

## A Case Study on Accounting for Heritage Assets

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**Abstract:** Malaysian Public Sector Accounting Standards (MPSAS) are introduced in tandem with the implementation of accrual-based accounting in the public sector setting. The aim is to improve the efficiency of financial management and accounting practices of the Malaysian Government. Based upon a case study of a large museum in Malaysia this study aims to examine the current accounting practices of heritage assets in order to reveal the gap between the current practice and the possibility of compliance with accrual based accounting. A museum was selected as museums are the government agencies that are directly involved in managing heritage assets. Qualitative approach involving interviews, observations and documentation review were used to gather the data. The findings shows that the museum is in the process of preparing for the full implementation of the accrual-based accounting. The findings of this study do not only contribute to the existing literature on accounting for heritage assets in Malaysia but also to shed lights on loopholes in the current accounting practices.

**Key words:** Heritage assets, accrual-based accounting, public sector, museum, approach

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### INTRODUCTION

Public sector entities in Malaysia comprise the Federal government, state governments and local authorities. Under the Federal and state governments there are statutory bodies that are governed under the Statutory Body Act 1980. Museums are statutory bodies governed either by the Federal or state government. Currently, statutory bodies are using the modified accrual basis in preparing their financial statements.

In an effort to improve the efficiency of financial management and accounting of the Malaysian government, the Prime Minister introduced the Strategic Reform Initiatives (SRI). One of the key initiatives of the SRI is the implementation of accrual accounting. Following this, the SRI Public Finance Lab which was held on February 21 to April 1, 2011, stipulated the implementation of accrual accounting in the Federal government beginning 2015 (as required under Treasury Circular 4/2013) but later postponed it to 2017. For the State governments, the implementation will also take effect in 2017.

The transformation of the accounting basis to full accrual basis that will take effect in 2017 is expected to provide more accurate and transparent disclosure, including of government performance. In order to reap these benefits, migration towards full implementation of accrual basis of accounting requires compliance with the

Malaysian Public Sector Accounting Standards (MPSASs). One important provision in the MPSASs is the introduction of accounting for heritage assets. In particular, MPSAS 17, Para 9 highlights the importance of heritage assets as part of property plant and equipment. Notwithstanding the issuance of this provision, not much is known about the current reporting status of heritage assets in Malaysia. To what extent does the museum aware of the MPSAS 17? How do they value heritage assets? These questions have motivated the researchers to embark on this study, by focusing on acquisition, recognition, valuation, recording and disclosure of heritage assets.

In view of the above this study examined, using case study analysis, the current accounting practices with regards to government heritage assets in Malaysia.

**Literature review:** Heritage assets are generally defined as physical assets that a community intends to preserve indefinitely for their cultural, historical, recreational or environmental importance, rather than for income generation. These would include works of art, museums, library collections, buildings, monuments, memorials, national and state parks, maritime parks, archaeological sites, etc (Barton, 2000). The characteristics of heritage assets as described by MPSAS 17 Property, Plant and Equipment are as follows:

- Their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on market price
- Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale
- They are often irreplaceable and their value may increase over time even if their physical condition deteriorates and
- It may be difficult to estimate their useful lives which in some cases, could be several 100 year

From the definition of heritage assets, it is apparent that museums are among the prominent agencies that are dealing with this kind of assets. In Malaysia, museums are governed by the Department of Museums, Ministry of Unity, Culture, Arts and Heritage. Consistent with their role, museums are established to preserve, conserve and disseminate knowledge about the country's historical, cultural and natural heritage.

Currently, State Museums adopt either the Malaysian Financial Reporting Standard (MFRS) or Malaysian Private Entities Reporting Standards (MPERS) to prepare their financial statements. In relation to recording assets, the agencies currently refer to MFRS116 and MPERS, Section 17. However, in those Standards there is no specific provision with respect to heritage assets, thus leading to inconsistency of accounting treatment for heritage assets among the State Museums. In order to overcome such inconsistency, the Malaysian government has introduced the MPSAS which must be complied with. It is important to note that MPSAS is an adaptation of the International Public Sector Accounting Standard (IPSAS) after a reviewing process by the authorized committee to accommodate the Malaysian accounting environment.

One of the provisions adapted is IPSAS 17. It deals with property, plant and equipment which is currently known as MPSAS 17. A portion of the provisions in MPSAS 17 emphasizes on accounting for heritage assets. This Standard which applies to all government entities (particularly museums which directly deal with heritage assets) which prepare their annual financial statements, will take effect beginning or after 1 January 2017.

The objective of MPSAS 17 is "to prescribe the accounting treatment for property, plant and equipment, so that users of financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are: the recognition of the assets; the determination of their carrying amounts and the depreciation charges and impairment losses to be recognized in relation to them". Specifically, MPSAS 17

Paragraph 9 states that the Standard does not require an entity to recognize heritage assets unless they meet the definition and recognition criteria for property, plant and equipment. If an entity does recognize heritage assets, it must apply the disclosure requirements of the standard. However, the entities are not required to apply the measurement requirements as stipulated in the standard.

MPSAS 17 Paragraph 10 describes heritage assets as assets with cultural, environmental or historical values. These include historical buildings and monuments, archaeological sites, conservation areas and nature reserves and works of art.

In addition, MPSAS 17 Paragraph 11 states that for some heritage assets that have future economic benefits or service potential other than their heritage value (such as a historic building being used for office accommodation) they may be recognized and measured on the same basis as other items of property, plant and equipment. On the other hand for other heritage assets, of which their future economic benefit or service potential is limited to their heritage characteristics (such as monuments and ruins), the existence of both future economic benefits and service potential can affect the choice of the measurement base.

MPSAS 17 Paragraph 12, on the other hand, discusses disclosure requirements for heritage assets which meet the property, plant and equipment definition. In addition to this disclosure requirement, the Accountant General's Department has made it compulsory for heritage assets to be recorded in the accounts if it is gazetted under the National Heritage Act 2005. If its cost cannot be determined then the heritage asset shall be measured at the nominal cost or token price of RM1.

Information gathered from previous studies in overseas generally shows that there are three different opinions relating to the treatment of heritage assets: disclosure as assets; disclosure as liabilities and non-disclosure of neither asset nor liability. The proponents for disclosure of heritage assets in the balance sheet concur with the Institute of Chartered Accountants of New Zealand (ICANZ) and Australian Accounting Standards Board (AASB) whereby they maintain that everything from public monuments erected by local authorities to the butterfly specimens in regional museums should be recognized as heritage assets. Such treatment is specifically due to the continuing use of such assets by the library, museum, art galleries and other entities in the provision of services to the community (Hooper *et al.*, 2005).

The opinion of Nasi *et al.* (2001) is reflected in Canada, the UK and the United States which do not include heritage assets in the financial statements of their

government departments, local authorities or trust entities. In addition to the above perspectives, Ouda (2014) who conducted a study in Egypt, proposed a new accounting treatment for heritage assets, known as practical accounting approach. This approach is based on two sub-approaches namely: asset-liabilities matching approach and non-asset-liabilities matching approach. According to the first approach, if the value of heritage assets is available and can be disposed, the assets should be included in the balance sheet and their revenues and costs should be reported in the income statement. The second approach suggests that the heritage assets should not be included in the balance sheet if they cannot be disposed, irrespective of the availability of the value of the assets. Instead, the assets should be treated as trust/agent assets and be reported in terms of physical units rather than financial values in the trust/agent assets statement. In addition, a Trust Fund should be created to account for revenues and costs related to heritage assets of a country. The resulting Trust Fund balance must be reported as either an asset or a liability in a balance sheet.

With the introduction of MPSAS 17 and an overview of the different perspectives of heritage assets, it is the researchers' aim to examine the accounting practices of heritage assets in a leading State Museum in Malaysia.

## **MATERIALS AND METHODS**

This study adopts a qualitative approach to investigate the accounting practices of heritage assets in museum. A single case study approach was used. TSM Museum (TSM) was chosen as it is the largest museum in Southeast Asia. Furthermore, the museum has been obtaining a clean Audit Report since 2007. A clean or unqualified opinion states that the financial statements present a fair and accurate picture of the organization and comply with generally accepted accounting principles. The case study method was chosen because it enables the conduct of a detailed analysis using multiple sources of data. The approach involves interviews, observation and documentation review. Multiple data resources were used to enhance the quality of data in this study.

This study adopts a semi-structured interview to collect qualitative data. Interviews were conducted with management team and staff of the museum directly involved in the financial management of the heritage assets. Specifically, interviews were conducted with the Head of Finance and a key personnel from the Research and Documentation Sector. Face-to-face interviews were recorded with the permission of the interviewees. Short notes were also taken in order to incorporate facial expressions and the surroundings during the interview sessions.

An observation approach is adopted in order to provide more information of the organizations under study. Observations were also made in the museum and the surroundings in order to understand the inventory control system, exhibition areas and security system and administration area. In order to ensure systematic observations, at least two observers were involved in the museums under study. It is believed that through observation, the untold story (as per interviews) of what people actually do may be revealed. In addition, relevant documents such as annual reports and photos were compiled for examination.

In analyzing the data, the recorded interviews were transcribed and checked against the short notes. Thematic analysis of the interview scripts was performed. This thematic analysis consists of identification, codification and categorization of the main themes that emerged in the data. This approach follows, Miles and Huberman (1994). Two coding techniques proposed by Strauss and Corbin, involve open coding (which consists of breaking down, examining, comparing, conceptualizing and categorizing data) and axial coding which entails a set of procedures, whereby data are reallocated in new format after open coding, by making connections between categories.

Findings from observations were noted down and checked amongst observers to ensure reliability of the observations. Only observations which were agreed to unanimously by the observers were considered reliable for the study. With regards to the annual reports and other relevant documents, close examination of the data was performed to investigate the reporting of the heritage assets in the financial statements.

## **RESULTS AND DISCUSSION**

Findings of the study shows that there are 19 types of heritage assets collected by the TSM such as paintings, clothing and jewellerys, houses, musical instruments, war weapons, religious equipment, traditional medical and black magic tools, agricultural collections, various kinds of transportation, games and entertainment, livestock, masks, wayang kulit, collections from Sabah and Sarawak and collections from abroad. The heritage assets in the TSM are acquired in the following manner.

**Purchase:** In order to purchase heritage items, a TSM officer will first be sent to examine the authenticity of the items of interest. Based on his/her recommendation, a decision on whether or not to purchase the items will be made. For an item with a value of RM10,000 and below, the decision to purchase rests with the Director of the TSM. This decision, among others, depends on the availability of the item in the Museum's collection. The

process may take only a day to complete. For an item with the value exceeding RM10,000, the decision to purchase rests with the Valuation Committee and endorsement from the Director of the TSM. The Valuation Committee comprises the Director of the TSM, curators and assistant curators. This committee is also responsible to ascertain the value of the items. After the purchase, the items will be placed at the repository where the registration and recording activities will be performed. The items will be taken out for exhibition when needed.

**Field work:** The items collected in this manner consist of specimens, wildlife, flora and fauna and stones. For wildlife collection, it involves hunting activities with the permission of the State Wildlife Department and National Parks.

**Excavation:** Excavating activities are carried out in historic places to obtain archaeological artefacts.

**Donation:** The collection of the Museum is sometimes augmented by individuals who have collected the items for free.

**Loan:** Collections can be borrowed from an individual or institution. Occasionally, a token is given to the lender for such loans. The duration of the loan is normally for a short period of time, for instance three months.

**Inheritance:** Inherited items are normally given by an individual who has a large collection of artefacts. In relation to recording the heritage assets, the purchased heritage assets are recorded at a predetermined value in the statement of financial position. The mechanism to record the items is either based on the current value or the demand for the item. Hence, this is in line with Hooper *et al.* (2005) whereby they agreed that heritage assets to be disclosed in the statement of the financial position. However, it inconsistent with the findings of Nasi *et al.* (2001), that do not include heritage assets in the financial statements.

The non-purchased collections are recorded in the inventory log book list but no monetary value is assigned. In other words, the non-purchased collections will not appear in the Statement of Financial Position of the TSM. However, improvement can be done regarding this matter as the Accountant General's Department has made it compulsory for heritage assets to be recorded in the accounts if it is gazetted under the National Heritage Act 2005. The rule is if its cost cannot be determined, then the heritage asset shall be measured at the nominal cost or token price of RM.

The recording process for the heritage assets is done manually using Microsoft Word. The process begins with a photograph taken of the artefact. The details of the artefact are then recorded following the prescribed format containing: Local Order (LO) number; date of LO; name of the artefact; price of the artefact and measurement of the artefact. Each item needs to have its own registration number which acts as an identity card.

Relating to the valuation of the heritage assets, it was found that there is no specific standard being used by the TSM for the valuation of heritage assets. There is no depreciation for all collections. Instead, they appreciate accordingly. According to the respondent:

“The museum collection is not depreciated, it is similar to the land. All heritage assets are not subjected to depreciation, instead their values increase”

From the examination of the annual report, it is discovered that heritage assets are disclosed separately from plant, property and equipment in the statement of financial position. They are classified as heritage assets and exhibition collections. There is no further explanation in the notes to the accounts. However, the details are available in the inventory log book list and the information is not disclosed to the public.

With the implementation of MPSAS 17, the TSM faces two-fold challenges. Firstly, the Museum has to decide whether or not heritage assets be recognized as assets (categorized under the property, plant and equipment). Secondly, the disclosure requirements apply to those heritage assets that are recognized. The Head of the Accounting and Finance Department further claimed that the staff need training on the implementation of MPSAS 17. Therefore, the management has plans to send the staff for specific workshops and courses for exposure. The respondent mentioned that:

“My staff will be sent for training. actually they have been exposed on the matter relating to the accrual based accounting. cooperation will be held with the National Audit Department”

The respondent believes that the understanding of MPSAS 17 among museum staff is crucial to ensure the success of the implementation of this standard.

## CONCLUSION

In tandem with Malaysia's Transformation agenda under the New Economic Model and the implementation

of the Outcome Based Budgeting (OBB), accrual-based accounting has been introduced to the government agencies with the aim of having a prudent fiscal management system and improving the efficiency of financial management and accounting system of the Malaysian government. The implementation will take effect in 2017 for both Federal and state governments. For this purpose, MPSAS has been introduced by the Accountant General's Department of Malaysia as a main reference to apply accrual-based accounting. One provision which is highlighted in MPSAS is MPSAS 17 which deals with heritage assets.

Although, MPSAS 17 will only take effect in 2017 this study attempts to examine the early adoption of accounting practices of heritage assets by a selected museum. The researchers were curious to know how the selected museum is doing it and to uncover the gap between current practices and the future requirements. A single case study approach was conducted using interviews, observations and examination of secondary data. Based on the available data, the study finds that the implementation of accrual-based accounting in the selected museum is at its initial stage. Slight awareness on MPSAS 17 was demonstrated among the accounting staff of the museum under study. This is understood as the implementation of full accrual basis and MPSAS are still at the early stage not only for the museum but also other government agencies. In terms of disclosure of the heritage assets, relatively minimal information is available. These issues can be tackled by providing proper training, appropriate facilities and infrastructure. Furthermore, specific legal provisions, benchmarking and well-established Standard of Procedures (SOPs) may assist museums to improve their reporting practices on par with reputable foreign museums.

The results of this study may contribute in many ways. From the theoretical perspective this study adds to the existing literature on accounting for heritage assets, particularly in the Malaysian public sector environment. In practice, the study highlights the current practices of accounting for heritage assets in Malaysian State Museums. The findings shed light on loopholes in the current accounting practices such as in measurement, recording, reporting and disclosure of heritage assets.

### **LIMITATIONS**

While this study undoubtedly contributes to both the body of knowledge and practice, it is not without

limitations. The first limitation is the inherent weakness of the case study itself, whereby the findings which are based on a single state museum cannot be generalized to the whole population. Notwithstanding this, the information gathered from TSM Museum are believed to represent the practice of other state museums. The interview approach and the interpretation by the researchers may also create bias. However this shortfall was overcome by collecting data from observations and secondary sources such as annual reports, regulations and websites.

### **RECOMMENDATIONS**

This research may be extended in future by examining the real practices of MPSAS 17 after year 2017, i.e., post-implementation of MPSAS 17. For that purpose, the selection of all state museums is recommended to investigate the disclosure of heritage assets in the financial statements. Further, comparisons in reporting between museums may provide insights on best accounting practices for heritage assets.

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