



CHARTERED ACCOUNTANTS  
AUSTRALIA + NEW ZEALAND

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Technical Director  
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International Federation of Accountants  
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Submission via [www.ifac.org](http://www.ifac.org)

Dear John

## Submission on Consultation Paper: Financial Reporting for Heritage in the Public Sector

We welcome the opportunity to comment on the Consultation Paper: *Financial Reporting for Heritage in the Public Sector* ("the CP"). We applaud the Board for recognising the important role that heritage items have in our society and the need for them to be separately considered. Our responses to the specific questions raised in the CP are set out in Appendix A. Appendix B includes more information about Chartered Accountants Australia and New Zealand (CA ANZ).

We support the objective of the CP to reduce divergence in accounting for heritage items and believe the CP is a useful starting point to address this. Clarifying the treatment of heritage items will improve the communication effectiveness of financial reports for accountability, and enhance the usefulness of information provided to users for decision making. Additional benefits include supporting entities to demonstrate their need for ongoing funding for preservation purposes.

### The New Zealand context

In New Zealand the accounting standards for public benefit entities (PBEs), which includes public sector entities, are mainly based on IPSAS. PBE IPSAS 17 *Property, Plant and Equipment* goes further than IPSAS 17, in that it mandates recognition of heritage assets where they can be reliably measured. In Maori culture, the concept of ownership and how this aligns with the recognition criteria for assets under the Conceptual Framework needs to be considered. There are also sensitivities around assigning a value to certain heritage items with cultural significance.

### Application to not-for-profits

We also note that the PBE Standards in New Zealand are not just applied by public sector entities. They are also applied by not for-profit entities (NFPs). The New Zealand Accounting Standards Board (NZASB) modifies IPSAS for application by NFPs. Where applicable, the language is generalised and NFP-specific illustrative examples are added. NFPs have their own set of unique challenges, and as such the implications for this sector must be considered too.

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## Subsequent measurement

We encourage the IPSASB to further explore the area of subsequent measurement. The New Zealand experience has seen a tendency towards the revaluation model for subsequent measurement and regular cyclical revaluations. Although there is no requirement in PBE IPSAS 17 to use an independent valuer, the existence of in-house experience and expertise in measuring fair value of heritage assets is limited so entities often have to seek an external expert. This method becomes a costly exercise when it is conducted frequently and the usefulness of the approach in terms of the objective of financial reporting is questionable.

Should you have any queries concerning the matters in this submission, or wish to discuss them in further detail, please contact Zowie Pateman (Acting Reporting Leader) via email; [zowie.pateman@charteredaccountantsanz.com](mailto:zowie.pateman@charteredaccountantsanz.com).

Yours sincerely



**Liz Stamford**  
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## Appendix A: Responses to specific questions

- 1 Do you agree that the IPSASB has captured all of the characteristics of heritage items and the potential consequences for financial reporting in paragraphs 1.7 and 1.8?**

We agree that the IPSASB has adequately captured the most pertinent characteristics of heritage items and the potential consequences for financial reporting.

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

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

**Do you agree with the IPSASB’s preliminary view? If not, please provide your reasons.**

We agree with the IPSASB’s preliminary view.

- 3 For the purposes of this CP, natural heritage covers areas and features, but excludes living plants and organisms that occupy or visit those areas and features. Do you agree with the IPSASB’s preliminary view? If not, please provide your reasons.**

We do not agree with the IPSASB’s preliminary view. In our view natural heritage should not exclude living plants. By way of example, our 3000-year-old Kauri tree in New Zealand would meet the characteristics of heritage items but would not meet the description of heritage. We acknowledge this may be a rare occurrence internationally, but we encourage the IPSASB to remain open to the possibility in finalising any definition.

- 4 The special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting. Do you agree with the IPSASB’s preliminary view? If not, please provide your reasons.**

We agree with the IPSASB’s preliminary view. Heritage items may be considered as assets for the purposes of financial reporting if they have service potential or an ability to generate economic benefits.

We are also aware that, from the cultural perspective of Māori, ownership cannot be easily defined. It is often more akin to a custodial relationship, and from this view point some entities may have heritage assets they hold “in trust” on a long term basis.

We note that paragraph 3.3(b) of the CP implies that such assets would likely meet the definition of an asset. We encourage the IPSASB to make it explicit in the drafting of any standard by extending paragraph 3.9(a) to read “purchase or on long term/indefinite lend from an external party.” This would ensure consistent interpretation of the ‘past event for present control’ aspect in the definition of an asset.

- 5 Do you support initially recognizing heritage assets at a nominal cost of one currency unit where historical cost is zero, such as when a fully depreciated asset is categorized as a heritage asset then transferred to a museum at no consideration, or an entity obtains a natural heritage asset without consideration? If so, please provide your reason.**

We do not support recognising heritage assets at a nominal cost. The objective of financial reporting in the public sector is to provide information about an entity that is useful to users for accountability and decision making purposes. In terms of heritage items, assignment of nominal values does not convey the significance of heritage assets or their future claims on public resources. Culturally, this approach may also be seen as insensitive as some of these heritage assets may have a high sentimental value. Users would likely benefit more from disclosure of non-financial information about such heritage items where they cannot be measured reliably.

**6 Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria in the Conceptual Framework. Do you agree with the IPSASB's preliminary view? If not, please provide your reasons.**

We agree with the IPSASB's preliminary view.

We note that even if heritage assets are recognised in the statement of financial position, this information may not be sufficient for users. Interest in heritage items is more often in relation to an entity's ability to maintain and manage such items. Therefore users would likely benefit from disclosure of such non-financial information. In addition, if the heritage asset has service potential, this should be reported as part of the service performance information.

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

- (a) it is not possible to assign a relevant and verifiable monetary value; or**
- (b) the cost-benefit constraint applies and the costs of doing so would not justify the benefits?**

**If yes, please describe those heritage-related situations (or factors) and why heritage assets should not be recognized in these situations.**

- (a) As noted in our response to question 5 above, we believe it would be inappropriate to record heritage assets at any amount other than their full and proper value. We agree there may be situations where a heritage item meets the definition of an asset, but it does not meet the recognition criteria in that it cannot be measured reliably. In this situation, users would likely benefit from disclosure of unrecognised heritage assets.
- (b) In New Zealand under PBE IPSAS 17, heritage assets that can be measured reliably are recognised and evidence suggests the cost of doing so does not outweigh the benefits to users and society. We caution the provision of a choice in any standard, as the decision made might not be for readily defensible reasons. As an example, the decision may be cost driven as opposed to satisfying users' needs. We encourage further discussion on the needs of users. We suggest that the IPSASB conduct further work in this area in order to improve its analysis of the cost-benefit equation.

**8 In many cases it will be possible to assign a monetary value to heritage assets. Appropriate measurement bases are historical cost, market value and replacement cost. Do you agree with the IPSASB's preliminary view? If not, please provide your reasons.**

We agree with the IPSASB's preliminary view that historical cost, market value and replacement cost are the most appropriate measurements bases for heritage assets. However the challenge with valuing heritage assets, by virtue of their inherent characteristics, as acknowledged in the CP should not be underestimated.

Heritage assets are unlikely to have been purchased recently. They are more likely to have been acquired through a donation many years previous, or passed down through generations. Therefore historical cost is unlikely to be known. If historical cost is available it is likely to be so old that it is no longer relevant in the current context.

Restrictions on the sale and/or disposal of heritage assets, their uniqueness, and the absence of an active, open and orderly market means meaningful market values are unlikely to be available. Replacement cost relies on the existence of other assets that would provide the same service potential as the heritage asset being valued, so uniqueness again poses a problem here. Also replacement cost would not be available for heritage assets that are irreplaceable. Restoration and reproduction costs, as proxies for replacement cost, could be possible to estimate but may require significant financial outlay to obtain. Plus some argue that replacement cost does not reflect the 'true' value of certain heritage assets for current and future generations.

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

We note that a common barrier cited by entities in valuing heritage assets is the cost, in both monetary terms and time constraints. Consideration should be given to whether other proxies could be used, for example insurance values, where no other value exists. The IPSASB could facilitate the sharing of alternative methodologies in this regard. A valuation hierarchy, as an integral part of any standard, would be well received.

**10 Subsequent measurement of heritage assets:**

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

**Do you agree with the IPSASB's preliminary view? If not, please provide your reasons.**

We agree with the IPSASB's preliminary view.

**11 Are there any types of heritage assets or heritage-related factors that raise special issues for the subsequent measurement of heritage assets? If so, please identify those types and/or factors, and describe the special issues raised and indicate what guidance IPSASB should provide to address them.**

Where an entity can reliably measure a heritage asset for initial recognition, subsequent measurement is generally also possible. However, we note that in the New Zealand public sector, entities who initially recognise heritage assets using the market value measurement basis tend to use the revaluation model for subsequent measurement. This means that heritage assets are revalued on a cyclical basis regardless of the existence of an indicator that there has been a change in fair value.

This issue is compounded by the limited existence of in-house valuation expertise. This often necessitates the need for entities to engage an external expert. Whilst external valuers are increasing in prevalence, availability can still be an issue for particular specialist items which further adds to the cost of the exercise.

While this approach ensures that the value remains current, there is arguably little benefit to the user. We encourage the IPSASB to explicitly address the use of the revaluation model for subsequent measurement of heritage assets in any standard.

**12 The special characteristics of heritage items, including an intention to preserve them for present and future generations, do not, of themselves, result in a present obligation such that an entity has little or no realistic alternative to avoid an outflow of resources. The entity should not therefore recognize a liability.**

**Do you agree with the IPSASB's preliminary view? If not, please provide your reasons.**

We agree with the IPSASB's preliminary view.

**13 Information about heritage should be presented in line with existing IPSAS pronouncements.**

**Do you agree with the IPSASB's preliminary view? If not, please provide your reasons.**

We do not agree with the IPSASB's preliminary view. User needs in respect of heritage items are likely to be broader than the disclosures required by existing IPSAS pronouncements. We believe the specialist nature of heritage items do require their own specific disclosures. The aspects discussed in paragraph 7.8 of the CP are a good starting point in this regard, for example; information about how the entity intends to preserve heritage items for future generations.

## Appendix B: About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations. We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.