

# Towards a Practical Accounting Approach for Heritage Assets: An Alternative Reporting Model for the NPM Practices

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**Abstract** In the last 25 years, financial reporting of Heritage Assets has become a highly problematic issue for the public sector entities holding those assets. Based on the New Public Management (NPM) practices, these entities are required to report to stakeholders on a model disclosing the economic values for all assets under their control. Whilst there exists an extensive prior literature focused on how heritage assets might be accounted for and whether the heritage assets are sufficiently different to merit different treatment, there is little that addresses the reporting of Heritage Assets from an alternative, financial and non-financial perspective. The methodology used in the paper is critical analysis of relevant literature, including the promulgations of accounting standard-setting agencies and related organizations. The paper critically analyzes the doctrines and ideologies of the NPM model, challenging its assumptions that private sector financial reporting requirements based on GAAP are appropriate to account for heritage assets. Instead, the paper proposes APractical Reporting Model based on an alternative metric for the recognition and measurement of the heritage assets, centered on a framework that suggests a set of broad stakeholder-driven social, legal and cultural, rather than only economic values for reporting the Heritage Assets. The proposed practical accounting approach for heritage assets has been based on two sub-approaches: 1- **Assets-Liabilities Matching Approach**: Capitalize if the information on cost or value of heritage assets is available and heritage assets can be disposed, and hence they can be used to match the liabilities (**Unrestricted Heritage Assets**). According to this approach, heritage assets should be included in the statement of financial position and their revenues and costs should be included in the statement of financial performance. 2- **Non- Assets-Liabilities Matching Approach**: Not-Capitalize if the information on cost or value is not available or available but heritage assets cannot be disposed, and hence they cannot be used to match the liabilities (**Restricted Heritage Assets**). According to this approach, heritage assets should not be included in statement of financial position and should be treated as trust/agent assets. Therefore, each country should create a Trust/Agent Assets Statement where heritage assets stated in this statement in physical units not in financial values. So in order to account for the revenues and costs related to heritage assets, each county should create a **Trust Fund (Agent Fund)**. This fund will include all the revenues and costs related to heritage assets in each country. The balance of the trust fund would be reported as either a liability or an asset in the balance sheet.

**Keywords:** *heritage assets, accrual accounting, and practical accounting approach*

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## 1. Introduction

Over the 1980s, there was a move in many developed countries (e.g., OECD countries) towards an administrative revolution. This revolution is characterized by managerial freedom, market-driven competition, businesslike service delivery, value-for-money, result-based performance, client orientation, and a pro-market culture. These aspects of the administrative revolution have been described collectively as New Public Management (NPM) (Hood, 1991 and 2005; Haque, 2002;

Ball and Grubnic, 2008; Kearny and Hays, 1998; Kickert, 1997; Kelly, 1998). The move towards NPM has required the reforming of public sector accounting through the adoption of accrual accounting in the public sector. One implication of the transition to accrual accounting in the public sector is that all governmental entities are required to identify and value their fixed assets in order to be able to prepare their balance sheets. In reality, the identification, valuation and recognition of the fixed assets in the public sector are not easy tasks since these assets have existed for decades and have been acquired through different ways (Ouda, 2005). This in turn makes the identification and valuation process of those assets more difficult. While the

identification and valuation of government fixed assets are generally difficult, the heritage assets are considered to be most difficult due to their specific nature and characteristics.

Heritage assets are defined as assets with historic, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture and this purpose is central to the objectives of the entity holding them (UK –ASB, 2006). They are maintained and controlled by the government for cultural, historic, recreation and other community purposes rather than for the purpose of income generation (Barton, 2000). Examples of heritage assets comprise work of arts, antiquities, collection of rare books, historical monuments, conservation areas, historical building, archaeological sites, and nature reserves. The heritage assets must be preserved and maintained in a good state in such a way to ensure a long and indefinite life, they are considered as public goods and made available for the public, and they may be funded by taxation or private donations (Barton, 2005). For accounting purposes, the following important characteristics of the heritage assets have been determined by the UK-ASB (2006): a- their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price; b- legal and /or statutory obligations may impose prohibition or severe restrictions on disposal by sale; c - they are often irreplaceable and their value may increase over time even their physical condition deteriorates; and d- it may be difficult to estimate their useful lives, which in some cases could be several hundred years. Based on these specific characteristics, the heritage assets seem to be largely different from other government assets (e.g., property, plant and equipment, infrastructure assets, military assets, etc.) and private sector assets.

This has been indicated by the prior literature in the last 25 years, as the financial reporting of Heritage Assets has become a highly problematic issue for the public sector entities holding those assets. Based on the New Public Management (NPM) practices, these entities are required to report to stakeholders on a model disclosing the economic values for all assets under their control. Whilst there exists an extensive prior literature focused on how heritage assets might be accounted for and whether the heritage assets are sufficiently different to merit different treatment, there is little that addresses the reporting of Heritage Assets from an alternative, financial and non-financial perspective. The current accounting approaches for heritage assets, which focus on the provision of financial information, are inadequate for ensuring the provision of information useful to the types of decision-making relevant to the needs of stakeholders. Hence, additional forms of information should be provided (Wild, 2013; Pallot, 1990; Carnegie and Wolnizer, 1995; Barton, 1999 & 2005; Hooper and Kearins, 2003; West and Carenie 2010).

In addition, the capitalization of heritage assets can have different effects on the net worth of different countries, as these effects will differ according to the volume of heritage assets that are owned by each country. For example, city of Luxor in Egypt hosts one third of the whole monuments and antiquities of the world (heritage assets). Therefore, the capitalization of all heritage assets

in Egypt will lead to the exaggeration of net worth, which can give an indication that Egypt has huge positive economic/financial resources. In fact, this is untrue as Egypt is suffering from big amounts of public debt and budget deficit. Furthermore, if heritage assets have no financial value to the governmental entity, then it is misleading to match them against its liabilities. They are not resources, which can be used to generate cash for discharge of liabilities, and their inclusion in a balance sheet is misleading to management and to creditors (Carnegie and Wolnizer, 1995). Moreover, immediate expensing of the heritage assets will lead to the distortion of the statement of financial performance (Stanford, 2005).

The methodology used in the paper is that of critical analysis of relevant literature, including the promulgations of accounting standard-setting agencies and related organizations. The paper critically analyses the doctrines and the ideologies of the NPM model, challenging its assumptions that private sector financial reporting requirements based on GAAP are appropriate to account for heritage assets. While the NPM model believes the application of one-size-fits-all application of GAAP to entities and assets differentiated in their purpose and essence (Hooper and Kearins, 2003), the paper proposes A Practical Reporting Model based on an alternative metric for the recognition and measurement of the heritage assets, centered on a framework that suggests a set of broad stakeholder-driven social, legal and cultural, rather than only economic values for reporting the Heritage Assets. In particular, the paper argues against the NPM assumption that reporting all Heritage Assets held by public sector entities in economic terms improves accountability in those entities. In addition, the NPM assumption did not consider the impact of reporting all Heritage Assets in economic values on the Net Worth and Statement of Financial Performance, particularly in case of Egypt. Theoretically, the paper draws upon the New Public Management (NPM) concept and Stakeholders theory.

This paper is organized as follows: -a. The next section is intended to bring forth the theoretical framework through which the NPM reporting model for heritage assets is examined. b. Third section will consider the relevant literature and international practices. c. Fourth section will focus on examining the currently existing accounting approaches for heritage assets and their impact on the net worth and statement of financial performance. d. Fifth section criticizes the NPM ideologies and current accounting approaches. e. Sixth section will propose a practical accounting approach for heritage assets by which the exaggeration of net worth and distortion of performance statement can be avoided. f. Seventh section contains the conclusion.

## **2. A Theoretical Framework: New Public Management Practices and Stakeholder Theory**

As previously stated, the early 1980s, has witnessed a revolution in the public administration system. This revolution has resulted in changing the management culture in the public sector from Public Administration culture where the managers have little freedom and less

accountability and they are more concerned with input and compliance with rules than with output, performance and accountability, to New Public Management (NPM) Culture (Ball 1994). The NPM culture centered itself on increasing the individual responsibility, giving the managers extensive discretion in the use of resources, on output instead of input and on measuring the performance in terms of efficiency and effectiveness. Keeling (1972) distinguished administration from management. He characterized administration as being associated with time-intensive, risk-avoiding behavior, which focused on adherence to procedure. It was also associated with multi-layer organizational hierarchies and limited delegations. By contrast, he characterized management as being associated with short (flat) hierarchies, maximum delegation, and time-sensitive and risk-accepting behaviour, the focus on results, not procedures. The NPM model was early adopted by New Zealand based on the State Sector Act 1988. Under the State Sector Act 1988, departmental heads lost their permanent tenure and are known generally as "Chief Executives" rather than their previous title of "permanent heads", they are appointed on contracts of up to five years, with the possibility of reappointment. Furthermore, they became autonomous and are responsible for the delivery of the services and goods (output) as agreed between the chief executives and ministers. The minister is responsible for the choice of the outputs and, by implications, for their impacts on the community (outcomes) (Scott 1996).

Hood (1995) argues that the accountability paradigm of Public Administration system put heavy stress on two cardinal doctrines: first doctrine was to keep the public sector sharply distinct from the private sector. The other doctrine was to maintain buffers against political and managerial discretion. On the contrary, the basis of accountability paradigm of the NPM lay in reversing or removing differences between the public and the private sector. Accordingly, Hood (1995, p. 96) identified seven doctrinal components of NPM:

1. Unbundling of the public sector into corporatized units organized by product
2. More contract-based competitive provision, with internal markets and term contracts
3. Stress on private-sector styles of management practice
4. More stress on discipline and frugality in resource use
5. More emphasis on visible hands-on top management
6. Explicit formal measurable standards and measures of performance and success
7. Greater emphasis on output control

Doctrine 3 is of fundamental importance for this paper, as one possible implication of stressing private-sector styles of management practices is the use of private-sector accounting norms. The NPM philosophy is based on the assumption that public sector entities regardless of prior orientation would be more efficient and effective if run like their private sector counterparts (Hooper and Kearins, 2003). Based on the NPM doctrine 3 that entails the adoption of private sector accounting system (accrual accounting) all public sector entities have been required to attribute economic values to public sector capital assets including the Heritage Assets, and to produce annual financial reports prepared on an equivalent basis to the

corporate model (Wild, 2013). The need to prepare financial reporting similar to the corporate model stems from the fact that managers in the public sector entities badly need reliable financial data that can assist them in the decision making process and in using the available resources efficiently. In fact, I agree with Hooper and Kearins (2003) that we do not deny that managers of public sector entities need good management (including good accounting system) to be efficient and effective in achieving their goals. However, the one-size-fits all mode of application of private sector GAAP to entities and assets differentiated in their purpose and essence is considered as managerial overreach according to Hooper and Kearins (2003). Basically, public sector entities need an accounting system that take into consideration the distinctive nature and characteristics of public sector capital assets such as heritage assets, natural resources, military assets, etc.

Secondly, one of the common themes for both management and accounting changes in the public sector is discharging of accountability. Accountability is closely associated with the NPM and the adoption of accrual accounting in the public sector since enhanced accountability has been one of the explicit aims of all management and accounting reforms. The purely instrumental NPM view of the accountability- one that focuses on results – will promote accountability mechanisms that pay close attention to the purpose of the public action (Martin, 1997). However, there is argument in the literature strongly debating whether the requirement for public sector entities to provide financial statements based on the private sector GAAP impacts positively or negatively on public sector accountability outcomes ( for example, Barton, 1999; Carnegie and West, 2005; Wild, 2013, Micallef and Peirson, 1997; Cooper and Owen, 2007).

The third piece of our theoretical framing of this paper draws on literature, which applies stakeholder theory to accounting reform in the public sector. The stakeholder theory was developed by Freeman (1984), who defined the stakeholder as any group or individual who can affect or is affected by the achievement of the organization's objectives. The expansion of the original concept of the stakeholder theory resulted in widening the view of the firm from a strictly economic view to a political view. Sun et al. (2010: 684) stated that stakeholder's theory clarifies the relation between the stakeholders and the information they receive. Stakeholders have the right for receiving and obtaining any relevant information regarding the company. Theory is meaningful only when it can guide practice and make a difference in practice. Thus, before we apply the stakeholder theory to the public sector accounting reform (especially to accounting for heritage assets), it is necessary to know who the stakeholders of heritage assets are. Wen (2007) identifies the following groups as the stakeholders related to the management and accounting for heritage assets: Government and Agencies in Charge; Citizen and Local Community; Local Infrastructures and Services; Professionals and Consultants; Management; Creditors; Tourists; NGOs; and Other local public and/or private sector. In addition, Correia (2005) has also identified the following groups as stakeholders: Policy makers; Administration; Citizens; and Businesses. In addition to the identification of the stakeholders, we need

to define what the stakeholders information needs are. In fact, most of studies (For example: Wild, 2013; Pallot, 1990; Carnegie and Wolnizer, 1995; Barton, 1999 & 2005; Hooper and Kearns, 2003) see that the stakeholders need information about the heritage assets preservation, conservation, protection, maintenance, disclosure, measurement and recognition.

However, would the preparation of financial statement based on private sector GAAP satisfy the information needs of the stakeholders? Whether the use of full capitalization approach or non-capitalization approach to account for heritage assets will mislead the stakeholders or should there be an alternative approach that can provide additional forms of information?

### **3. Relevant Literature and International Practices**

Whilst the last 25 years have witnessed some efforts over how heritage assets might be accounted for, and whether the heritage assets are sufficiently different to merit different treatment, there is a lack consistency and uniformity of accounting treatment for heritage assets among the countries that have already adopted full accrual accounting in their public sector (such as, New Zealand, UK, Australia, USA, Canada, etc.). Consequently, several authors are in view that the accounting for heritage assets would seem to be more problematic and is subject to different treatment by different countries and standard-setting bodies. Some of these authors do not consider the heritage assets as assets and hence they should not be capitalized. Barton (2000) argues heritage assets do not satisfy the concepts of assets because of their public goods nature, that is, they are for the benefits of the public and are not for sale. They are provided to the public on a non-commercial basis and are funded primarily from non-exchange revenues (e.g., taxation, fines, etc.). Moreover, they are not maintained for income generation but for other purposes such as cultural, educational, recreational and other community purposes (Barton, 2000). In addition, Barton (2000) argues that the inclusion of heritage assets in the statement of financial position of an entity would distort its representational faithfulness to readers. Therefore, he proposed that heritage assets should be treated as trust assets and this requires that the heritage assets be kept separate from government operating assets. Barton (2000) explains the trusteeship approach to accounting for heritage assets as follows:

The government holds the heritage assets in trust for present and future generations and has a responsibility to protect and preserve them. The costs of protecting and maintaining them should be borne by each generation as they enjoy the benefits from them. As trust assets, public heritage assets should not be included in the government's own statement of assets and liabilities. They should not be regarded of its own financial position and be available to meet its financial commitments. In trust accounting, the trustee is obliged to keep trust assets separate from its own assets and to report them separately.

In fact, Barton is not the only author that is backing this direction; there are other authors that agree with him. Carnegie and Wolnizer (1999) are of opinion that because public heritage assets cannot be or should not be sold,

there is argument that they should not be included in governments (or other managing entities) statements of financial position. Carnegie and Wolnizer (1995 & 1996)) also argue that if heritage facilities have no financial value to the entity, then it is misleading to match them against its liabilities. They also agree with Barton that the heritage assets are not resources, which can be used to generate cash for the discharge of liabilities and their inclusion in a statement of financial position is misleading to management and creditors. Carnegie and Wolnizer (1999) believe that not-for-profit public collections should not be recognized for financial reporting purposes. Furthermore, they argue that collections in the public domain are prized for their cultural, heritage, scientific and educative qualities and that those attributes cannot be quantified in monetary terms. In addition, Carnegie & Wolnizer (1995) are in view that taking into consideration the characteristics and nature of heritage assets, it can be inferred that they are able to absorb wealth but not to generate it in financial terms. It would be more appropriate to classify them as liabilities, or alternatively to call them facilities and keep them separately from other assets. Similarly, Mautz (1988) is also in view that the heritage assets might be accounted for as liabilities of government because of the negative cash flow streams they incur in their use and maintenance, and inability to sell them. Barton (2000) argues that such assets in commercial firms would not be retained, as they would be a drain on the firm's resources; rather firms would sell them.

Other studies develop further arguments for not inclusion of heritage assets in the financial statements, because of the different roles that heritage assets fulfill compared with normal commercial assets. Mautz (1988) argues that they should be differentiated, and proposes that they be called "facilities". Likewise, Pallot (1990) is of opinion that heritage assets should be kept separate from other assets and proposes that they be called "community assets". Pallot (1990 & 1992) based her proposal on making distinction between public sector assets used for community purposes and commercial assets. As she believes that, the public sector assets differ in fundamental respects from commercial assets. One of these respects is related the assets ownership rights, as she classifies asset ownership rights into:

- a. The right to manage;
- b. The right to the benefits; and
- c. The right to dispose of the property.

Of course, the government has the right to manage, but the rights to the benefits rest with the public, and the right of government to dispose of the property is not an unfettered one. In addition, Pallot distinguishes between physical assets as input into a productive process, and assets which services directly to the public. When the assets are inputs, they are used up in the productive process, except for land. This is true of commercial assets. However, when the assets provide services directly to the public, their use does not necessarily use up the asset – viewing a work of art does not damage the item. Based on the aforementioned reasons, the heritage assets differ from the commercial assets and they should be kept separate from other assets.

Moreover, other studies argue for not recognizing the heritage assets in the balance sheet. Ström (1997) argues

that even though market values exist or can be estimated, developing the market values may outweigh the benefits especially in volatile markets. Also, Littrell and Thompson (1998) propose that opportunity cost or replacement cost is a relevant measure. However, because heritage assets are different because of an unlimited life or uniqueness, their replacement cost is zero and should be excluded.

In addition to the opponents, there are some supporters of recognition of heritage assets in the balance sheet (Rowles, 1991; Micallef and Peirson, 1997) are in view that representation faithfulness is not possible without assigning monetary value. They believe that heritage assets are commercially quantifiable even though they may not be for sale. The argument that collections cannot be measured in financial terms because they do not have financial attributes has merit but could equally apply to most types of assets; the question could be asked as to whether land necessarily has financial attributes (Hooper et al., 2005).

Rowles (1991) extends the criteria of recognition and measurement to argue that all assets have the same characteristics. In turn, he deals with several arguments:

- Sunk costs may apply to plant as well as heritage assets;
- Both plant and heritage assets may have no market value but such costs are recoverable through social purpose and such purpose is hardly distinguishable from commercial purpose in that both focus on economic benefit or service potential;
- Heritage assets are often not indivisible;
- Lack of a market value or economic life are problems which many assets other than heritage assets share; and
- The heritage assets have infinite life is untrue and applies only to land.

Unlike the opponents, Rowles (1992) assumes that heritage assets do not differ largely from the other assets, which means that he acknowledges their recognition as assets in the statement of financial position of governments. He argues that government departments and agencies controlling environmental, cultural and historical assets will need to value and include them, as well as their capital assets, in their financial statements. In addition, other assets which do not fit readily into a definition of capital, such as monuments, work of art, historical relics and collections of artistic and cultural works are included (Rowles, 1992 and Stanton and Stanton, 1997). So the inclusion of heritage assets items rests on the conclusion that, for accounting purposes, they cannot be readily distinguished from other physical assets (Rowles, 1992), and they meet the asset definition test contained in Statement of Accounting Concepts 4 (SAC 4) (Rowles, 1992).

The aforementioned discussion, including both opponents and supporters, made clear that there is no consensus about whether or not heritage assets can properly be accounted for, whether or not they should be accounted for. This can take us to see what the situation is of national and international standard-setters with respect to the accounting for heritage assets.

International standard-setters such as IFAC has issued IPSAS 17 which focuses mainly on the accounting treatment for property, plant and equipment so that the

users of financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment (Christians, 2004). However, IPSAS 17 does not require an entity to recognize heritage assets. In other words, it did not discuss whether heritage assets should be capitalized or not. In paragraph 9 of IPSAS 17, it is stated that some assets are described as "heritage assets" because of their cultural, environmental or historical significance. It describes the disclosure requirements in paragraphs 84 to 94 where it requires the governmental entities to make disclosures about recognized assets. Accordingly, the entities that recognize heritage assets are required to disclose in respect of those assets such matters as, for example: the measurement basis used; the depreciation method used, if any; the gross carrying amount; the accumulated depreciation at the end of the period, if any; and a reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

In addition IFAC-IPSASB starts in 2006, as it issued a Consultation Paper (CP) about "*Accounting for Heritage Assets Under the Accrual Accounting basis of Accounting*" the consultation paper identifies a number of matters relating to the treatment of heritage assets set out in the UK Accounting Standards Board Discussion Paper entitled "*Heritage assets: can Accounting Do Better*" (UK-ASB, 2006). The Consultation Paper dealt with the definition of heritage assets and whether the heritage assets meet the asset definition and discussed in detail the approaches to accounting for heritage assets, as it proposes two approaches: A full capitalization approach and a non-capitalization approach. While IPSASB starts with a project to develop accounting and disclosure requirements for heritage assets, it did not issue a specific IPSAS related to accounting for heritage assets up till now.

The Australian Accounting Standards AAS27, AAS29, AAS 31 and SAC4 (AARF, 1990, 1992, 1993, and 1996) were prepared by Australian Accounting Research Foundation (AARF) and advocates the inclusion of heritage assets in Australian government financial statements (Rowles, 1992 and Micallef et al., 1994). Similarly, In New Zealand, the standard-setters had issued FRS-3 in May 2001 and revised it in November 2001 and February 2002, requiring all reporting entities, including central and local government agencies, to account for heritage assets as they would any other item of property, plant and equipment and depreciate such assets based on estimates of useful life. Heritage assets are to be valued on the same basis as other physical non-current assets of an entity. FRS-3 requires subsequent revaluations of these assets, provided that fair value is used (Hooper, et al., 2004). The standard-setters in Sweden are in view that acquisition of heritage assets are capitalized like other assets and retrospective capitalization is permissible, but is rarely used.

In the UK- FRS 15 requires all tangible fixed assets to be recognized and capitalized including the heritage assets. A number of entities in the museum and galleries sector report amounts for their total holding of heritage assets in the balance sheet. However, many public benefit entities have only capitalized subsequent acquisitions of heritage assets since the adoption of FRS 15 in 2001. This means that the UK used a mixed approach where the recently acquired heritage assets are recognized and capitalized

and the similar heritage assets that have been acquired for many years remain off-balance. In addition, in the UK the standard-setter made a distinction between Operational heritage assets and Non-operational heritage assets. Heritage assets are those assets, usually irreplaceable, that are intended to be preserved in trust for future generations. Operational heritage assets are those assets used for purposes in addition to the maintenance of national heritage (e.g. heritage building with office space, parkland). The operational assets will be capitalized whereas non-operational heritage assets will not be capitalized. Non-operational heritage assets include - museum and gallery collections, other works of art, national archives; as well as archaeological sites, ruins, burial sites, monuments and statues.

In USA, the Financial Accounting Standard Board (FASB) encourages retrospective capitalization of art collections, whilst acknowledging that the cost of retrospective capitalization is likely often to exceed the incremental benefits to users (FAS 116). Conversely, the Federation Accounting Standards Advisory Board (FASAB) requires expenditures on the acquisition, construction, reconstruction or improvement of heritage assets to be expensed. A separate standard details disclosure requirements from a stewardship perspective.

The international standard-setters are in line with the opponents and supporters that there is no consensus about a unified accounting approach for heritage assets and whether or not heritage assets can properly be accounted for and whether or not they should be accounted for. In fact, the lack of a unified accounting treatment for heritage assets among the standard-setters contradicts fundamental accounting requirements that reported information should reflect qualitative characteristics of consistency, relevance, comparability and verifiability, and should faithfully represent what it claims to represent, in order to be useful to stakeholders (Wild, 2013).

#### 4. Current Accounting Approaches for Heritage Assets

While the debate on accounting for heritage assets under accrual accounting has been continued for more than two decades, there is no definitive or legal definition of heritage assets and there is no consensus about a unified or better accounting treatment for heritage assets. This lack of consensus among the standard-setters, opponents and supporters can raise the following questions: *Do heritage assets meet the definition of assets? Can heritage assets be considered as a separate class of assets rather than a separate class of property, plant and equipment?*

Generally, in order to capitalize an item in the balance sheet, this item should follow two steps. These two steps are identified in IASB and IPSAS 1, 16, and 17 as follows:

- a. *whether the item meets the definition of an asset;*
- b. *whether the item satisfies the recognition criteria.*

The international Accounting Standards Board (IASB) (formerly known as IASC) defines an asset in the following way: "an asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise (IASB, 1989, Para. 49). The IASB definition refers only to future economic benefits. However, the PSC-IFAC, in

common with other public sector standard setters, sees that the definition of an asset needs to incorporate both economic benefits and service potential. Where IPSAS 1 Presentation of Financial Statements, paragraph 6, defined assets as follows: Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

While the above-mentioned definition is generally valid for the public sector capital assets, the heritage assets are defined as assets with historic, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture and this purpose is central to the objectives of the entity holding them (UK –ASB, 2006). Also IPSAS 16 & 17 identified two criteria that can be used for determining when an asset should be recognized:

(a) It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and

(b) The cost or fair value of the asset to the entity can be measured reliably.

#### 4.1. Do Heritage Assets meet the Definition of Assets?

The accounting literature has made clear that there are different standpoints about whether the heritage assets meet the definition of an asset or not. On the one hand, Stanford (2005) sees that the IPSAS definition of assets as "resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity, appears sufficiently wide to comprise most of the items commonly referred to as "heritage assets". On the other hand, he is in view that if the entity has no intention to use the asset for operational purposes, put it on display or use it for cultural or educational purposes, in such cases, it is questionable whether such assets are likely to give rise to service potential and therefore whether they should be capitalized.

On the contrary, the UK Accounting Standards Board issued Financial Reporting Standard (FRS) 30, Heritage Assets in 2009 (hereafter ASB-FRS 30). The ASB-FRS 30 sees that, conceptually, heritage assets are assets. They are central to the purpose of an entity such as a gallery or museum: without them, the entity cannot function. An artifact held by the Egyptian Museum might be realizable for cash and it might generate income indirectly through admission charges. However, the most important thing is that the museum needs the artifact to function as museum. The artifact is held and maintained to serve some purposes such as educational and cultural or it can be preserved for future display or for academic or scientific research. The ASB-FRS 30 has further argued that the future economic benefits associated with the artifact are primarily in the form of its service potential rather than cash flows.

Accordingly, the ASB-FRS 30 is in view that by virtue of the service potential they provide, heritage assets meet the definition of an asset; that is, they provide rights or other access to future economic benefits controlled by an entity as result of past transactions or events. Consequently, it can be inferred that heritage assets meet the definition of assets as they can provide future economic benefits in the form of service potential and

they are held and maintained principally for their contribution to knowledge and culture and this purpose is central to the objectives of the entity (e.g., Museum) holding them.

#### 4.2. Can Heritage Assets be Considered as a Separate Class of Assets rather than a Separate Class of Property, Plant and Equipment?

Heritage assets are one of the public sector assets that have been subjected to diversity of concepts, terminology and classification. Some authors called heritage assets as community assets (e.g., Pallot, 1990 and 1992), although the community assets include some assets that are not essentially pure heritage assets such as urban parks and sports-grounds; public infrastructural assets; national parks; public road and rail systems. Basically, the community assets is a broad term and we need to distinguish the heritage assets from those community assets that can be for sale and used for economic purposes, for example, many of the national parks in Egypt have been used for other purposes such as building houses for youths. Therefore, the pure heritage assets (such as museum and gallery collections, other works of art, national archives; and archeological sites, ruins, burial sites, monuments and statues) should be distinguished from other community assets (such as national parks; public road and rail systems). Heritage assets cannot be replaced or sold due to the existence of legal, social or cultural restrictions. Thus, they will be considered as **Restricted Assets**.

In addition, some other authors consider the heritage assets as public goods/public facilities (Barton, 2000 and Mautz, 1988). The term public goods is also a broad term as most of public sector assets can be considered as public goods. For instance, public roads are public goods and archeological sites are also public goods. While the public roads are used for facilitating the daily life of the public and can be used for economic purposes, they are different from the heritage assets that are mainly held for their contribution to knowledge and culture purposes (such as works of art, history books and national archives). Moreover, the public roads could be replaced or changed. For example, some public roads in Egypt have been changed/cancelled due to the need for expanding the constructed area of some cities and hence, the government has constructed a new public road outside the city.

In addition, most of authors forgot one essential point, which **is the period of time** that needs to pass before considering any asset as a heritage asset. In fact, many countries are setting some timing conditions for considering any asset as a heritage asset. For example, Egyptian Government considers any public asset as heritage asset if it has existed for more than 100 years. According to Egyptian Law no. 117 of 1983 as amended by law no.3 of 2010 "Any real-estate or chattel is considered an antiquity whenever it meets the following conditions:

- To be the product of Egyptian civilization or the successive civilizations or the creation of art, sciences, literature, or religion that took place on the Egyptian lands since the pre-historic ages and during the successive **historic ages till before 100 years ago**.
- To be of archeological or artistic value or of historic importance as an aspect of the different aspects of

Egyptian civilizations or any other civilization that took place on the Egyptian lands.

- To be produced and grown up on the Egyptian lands and of a historical relation thereto and also the mummies of human races and beings contemporary to them are considered like any antiquity which is being registered in accordance with this law."

Actually, the aforementioned three conditions are sufficient to consider the heritage assets as a separate class of assets rather than a separate class of property, plant and equipment. The heritage assets should be the product of the country civilization and should take place on the country's land and existed for more than 100 years. They must be of archeological or artistic value or of historic importance and they must be produced and grown on the country's land. In addition, it can be argued that most of assets that have existed for more than 100 years, their costs have already been depreciated. Therefore, when these assets transferred to heritage assets, there should be no book values as their values have already been depreciated during the last 100 years. Furthermore, most of accounting standard-setters (such as IFAC, 2006, ASB, 2009, and IPSAS 17) have discussed a number of specific characteristics, which can enhance the aforementioned argument in considering the heritage assets as a separate class of assets rather than a separate class of property, plant and equipment? These are:

- they are often irreplaceable and their value may increase over time even if their physical condition deteriorates;
- they are rarely held for their ability to generate cash inflows or sale proceeds and there may be legal or social obstacles to using them for such purposes;
- they are protected, kept unencumbered, cared for and preserved;
- it may be difficult to estimate their useful lives, which in some cases could be several hundred years and they may incur high costs to maintain them;
- their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price; and
- they are often described as inalienable, i.e. the entity cannot dispose of them without external consent.

Accordingly, it can be inferred that heritage assets are accounted for as distinct category of assets because their value is unlikely to be fully reflected in a financial value or price. Many are unique meaning their value may increase, rather than depreciate, even if the physical condition deteriorates. In addition, heritage assets may incur high costs to maintain them and their life might be measured in hundreds of years. Moreover, heritage assets are restricted assets as there are legal, cultural or social obstacles to sell or dispose them.

#### 4.3. Current accounting Approaches for Heritage Assets

The accounting literature for heritage assets has proposed different options of accounting for heritage assets under accrual accounting as follows:

- Full Capitalization of both new acquisition and retrospectively acquired items.
- Capitalization of new acquisitions with no recognition of heritage assets acquired before the adoption of accrual accounting.

- A non-capitalization approach and expensing of heritage items
- Provision of extensive information through disclosure

*Full Capitalization of both new acquisition and retrospectively acquired items*

According to the full capitalization approach, (where an entity can obtain at reasonable current values for the majority), heritage assets held these values should be reported in the balance sheet (ASB, 2006). This approach would require each public sector entity to recognize and capitalize the heritage assets, including those acquired in previous and recent accounting periods, in the balance sheet where information on cost or value is available. One merit of this approach is that this would ensure a consistent accounting treatment for the previously and recently acquired heritage assets. Also the full capitalization of heritage assets will assist in informing the funders and financial supporters about the value of assets held, reporting on stewardship of the assets by the owner entity and informing the decision-makers about whether resources are being used appropriately (ASB-2006).

In addition, if heritage assets are not capitalized, the balance sheet will not provide a complete picture of an entity's financial position. For this reason, it is better to report heritage assets in the balance sheet where information is available on cost or value rather than leave these assets out of the balance sheet. The ASB-FRS 30 considers the best financial reporting is achieved when heritage assets are reported as tangible assets at values that provide useful and relevant information at the balance sheet date. Accordingly, the ASB-FRS 30 sees that the current valuation will be more useful than historical cost, although it is acknowledged there can be difficulties in obtaining valuations for heritage assets. In fact, most of accounting standard-setters prefer that heritage assets should be reported at current value rather than at historical cost. This is due to the fact that many heritage assets were acquired some time in the past; the passage of time and the subsequent changes in market values – where they exist and which can be unpredictable – mean that the historical cost is not a useful guide to their value. This means that over time the historical cost will not be useful and relevant for the reporting of heritage assets.

- *Capitalization of new acquisitions with no recognition of heritage assets acquired before the adoption of accrual accounting.*

This approach has been used in the UK in 2001 when public- benefits entities adopted the FRS 15. This approach aims at capitalizing the newly acquired heritage assets and not capitalizing the similar heritage assets that have been acquired in the past (before the adoption of accrual accounting). This approach is known as a mixed approach. Some claim that this approach appears to have some practical advantages in that reliable cost information is readily available for recent purchases and there is no requirement for retrospective valuation where cost information might not be available (ASB, 2006). However, this approach is suffering from some shortcomings as follows: - *Inconsistent treatment of similar assets:* within the same class of assets there are two accounting policies (capitalization and non-capitalization approach) are applied. For instance, a gallery or a museum may own two similar heritage assets, one was acquired some time ago and is not capitalized in the balance sheet, whereas the

other was acquired recently and has been capitalized at the market value. The different accounting treatment can lead to confusion with respect to the statement of financial position and statement of financial performance of the gallery or the museum.–*Subsequent expenditure:* Inconsistent accounting treatment will lead to different treatment for subsequent expenditure. For instance, the restoration costs that may extend the life of a historical building should be capitalized. However, if these costs were related to a historical building not capitalized, then these costs would be expensed. Accordingly, the inconsistent treatment has led to different treatment for the same costs for similar assets. In addition, the capitalization of some assets and not capitalizing of other assets will lead to incomplete financial information. Therefore, the adoption of this approach will lead to different accounting problems and did not solve the dilemma of accounting for heritage assets.

- *Non-capitalization approach and expensing of heritage items*

Under this approach, the public sector entities are not allowed to capitalize heritage assets whether those assets were acquired recently or in the past. This would ensure that an accounting policy is applied consistently to all heritage assets. In addition, the adoption of this approach will avoid the above-mentioned problems under the mixed approach. However, the main problem of applying this approach is that it will lead to the distortion of performance statement. Since the acquisition of a heritage asset will be recorded as an expense in the performance statement. In fact, this could be seen to misrepresent the substance of the transaction in that an asset has been acquired and has not been consumed. This distorts the level of reported expenses and does not properly reflect financial performance (ASB, 2006). Moreover, reporting the full proceeds from the disposal of heritage assets as income in the performance statement is also distorting (ASB, 2006). In an attempt to avoid this distortion, it is proposed that under a non-capitalization approach the acquisition and disposals of heritage assets should be presented separately from the statement of financial performance. This is the main aim of the last option, which is disclosure approach.

- *Provision of extensive information through disclosure (Disclosure Approach)*

A disclosure approach agrees with non-capitalization approach in that public entities would not be required to capitalize heritage assets acquired in the past or during the current period. Instead, the public entities should provide sufficient disclosure on the reasons for not adopting the capitalization approach, the nature and number of heritage assets held, the purpose for their preservation and financial on acquisition and disposals within the reporting period (IFAC, 2005 and Stanford, 2005)). Unlike the non-capitalization approach, under a disclosure approach it is proposed to segregate heritage asset transactions (such as acquisition, disposal and major restoration costs) from the income and expenditure account (performance statement) for the reporting period. IFAC and Stanford (2005) are in view that presentation of acquisition of a heritage asset as an expense would be wrong as an asset has been acquired which has not been consumed. This distorts the level of reported expenses and does not properly reflect financial performance. The UK ASB (2005) proposes that heritage



asset transactions should be presented in a separate statement clearly distinguished from financial performance. It is considered that this approach will provide users with a clearer picture of heritage asset transactions for the reporting period.

However, while the disclosure approach has attempted to avoid the distortion of the performance statement, it did not avoid the disadvantages of the non-capitalization approach and did not provide an appropriate accounting approach for heritage assets. As it proposed to segregate heritage asset acquisition, disposal and major restoration costs from the income and expenditure account for the reporting period, it remains silent on how to account for not capitalizing heritage assets and how to treat the revenues or costs related to heritage assets. In addition, it did not provide information on the format and shape of the separate statement. Accordingly, it can be inferred that the aforementioned four approaches did not provide a unified and appropriate accounting approach and the accounting for heritage assets remain unresolved problem.

## 5. Critical Analysis of the NPM Ideologies and Current Accounting Approaches for Heritage Assets

It was obvious from the discussion of current accounting approaches that there has been considerable variability and inconsistency in the accounting treatment applied to heritage assets. Started by full capitalization of heritage assets, non-capitalization of heritage assets and expensing them in the statement of financial performance, and ended with provision of extensive information through disclosure. In fact, these current accounting approaches have been based on the NPM ideologies and its assumption that all public sector entities have been required to attribute economic values to public sector capital assets including the heritage assets, and to produce annual financial reports prepared on an equivalent basis to the private sector model. Basically, the NPM ideologies and assumptions did not consider the impact of full capitalization of heritage assets on the Net Worth of a country (e.g., Egypt) and full expensing of heritage assets on distortion of performance statement. In order to discuss this impact, we should take into considerations some points such as, history and culture of nations are not for sale; volume of heritage assets owned by each country and its impact on net worth should be taken into account; and usefulness of accounting information to the stakeholders. In addition, we assume that there is available information on cost or value of heritage assets. Taking the above-mentioned points into account and studying the situation of a country like Egypt can demonstrate to what extent the full capitalization approach can affect the net worth in Egypt. Egypt hosts different types of heritage assets such as:

- Pharaonic antiquities;
- Greco-Roman antiquities;
- Islamic-Coptic antiquities; and
- Recent antiquities.

In fact, acity of Luxor in Egypt hosts one third of the monuments and antiquities of the **whole** world (Pharaonic Heritage Assets only). So if we add the other Pharaonic

antiquities in other cities and the Greco -Roman antiquities, Islamic-Coptic antiquities and Recent antiquities, we will find that Egypt possesses around two thirds of heritage assets of the whole world. Assume that there is available information on value or cost of the two thirds of heritage assets, the question is: How much will be the amount of the two thirds of heritage assets? In fact, nobody can imagine how much this amount will be. But presumably Trillions of dollars. So if these heritage assets will be capitalized in the balance sheet of the Egyptian government, nobody can imagine the volume of the positive net worth. Therefore, the full capitalization of all heritage assets in Egypt will lead to the exaggeration of net worth, which can give an indication that Egypt has huge positive economic/financial resources (net worth). In fact, this is untrue as Egypt is suffering from a big amount of public debt and budget deficit. The question here is: In spite of assuming that the information on cost or value of heritage assets is available, can the Egyptian Government dispose/ sell those heritage assets and use them to match the liabilities? Based on aforementioned assumption that history and culture of nations are not for sale, no Egyptian Government has dared/attempted to do that before. Then, the question is: what is the benefit of having financial values that cannot be used to match the liabilities, to repay the debts, or to cover the budget deficit? Furthermore, what is the usefulness of inclusion of such information in the financial statements for the stakeholders? Therefore, the inclusion of such information will mislead the fair presentation of the actual financial position of government and the reliability of financial information. In fact, heritage assets are held and maintained principally for their contribution to knowledge and culture of present and future generations. Accordingly, I can infer that while the information on cost or value of heritage assets is available and heritage assets meet the definition of an asset and the two recognition criteria, the inclusion of heritage assets in the balance sheet *where there are restrictions on their disposal* and hence on using them to match the liabilities is misleading to the stakeholders.

The fundamental qualitative characteristics, required for accounting information, outlined in the conceptual framework for General Purpose Financial Reporting by Public sector entities (IPSASB, 2013), comprise: *Relevance* (information is relevant if it is capable of making a difference in achieving the objectives of financial reporting and in the decision made by users); *Faithful Representation* (information must be a faithful representation of the economic and other phenomenon that it purports to represent); *Understandability* (understandability is the quality of information that enables users to comprehend its meaning); *Comparability* (information can enable users to identify similarities and differences between, two sets of phenomena); *Verifiability* (quality of information that helps assure users that information in financial reporting faithfully represents the economic and other phenomena that it purports to represent). Current accounting approaches for heritage assets fail to provide information that meets these required qualitative characteristics of financial reporting (Wild, 2013). Accordingly, it cannot be claimed that the current approaches satisfy the information needs of the stakeholders and provide information which is useful for decision –making.

In addition, the NPM assumptions claim that reporting all Heritage Assets held by public sector entities in economic terms improves accountability in those entities. For example, Micallef and Peirson (1997), argue that it is necessary for public sector entities to provide financial statements, and for heritage and cultural assets to be assigned economic values, in order to effectively evaluate management accountability. Moreover, provision of information about heritage assets controlled by those entities is necessary to make informed assessments about allocation of public funds and to assess whether the value of the assets controlled by those entities have been eroded, improved or retained (Wild, 2013). Bert, Mussari and Jones (2011) are against that assumption, as they are in view that for heritage assets in local government, it may not be clear whether they are economic resources, as it may not be clear whether they are of the entity' or indeed exactly what 'the entity is. Wolnizer (1995) also dismisses the utility of imposing an economic value on cultural assets as being merely "an accounting fiction". Barker (2006) argues that heritage assets, which are held for future generations for cultural, historic, aesthetic, or ecological reasons, and are highly unlikely to be traded at any time in the future should not be valued. If there is cost associated with them, the cost should be expensed as incurred and non-financial information should be given to account for the stewardship of the guardian entity. The non-financial information can be considered as an example of the opportunity for cross-disciplinary deliberation to determine the most appropriate accountability form for the heritage assets. For example, a virtual tour of the heritage assets would be a better mechanism for accountability with the possibility of interrogation of the guardians on line than trying to force a number value on them (Barker, 2006). Accordingly, the assignment of economic values to heritage assets is not the only way to enhance and discharge accountability for heritage assets. The disclosure of heritage assets in physical units is appropriate and necessary for the proper discharge of an entity's accountability for its heritage assets.

## 6. A Practical Accounting Approach for Heritage Assets under Accrual Accounting

The NPM reporting model, that believes in a one-size-fits-all application of GAAP to entities and assets differentiated in their purpose and essence (Hooper and Kearins, 2003), is less appropriate for public sector heritage assets. As it has been argued in this paper, public sector heritage assets are different in their purpose and essence in comparison with regular assets and therefore, require an accounting treatment that takes into account the specific nature and characteristics of heritage assets leading to suitable information that can satisfy the stakeholder's needs and be useful for the decision-making. Accordingly, there is a need to move to a new reporting model that differentiates the heritage assets from other assets and recognizes that they should be accounted for separately from administrative assets of government. In fact, the NPM- current accrual accounting approaches concerning the capitalization or not capitalization of

heritage assets have focused on whether information on cost or value of heritage assets is available or not. If it is available then heritage assets should be capitalized and if it is not available then heritage assets should not be capitalized regardless of whether heritage assets can be sold/disposed and can be matched to the liabilities or not. The current accrual accounting approaches did not take into consideration whether there are **legal, cultural and social restrictions** on disposal of heritage assets or not. In addition, they did not recognize the consequences of capitalization and not capitalization of heritage assets on the net worth and the performance statement respectively. They can lead to exaggeration of net worth if one country like Egypt, which possesses at least one-third of worldwide heritage assets, has capitalized all its heritage assets. They can also lead to distorting the performance statement if the Egyptian government has not capitalized the heritage assets and expensed them in the account of revenue and expenditures. Therefore, in order to improve the quality of financial reporting of governmental entities and to overcome the exaggeration of net worth and distortion of the statement of financial performance and to provide a suitable information for decision –making and stakeholders needs, there is an urgent need to develop a new Accounting Approach that focuses on consistent and transparent accounting treatment for heritage assets, which I might call a **Practical Approach**. In fact, the accounting for heritage assets should not focus only on the technical accounting side but also on the reliability, credibility and usefulness of accounting information for different stake holders and its impact on the decision-making. Therefore, the proposed **Practical Approach** should consider the specific nature of heritage assets and it should be consistent with the reliability, credibility, relevance and comparability of accounting information. The Practical Approach will be based on the earlier proposed solutions whether by authors or by professional bodies (Barton, 2000, Stanford, 2005, Pallot, 1990, 1992, ASB, 2006, ASB-FRS 11,15 and 30, FASAB 2005, and IPSAS 17) and the following assumptions:

- History and culture of nations are not for sale;
- The main task of accounting and accountants is not to mislead the stakeholders but to assist them in making the right decision. Accordingly, what are the benefits of the capitalization of heritage assets that would not be used to match the liabilities?;
- The issue is not to focus only on the technical side of accounting for heritage assets but also on reliability, relevance, credibility, verifiability and comparability of accounting information that is included in the financial statements and its usefulness to different stakeholders;
- The legal, cultural and social restrictions on heritage assets are considered as barriers on the disposal of them. Therefore, they should be considered in deciding on whether heritage assets should be capitalized or not;
- In order for governmental entities to avoid the exaggeration of net worth or distortion of the statement of financial performance, the main issue is not only whether where information on cost or value of heritage assets is available or not, but also whether heritage assets can be disposed and used to match the liabilities or not;

- Where information on cost or value of heritage assets is available and heritage assets can be sold /disposed (no legal, cultural and/or social restrictions on these assets- **Unrestricted Assets**) and can be used to match the liabilities, then they should be capitalized. (this we might call: **Assets-Liabilities Matching Approach**);
- Where information on cost or value of heritage assets is not available or available but due to existence of the legal, cultural and/or social restrictions on the disposal of heritage assets and they cannot be sold and considered as financial resources to match the liabilities (**Restricted Assets**), then they should not be capitalized. (this we might call: **Non- Assets-Liabilities Matching Approach**); and
- Heritage assets are custodial in nature and the government is the custodian.

### 6.1. The Practical Approach

Under this approach, the two recognition criteria (stated in IPSAS 16 & 17) that can be used for determining when an asset should be recognized, they should be extended to include one more criteria which can be used for deciding on whether heritage asset can be recognized or not. These are as follows:

- It is probable that future economic benefits or service potential associated with the asset will flow to the entity;*
- The cost or fair value of the asset to the entity can be measured reliably.*

**In addition:**

- There are no legal, cultural and/or social restrictions on the disposal of the asset.*

Consequently, the practical approach will focus on whether the information on cost or value of heritage assets is available and whether heritage assets can be disposed/sold, and hence they can be used to match the liabilities. The practical approach considers whether there are legal, cultural or/and social restrictions on the disposal of heritage assets or not. If there are legal, cultural and social restrictions on the disposal of heritage assets (**Restricted Heritage Assets**), then the capitalization of heritage assets will be misleading to creditors because they are not legally accessible by them. If there are no legal, cultural or/and social restrictions on the disposal of heritage assets and the information on cost and value of heritage assets is available, then the capitalization of heritage assets will not lead to misleading of the stakeholders as they can be matched to liabilities (**Unrestricted Heritage Assets**). In addition, the practical approach recognizes the consequences of accounting treatment of heritage assets on the net worth and performance statement and its impact on reliability of financial information that provided in the financial statements. Consequently, The Practical Approach will be based on the following two sub-approaches:

- **Assets-Liabilities Matching Approach:** Capitalize if the information on cost or value of heritage assets is available and heritage assets can be disposed, and hence they can be used to match the liabilities. (**Unrestricted Heritage Assets**); and
- **Non- Assets-Liabilities Matching Approach:** Not-Capitalize if the information on cost or value is not

available or available but heritage assets cannot be disposed, and hence they cannot be used to match the liabilities. (**Restricted Heritage Assets**).

#### 6.1.1. Assets-Liabilities Matching Approach

Under this approach, heritage assets are considered as legally, culturally and socially unrestricted assets. The information on their cost or value is available and they can be used to match the liabilities. Accordingly, they should be capitalized in the balance sheet at current value. An obvious example of heritage assets that can follow this approach in Egypt is the Heritage Presidential Palaces. Due to the financial problems after January 25<sup>th</sup> Revolution, many of the Egyptians economists argue that these problems can be solved through the disposal of many of the presidential palaces in Egypt, which are not in use. In fact, this option has already been applied in Tunisia in 2012 as a solution for their financial problem after the revolution.

The adoption of Assets-Liabilities Matching Approach does not require completely new accounting standards. In fact, there are different accounting standards that have been developed and can be used by this approach such as UK-ASB-FRS 11, 15, and 30 and the Accounting Guideline GRAB 103 of Republic of South Africa. However, in order for these accounting standards to be consistent with the practical approach, there should be some amendments to these standards, for instance, UK-ASB-FRS 30 required that heritage assets to be reported in the balance sheet where information on cost or value is available. The Assets-Liabilities Matching Approach agrees with this context. In addition, there should clearly be stated that there are no legal, cultural and/or social restrictions on the disposal of heritage assets and hence; they can be used to match the liabilities. After making this amendment, this approach can follow the above-mentioned Accounting Standards. According to FRS 30 an entity should report heritage assets as tangible assets and recognize/ measure these assets in accordance with FRS 15. Tangible fixed assets are subject to the requirements set out in paragraphs 19 to 25 (FRS 30). Herein, there should be some amendments (*in Italic and bold*) as follows:

#### **Recognition and Measurement**

19- Where information is available on the cost or value of heritage assets *and heritage assets can be disposed and matched to the liabilities:*

- they should be presented in the balance sheet separately from other tangible fixed assets;
- the balance sheet or the notes to the accounts should identify separately those classes of heritage assets being reported at cost and those at valuation; and
- changes in the valuation should be recognised in the statement of total recognised gains and losses, except for impairment losses that should be recognised in accordance with paragraph 24.

20. Where assets have previously been capitalised or are recently purchased, information on their cost or value will be available. Where this information is not available, and cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements, the assets will not be recognised in the balance sheet *and should be treated in accordance with the Non-Assets-Liabilities Matching Approach.*

21. Valuations may be made by any method that is appropriate and relevant.

22. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. However, where heritage assets are reported at valuation, the carrying amount should be reviewed with sufficient frequency to ensure the valuations remain current.

#### **Depreciation and Impairment**

23. Depreciation need not be provided on heritage assets which have indefinite lives.

24 The carrying amount of an asset should be reviewed where there is evidence of impairment, for example where it has suffered physical deterioration or breakage or new doubts arise as to its authenticity. Any impairment recognised should be dealt with in accordance with the recognition and measurement requirements of FRS 11 '*Impairment of fixed assets and good will*'. The objective of FRS 11 is to ensure that:

- a. fixed assets and goodwill are recorded in the financial statements at no more than their recoverable amount;
- b. any resulting impairment loss is measured and recognized on a consistent basis; and
- c. sufficient information is disclosed in the financial statements to enable users to understand the impact of the impairment on the financial position and performance of the reporting entity.

FRS 11 sets out the principles and methodology for accounting for impairments of fixed assets and goodwill. It replaces the previous approach whereby diminutions in value were recognized only if they were regarded as permanent. Instead, the carrying amount of an asset is compared with its recoverable amount and, if the carrying amount is higher, the asset is written down. Recoverable amount is defined as the higher of the amount that could be obtained by selling the asset (net realizable value) and the amount that could be obtained through using the asset (value in use). Value in use is calculated by forecasting the cash flows that the asset is expected to generate and discounting them to their present value. Where individual assets do not generate independent cash flows, a group of assets (an income-generating unit) is tested for impairment. Impairment tests are only required when there has been some indication that impairment has occurred.

#### **Donations**

25. The receipt of donations of heritage assets should be reported in the *Performance Statement* at valuation. Where, exceptionally, it is not practicable to obtain a valuation of heritage assets acquired by donation, the reasons why should be stated. Disclosures should also be provided on the nature and extent of significant donations of heritage assets.

#### **6.1.2. Non- Assets-Liabilities Matching Approach**

According to this approach, heritage assets are considered as legally, culturally and socially restricted assets and they should not be capitalized in the balance sheet but treated as **Agent Assets, Trust Assets, Custodial Assets, or Pass-Through Assets**. This approach agrees with Barton (2000 and 2005) that the government holds the heritage assets in trust for present and future generations and has a responsibility to protect and preserve them. The costs of protecting and

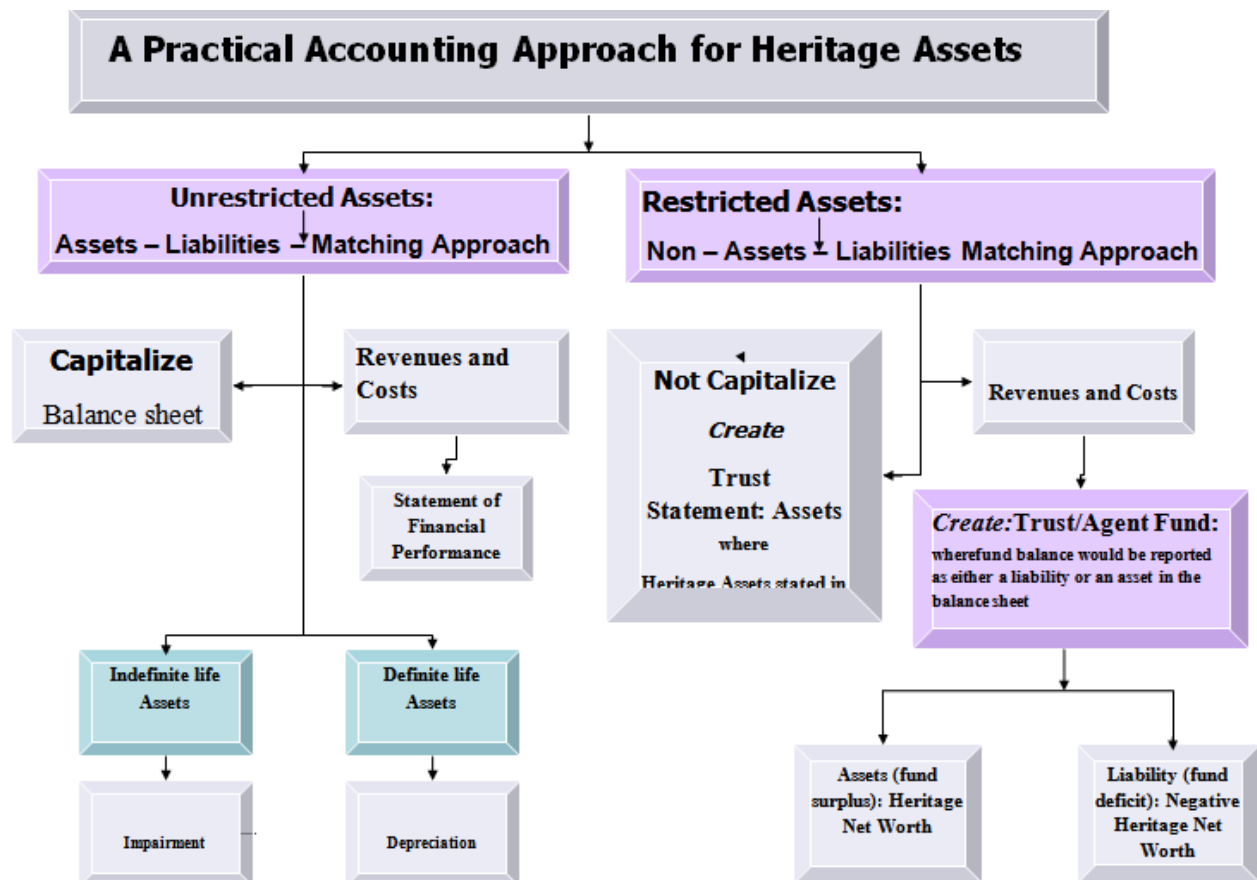
maintaining them should be borne by each generation as they enjoy the benefits from them. As trust assets, public heritage assets should not be included in the government's own statement of assets and liabilities. They should not be regarded of its own financial position and be available to meet its financial commitments. In trust accounting, the trustee is obliged to keep trust assets separate from its own assets and to report them separately (Barton, 2000). This means that the heritage assets are beyond the financial position of the government. The most obvious examples of heritage assets in Egypt that can follow this approach are the Pharaonic antiquities, Greco -Roman antiquities, Islamic-Coptic antiquities, which include museum and gallery collections, other works of art, national archives; and archeological sites, ruins, burial sites, monuments and statues. Consequently, each country should create an **Agent/Trust Assets Statement** where heritage assets stated in this statement *in physical units not in financial values*. The statement of trust assets should include a description of major categories (types), physical units added and withdrawn during the year, a description of the methods of acquisition and withdrawal. In addition, an explanatory note (note disclosure) should supplement the statement of trust assets. The note disclosure related to heritage assets should provide the following: (FASAB, 2005)

- a. A concise statement explaining how they relate to the mission of the entity.
- b. A brief description of the entity's stewardship policies for heritage assets. Stewardship policies for heritage assets are the goals and principles the entity established to guide its acquisition, maintenance, use, and disposal of heritage assets consistent with statutory requirements, prohibitions, and limitations governing the entity and the heritage assets.
- c. A concise description of each major category of heritage assets. The appropriate level of categorization of heritage assets should be meaningful and determined by the preparer based on the entity's mission, types of heritage assets, and how it manages the assets.
- d. Heritage assets should be quantified in terms of physical units. For each major category of heritage assets (identified in c above) the following should be reported:
  1. The number of physical units by major category;
  2. The number of physical units by major category that were acquired and the number of physical units by major category that were withdrawn during the reporting period; and
  3. A description of the major methods of acquisition and withdrawal of heritage assets during the reporting period. This should include disclosure of the number of physical units transferred to and/or from the entity and the number of physical units acquired through donation. In addition, the fair value of heritage assets acquired through donation during the reporting period should be disclosed, if known and material.

Furthermore, heritage assets held in trust may generate revenues indirectly through *admission charges* and incur costs such as restoration and maintenance costs. So in order to account for the revenues and costs related to heritage assets, each county should create a **Trust Fund**

(Agent Fund). This fund will include all the revenues and costs related to heritage assets in a country. The balance of the trust fund would be reported as either a liability or an asset in the balance sheet. If this balance is positive, then it will be considered as an asset (fund surplus) and the

increasing of the net worth will be called **Heritage Net Worth**. Moreover, if it is negative (fund deficit), then it will be considered as a liability and the decrease in the net worth will be called as **Negative Heritage Net Worth**.



## 7. Conclusion

The change of management culture from Public Administration to New Public Management has required all public sector entities to attribute economic values to public sector capital assets including the Heritage Assets, and to produce annual financial reports prepared on an equivalent basis to the private sector model. This paper has argued that reporting framework for private sector entities based on GAAP is inappropriate for the public sector entities that hold the Heritage Assets as those entities and assets are differentiated in purpose and essence. The use of the private sector reporting model in the public sector entities has led to proposing of accounting approaches which did not take into consideration whether there are legal, cultural or/ and social restrictions on the disposal of heritage assets or not. In addition, they did not recognize the consequences of capitalization and not capitalization of heritage assets on the net worth and the performance statement respectively. As this can lead to exaggeration of net worth if one country like Egypt, that possesses two-thirds of worldwide heritage assets, has capitalized all its heritage assets. It can also lead to the distortion of the performance statement if the Egyptian government has not capitalized the heritage assets and expensed them in the account of revenue and expenditures.

This paper also argues that the use of private sector financial reporting in the public sector entities that hold the Heritage Assets fail to provide information to stakeholders that conforms to the qualitative characteristics of usefulness outlined in the conceptual framework for General Purpose Financial Reporting by public sector entities – IPSASB (2013). In addition, the NPM assumptions claim that reporting all Heritage Assets held by public sector entities in economic terms improves accountability in those entities. In fact, considerable body of studies are against these assumptions and argue that the non-financial information can be considered as an example of the opportunity for cross-disciplinary deliberation to determine the most appropriate accountability form for the heritage assets. For example, a virtual tour of the heritage assets would be a better mechanism for accountability with the possibility of interrogation of the guardians on line than trying to force a number value them (Barker, 2006). Accordingly, the assignment of economic values to heritage assets is not the only way to enhance and discharge accountability for heritage assets.

Therefore, there is an urgent need to develop a new Accounting Approach that focuses on consistent and transparent accounting treatment for heritage assets, to take into account whether there are legal, cultural and social restrictions on the disposal of heritage assets or not and to avoid the exaggeration of net worth and the distortion of performance statement. This approach is proposed in this paper and it is called a **Practical**

**Approach.** The Practical Approach has been based on the following two sub-approaches:

- **Assets-Liabilities Matching Approach:** Capitalize if the information on cost or value of heritage assets is available and heritage assets can be disposed, and hence they can be used to match the liabilities. (**Unrestricted Heritage Assets**). According to this approach, heritage assets should be included in the statement of financial position. In addition, the revenues and costs related to heritage assets should be included in the statement of financial performance. The adoption of Assets-Liabilities Matching Approach does not require completely new accounting standards. In fact, there are different accounting standards that have been developed and can be used by this approach such as UK-ASB-FRS 11, 15, and 30 and the Accounting Guideline GRAB 103 of Republic of South Africa. However, in order for these accounting standards to be consistent with the practical approach, there should be some amendments to these standards.
- **Non- Assets-Liabilities Matching Approach:** Not-Capitalize if the information on cost or value is not available or available but heritage assets cannot be disposed, and hence they cannot be used to match the liabilities. (**Restricted Heritage Assets**). According to this approach, heritage assets should not be included in statement of financial position and should be treated as trust/agent assets. Therefore, each country should create a Trust/Agent Assets Statement where heritage assets stated in this statement in physical units not in financial values. So in order to account for the revenues and costs related to heritage assets, each county should create a **Trust Fund (Agent Fund)**. This fund will include all the revenues and costs related to heritage assets in each country. The balance of the trust fund would be reported as either a liability or an asset in the balance sheet.

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