



PULSAR

Financial Reporting Community of Practice (FINCOP)

5th Workshop

Key issues related to accounting for public fixed assets
Illustrated using heritage assets

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Agenda



- **Introduction**
- **Key issues in recognition of public fixed assets**
- **Key issues in measurement of public fixed assets**
- **Key issues in presentation of public fixed assets**
- **Summary**



Introduction

Introduction



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- The recognition, measurement and presentation of public fixed assets pose one of the biggest implementation challenges when transitioning from cash accounting to accrual accounting:
 - Volume of assets to be dealt with Information at hand usually incomplete and of poor quality
 - Application of materiality during first time adoption is challenging
- The objectives for using public fixed assets are sometimes not clearly stated/defined
 - Public fixed assets are sometimes „residuals“
 - PFM system sometimes provide rather „input based“ information than „output based“
- Question of control (different from who paid for it)

Introduction - Example



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- The Austrian Museum „Belvedere“ possessed 18.600 pieces of art at the point of the opening balance sheet yearend 2012.
 - Some of them have been transferred from the federal government at the inception of the Museum
 - Some of them have been acquired during the 230 years of operation of the museum
 - Some of them have been donated to the museum
- Objectives of the Museum: „to convey, collect, preserve, document, research and exhibit its art collections“
- Does the Federation control these assets?



- **Sources of information:**
 - Federal Museum Law
 - Federal Museum Regulation
 - Founding bylaws of the Museum
 - Achieves
- 273 pieces of art (1,5%) could be measured with acquisition cost (totaling 3,7 mn EUR).



Key issues recognition of public fixed assets

When is a public fixed asset an asset ?



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- IPSAS Conceptual Framework: Control, resource to the entity, past event

- Is it a resource?

Schönbrunn-Law states that the purpose of the palace is to maintain and preserve the historic site and foster and improve the cultural and economic potential.

- Is it controlled?

Schönbrunn-Law gives executive powers (e.g. opening hours), holding events, etc.; revenues flow to the republic, risks are associated with the republic,

- Is there a past event?

In November 1918, the palace was transferred to the Austrian republic, entry in the land register

- Reliably measureable (uncertainty inevitable)

- Is the measurement relevant, comparable, understandable and verifiable?



Which one is the reliable one?

Current book value (historic cost):
285,69 mn EUR
Annual depreciation: 2,9 mn EUR
Accumulated depreciation: 14,5 mn EUR (since 2013)

Shows operational capacity and investment needs

Market Value (Income) ?
32 mn. EUR Ticket revenue p.a.
99 years useful life
Discount rate?

Shows financial capacity

Reconstruction Cost?
Average annual investment; 8mn EUR last 25 years

Shows operational capacity and investment needs



Key issues measurement of public fixed assets

Frameworks for measuring public fixed assets



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- Information to be known about the asset
 - Main purpose for holding the asset (reporting objectives)
 - Management Principles: Budget laws, constitutions, finance laws (value for money, prudence, sustainability, economic use)
 - Tradition/track record within the administration
 - Performance Information (First time recognition, impairment, useful live)
 - Operational Information (First time recognition, impairment, useful live)
- Information about the selection and perception of accounting principles:
 - Primary reporting objectives (financial capacity, operational capacity, cost of service)
 - Historic Cost vs. Current Values
 - Service Potential vs. Economic Benefit
- IPSAS allows for options but Preparares have to make their decisions reflecting their circumstances

Example - Austrian framework for measuring public fixed assets



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- Art. 51 (8) Austrian Federal Constitution: „the budget execution has to follow the principles of impact orientation, especially in the sense of gender equality, transparency, efficiency and the true and fair view of the financial position“

Art. 75 „Disposal of fixed Assets“

Restricts sale of assets to instances where they are not used for service provision.
Transaction values above 5mn EUR need a separate law.
Donations of fixed assets for public services (public transport, energy, etc.) above 0,04 mn EUR need a separate law.

Law for the Organization of Federal Ministries

Generation of Income is not mentioned.
Sustainability of service provision is not mentioned.



- Accounting principles and purposes of entities should be reviewed during a transition from cash to accrual

Conclusion for measurement of public fixed assets

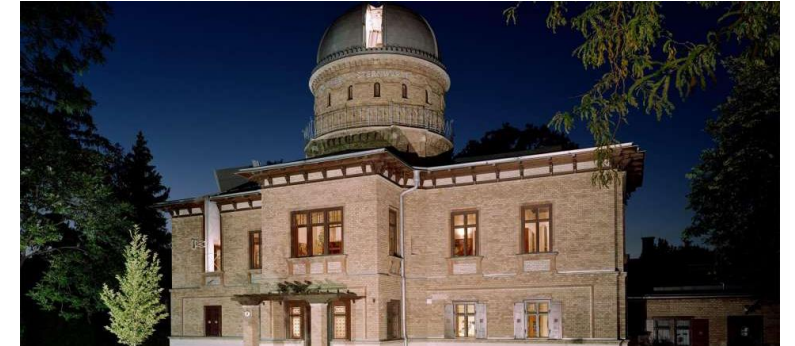


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Kuffner Observatory

- Educational Purpose
- Research Purpose
- Operated by the Vienna Adult Education Center

Build in 1886 as a private research facility, nationalized during World War II, reconstituted to the private owners in 1950, bought by the city of Vienna in 1987.



Two big groups of fixed assets:

- Building
- Technical Instruments

Given these purposes of the entity and all measurement would possibly make sense:

- Market Value: Financial Capacity (opportunity cost, determine residual budget subsidy)
- Replacement Cost: Operational Capacity (e.g. instruments have to be replaced to fit research purposes)
- Historic Cost: Cost of Service (e.g. Cost of maintenance of buildings)

Decisions have to be in line with reporting objectives, data availability and the purpose for holding the public fixed assets.



Key issues disclosure of public fixed assets

Key issues disclosures of public fixed assets



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- IPSAS requirements (Methodology and presentation of asset value over time)
- Additional special public interests about fixed assets:
 - Asset Management Policies / Stewardship
 - Budget implications and appropriations
 - History and specificities of the asset
- Which political discussions do evolve around public assets?
- What kind of services do citizens expect by the use of the asset?



Summary

Summary



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- Public fixed assets pose a challenge for first time adopters due to their volume and the information available
- Information about whether public fixed assets have to be recognized can be found in laws, regulations, contracts or actual practice of public administrations (
- Policy decisions on measurement should reflect the reporting objectives, the purpose of the asset to the entity and the available information
- Performance and operational information has to be collected in a systematic way to support first time recognition, subsequent measurement (depreciation/impairment) and disclosure
- Having a clear strategy on the approach of the recognition, measurement and disclosure of public fixed assets is key to an efficient and successful implementation

Thank you for your attention!
Happy to discuss!