any additional disclosures that you consider would provide useful information.

Paragraph 7

We concur that financial statement should contain an indication of the nature and scale of heritage assets held (paragraph 6).

Paragraph 8

We have significant reservations as to whether the entity's policy for acquisition, preservation, management and disposal sits comfortably within the financial statements. We believe such operational policy matters should be disclosed and explained within accompanying information. In the case of charities we would expect such matters to be addressed within the trustees' annual report. We believe that the ASB should reconsider this proposal and its consistency with its own statements setting out the elements of financial statements.

In the context of public benefit entities a clear explanation of public access is particularly important.

We believe a cross reference from the notes to the accounts to accompanying information, for example, the trustees' annual report is appropriate. However, we have significant reservation about the use of a cross reference to a document that is not available with the financial statements as this fragments relevant information and puts an onus on the user of the financial statements to research operational policies.

Paragraph 9

It seems unusual for an accounting policy note to be used to include 'details' of the assets reported in the balance sheet. In our view appropriate analysis categories within the heritage asset note is the appropriate way for such information to be conveyed. This information would then be enhanced by the indication of nature and scale suggested in paragraph 6 of the exposure draft. We agree that it is appropriate for accounting policies to explain capitalisation policies and measurement bases used.

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Paragraph 10

We concur that where heritage assets are not all capitalised that the notes should provide users with a clear understanding of the significance and nature of those assets.

Paragraph 11

We concur that it will be helpful to users of financial statements to understand whether heritage assets are carried at cost or valuation and where valued then clearly the user need to understand the timing and methods used. We would however question the practicality of presenting a detailed analysis distinguishing those heritage assets reported at cost and those reported at valuation unless this analysis is simply provided in aggregate for each category or group of heritage asset disclosed by the note. At present we are unsure of the level of detail envisaged in the analysis proposed and would suggest that the final standard needs to provide greater clarity as to the nature of this analysis.

Paragraph 12

We suspect there will be many factors that might create a limitation to the information provided by valuation. We question why the threshold is set at significant limitation rather than the more usual yardstick of materiality.

Paragraph 13

The concept of information is very wide and we would question whether it is practical for financial statement to encompass such a disclosure. In the case of charities, it may be that such information could be included in the trustees' annual report.

Paragraph 14

This disclosure may have value where heritage assets are managed actively with significant additions and disposals. However, for those whose focus is on maintaining an established collection then a five year summary of movements will have limited value.

Question 2.

The objective of the proposals is to improve the financial reporting of heritage assets. Do you agree that it is difficult to improve upon the current FRS 15 based accounting and that heritage assets should be reported in the balance sheet where information on cost or valuation is available?

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The accounting proposals are very similar to the recommendations contained in the current Charities SORP and therefore we do not consider these proposals to significantly advance the existing accounting approach for heritage assets. We suspect, given the expectations created by the initial discussion paper published by the ASB, that the outcome of this project will be disappointing to many charities holding heritage assets. It should be remembered that it was the concerns raised over partial recognition of heritage assets that was the catalyst for this project and this situation remains unchanged by the proposals.

That said, we agree that the initial ‘all or nothing’ approach to recognition put forward, within the discussion paper, was likely to result in most charities holding heritage assets choosing not to recognise such assets on their balance sheets. It is debateable whether partial recognition of heritage assets which this exposure draft endorses is more or less confusing to users of accounts than the ‘all or nothing approach.’ Reliance is placed on additional disclosure, which we generally welcome, but it seems to us that additional disclosures would have similarly contributed to understanding if the ‘all or nothing’ approach to recognition had been adopted.

Question 3.

The exposure draft notes that impairment reviews will often not be relevant for heritage assets. Do you agree that impairment reviews should be required only where there is evidence that the value of an asset may have declined due to physical deterioration or damage. If not, in what circumstances should an impairment review be required?

We concur that physical deterioration or damage are the two key triggers for an impairment review. Other triggers are likely to be rare, for example, where an error has been made in relation to the provenance of an asset on initial recognition.

Question 4.

As explained in paragraph 8 to 12 above, the Board believes that the cost of implementing the proposals should not be disproportionate. Do you agree? If not, why not? It would be helpful if any significant costs that would arise on implementation of the proposals (including any not identified above) could be identified and quantified.

The proposals are unlikely to affect recognition policies and therefore additional costs will only arise in relation to enhanced disclosure. The costs involved are in our view proportionate to the information benefits enhanced disclosures will provide to users of accounts.

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Other issues

Definition of heritage assets

We have some concerns that the definition of heritage assets is no longer set in the context of entities with principle objectives of promoting knowledge and culture. The new definition widens the scope of the standard and we envisage some might argue, for example, that corporate art (nor specifically mentioned in the standard itself but mentioned in appendix 1) contributes to 'corporate culture' or that historic buildings used for educational purposes also enhances the cultural aspects of education.

It would also be helpful if the standard specifically addressed structures that house heritage assets. For example, some museums and galleries may take the view that the buildings housing a collection is integral to the exhibits they house.

We remain uncertain how religious structures fit within the definition provided. We have raised this point in our consultation responses to the ASB on several occasions. The Cathedrals, historic churches and abbeys will be uncertain as to whether religious structures maintained primarily for worship can also be regarded as being maintained for their contribution to knowledge and culture. This is a significant issue and if not covered directly by the proposed standard then a side letter giving your Board's view on this issue would be helpful.

Balance sheet reporting

The exposure draft is not explicit was to whether heritage assets should be reported as a separate category of tangible fixed assets on the face of the balance sheet. We believe it is important for heritage assets to be recognised as a separate category on the face of the balance sheet rather than to be aggregated with other tangible fixed assets on the face of the balance sheet with notes to the accounts differentiating such assets. This is implied by example disclosures and by paragraph 18 (i) of the exposure draft but it may helpful if it is specifically stated that heritage assets should be presented as a separate balance sheet category.

Aggregation

Paragraph 16 of the exposure draft indicates that disclosures may be aggregated for groups or classes of heritage assets. The use of the word 'may' might be taken to infer that disclosures are normally made on an individual asset basis. This would not be a proportionate approach to disclosure.