



AUSTRALASIAN  
COUNCIL OF  
AUDITORS-GENERAL

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2 October 2017

Mr. Ian Carruthers  
Chair  
International Public Sector Accounting Standards Board  
529 Fifth Avenue  
New York, NY10017  
UNITED STATES OF AMERICA

Dear Ian

**International Public Sector Accounting Standards Board (IPSASB) - Consultation Paper:  
Financial Reporting for Heritage in the Public Sector**

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on the consultation paper. The views expressed in this submission represent those of all Australian members of ACAG.

ACAG supports the board's work to develop additional guidance on financial reporting for heritage assets and associated liabilities. We agree that the specific and possibly unique characteristics of heritage items do not preclude them from being considered as assets.

Fundamentally, relevant and useful information is paramount to the financial statements, and ACAG is concerned about potential waste of public funds valuing certain types of heritage assets. For example, it will be costly to value archeological and natural heritage assets for little apparent benefit to the users of the financial statements.

Consequently, ACAG questions the utility of applying conventional accounting valuations to the measurement and reporting of many heritage items in the public sector. This on the basis that the public sector's primary function is to fulfill broad economic, environmental, social and cultural objectives.

ACAG believes a framework of relevant non-financial measures defined specifically to measure the social objectives of holding heritage items should be developed. Such a framework would ensure entities are held accountable for the ongoing management of heritage assets under their custodianship/stewardship that have significant 'community value' attached to them.

ACAG believes further research is required to develop a set of generally applicable principles that would support the framework for metrics of cultural 'values' that could be applied by entities holding heritage assets on a custodial basis.

ACAG appreciates the opportunity to comment and trust that you will find the attached comments useful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Greaves', with a large, sweeping flourish extending downwards and to the right.

**Andrew Greaves**  
**Chairman**  
**ACAG Financial Reporting and Accounting Committee**

### Specific Matters for Comment

ACAG's comments and views are provided below:

#### Specific Matters for Comment—Chapter 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?*

*If not, please give reasons and identify any additional characteristics that you consider relevant.*

No.

Additional characteristics of heritage items that could be included in paragraph 1.7 are:

- a) Their service potential and value are not necessarily controlled by any one reporting entity, especially items of natural heritage that may not respect public and private property boundaries.
- b) Their heritage value, which may be expressed in both monetary and non-monetary terms.
- c) Their qualitative social, cultural and natural 'values' are more important, and often significantly greater, than their economic accounting value, which may be nil or negative.

#### Preliminary View—Chapter 2.1

*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 archaeological, 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.*

The reference to 'intent' in the definition could be misleading and be arbitrarily applied by entities to include or exclude assets based on their intentions. Rather, the definition could focus on their intrinsic qualities and the purpose for which they are held. For example, 'items of cultural and natural significance that are preserved for the benefit of present and future generations'.

ACAG questions also including as heritage items those items, which are newly created/reasonably modern, as their heritage or artistic value remains untested, contentious or subjective. For example:

- monuments and other modern artistic structures which have yet to establish their cultural identity or heritage significance
- controversial modern works, including street or mural art
- buildings
- Neighbourhood parks.

#### Preliminary View—Chapter 2.2

*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.*

ACAG believes that living plants and organisms that inhabit natural heritage areas are integral to the ecosystem that supports the natural heritage area and without which the area may not sustain itself in its form and with its unique features.

As an example, the Great Barrier Reef may be excluded because it is composed of living organisms, which are integral to its heritage and community value.

By contrast, some living organisms, such as those held in seed banks, are intended to be preserved indefinitely. These may warrant inclusion as agricultural heritage assets.

Caution needs also to be exercised for natural areas such as rainforests that may contain rare or endangered living plants and animal species that are not located elsewhere. Due to their rarity and specific location, the value attached to the rainforest may need to take into account these living plants and animal species.

### **Preliminary View—Chapter 3**

*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:*

From a theoretical standpoint, ACAG sees some issues, which prevent heritage items from being considered as assets for financial reporting purposes. ACAG expects the element of 'control' to be difficult to satisfy, as entities may manage these assets in a stewardship/custodial role rather than as owner.

ACAG seeks clarification, via additional guidance, on whether the indicators of control contained in paragraph 5.12 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* could equally apply to custodians of heritage assets.

ACAG also considers the inability to reliably measure the heritage item may preclude it from being recognised as an asset.

From a practical perspective with reference to Chapter 2: Objectives and Users of General Purpose Financial Reporting of the Conceptual Framework, it may not necessarily be cost effective, or provide relevant and useful information for the financial reporting users. Another concern is the completeness of the financial information relating to heritage items.

The scope of application may be difficult to apply with consistency; for example, where do you draw the line with the inclusion or exclusion of what is a heritage item? Is it based on monetary value, volume of assets, control of heritage asset, cultural significance, location or other considerations?

### **Specific Matters for Comment—Chapter 4.1**

*Do you support initially recognising heritage assets at a nominal cost of one currency unit where historical cost is zero, such as when an asset was fully depreciated before being categorised as a heritage asset and transferred to the entity, or an entity obtains a natural heritage asset without consideration?*

*If so, please provide your reasons.*

Cost-benefit considerations may make this a practical solution in some specific circumstances. However, our view is that additional descriptive note disclosures covering all heritage assets may be used to better meet the relevance criteria where the reliable measurement objective cannot be met.

In addition, custodial responsibilities such as preservation and maintenance commitments should not be linked to whether a heritage asset is valued and disclosed on the Statement of Financial Position.

ACAG notes the issue raised in paragraph 4.39 about not meeting the measurement objective.

#### **Preliminary View—Chapter 4.1**

*Heritage assets should be recognised 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.*

ACAG agrees that if the recognition criteria (para 4.2) is satisfied then heritage assets should be recognised. However, the recognition criteria could be difficult for some heritage items to meet. The recognition of heritage assets in the Statement of Financial Position will likely promote better accountability for heritage assets, which in turn will likely improve their management and identification of preservation priorities. An accompanying explanatory note disclosure will provide context to the reported financial position amount.

#### **Specific Matters for Comment—Chapter 4.2**

*Are there heritage-related situations (or factors) in which heritage assets should not initially be recognised 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 recognised in these situations.*

ACAG agrees that heritage assets should be initially recognised and measured only when the definition of an asset, and the qualitative characteristics within the Conceptual Framework are met.

ACAG supports the view that some heritage assets are “priceless” and therefore to attribute any monetary value to them would not be relevant or represent meaningful and reliable financial information. For example, there are numerous items recorded on the Australian National Heritage Register that could not be reliably measured and would not provide any benefit by attributing any monetary value to them. Examples of these items include Bondi Beach, the Greater Blue Mountains, and Uluru.

However, some man-made assets due to their nature and characteristics may be able to be measured using established property plant and equipment valuation methodology and therefore provide relevant and reliable financial information. Examples of these items include the Sydney Opera House and Hyde Park Barracks.

ACAG also agrees with the cost-benefit constraint to recognising heritage items. It is not an efficient use of public monies to be required to incur significant costs obtaining independent expert

valuations that are perceived only to provide incrementally more useful information to the financial statement users.

Even in the absence of a relevant and reliable monetary value to assign to a heritage asset, this limitation should not preclude the disclosure of significant heritage assets and their key attributes (e.g. restrictions on use, custodian arrangements etc.) in the financial statement notes.

#### **Preliminary View—Chapter 4.2**

*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.*

As discussed above a practical threshold question is whether it is possible to assign a meaningful and relevant monetary value to the heritage asset.

Referring to the characteristics of heritage items in paragraph 1.7, ACAG would question the rationale for market value and replacement costs being considered as appropriate measurement bases for heritage items other than those with a ready market such as artworks, coins, jewellery, etc. The discussion in paragraph 4.27 considers them to be representationally faithful only in certain circumstances. For example:

- market value for some heritage items which are potentially restricted from sale or rare in nature, noting that restrictions on their sale or use is not unique to heritage assets
- replacement costs (either reproduction cost or the cost of a modern equivalent assets) for items that are often irreplaceable, due for example to the absence of historical raw materials and techniques that were initially used to construct the asset; or that or would not be replaced if destroyed.

However, ACAG notes that some assets can be reproduced with the use of similar materials and features sympathetic with the original heritage design and structure.

Australian government agencies use various state and local government heritage listed buildings, for example court houses, police stations and schools. ACAG questions whether their recorded value should include a heritage component, valued at the cost to replace them with heritage materials, or whether they should be valued just on their functionality.

Historical cost may be the most appropriate measurement base among the proposed measurement bases, given the heritage items' inherent characteristics including:

- a long, possibly indefinite, useful life
- inability to be replicated or replaced by a modern equivalent asset due to preservation requirements.

The cost-based measurement basis may need to include the recognition of maintenance expenditure costs, which will be incurred as a common characteristic of heritage assets. ACAG suggest guidance be developed that distinguishes whether future maintenance costs on these unique assets should be capitalised or expensed as incurred.

ACAG also notes that in paragraphs 4.22 and 4.40, the terms 'restoration' and 'restoration cost' are used in the context of 'reproduction' and 'reproduction cost' respectively (used in the early part of

paragraphs 4.22 and 5.1(b) as well as the Conceptual Framework). We recommend the use of consistent terminology to avoid confusion.

Furthermore, ACAG recommends additional guidance be developed to enable preparers to determine when each of the available measurement bases are appropriate to particular heritage assets.

### **Specific Matters for Comment—Chapter 4.3**

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

ACAG recommends the IPSASB consider examining the measurement objective for heritage assets as it relates to *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. The measurement objective for heritage assets appears to be different from that of most property, plant and equipment. The benefits of heritage assets are primarily perceived to be non-monetary and uneconomic in nature, and therefore not necessarily quantifiable (able to be reliably measured). In other words, the measurement of heritage items primarily facilitates the assets' recognition in the financial statements only.

ACAG recommends that guidance be developed to help determine which measurement method to use. For example, when is market value or replacement cost appropriate?

### **Preliminary View – Chapter 5**

*Subsequent measurement of heritage assets:*

*(a) Will need to address changes in heritage asset values that arise from subsequent expenditure, depreciation or amortisation, 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.*

ACAG considers subsequent measurement of heritage assets will have similar problems as faced with their initial measurement, as per our responses to chapter 4.

ACAG questions the usefulness of the subsequent measurement information, given that the heritage assets' economic benefits are perceived to be primarily non-monetary (service potential to meet an entity's objectives).

As noted in paragraphs 5.7 to 5.9, the subsequent expenditure relating to a heritage asset is often significant as it includes maintenance, preservation, and major repairs. ACAG considers that the special characteristics of a heritage asset (uniqueness, irreplaceable, legal restrictions) will increase the complexity in determining whether such expenditure should be capitalised or expensed. It is unlikely that costs incurred to preserve/maintain a heritage asset will create any additional service potential or functional enhancements to the asset, and therefore these costs would be expensed.

ACAG agrees with the views expressed in paragraph 5.12 about the lack of practicality with being required to revalue heritage assets and the likely cost-benefit implications. ACAG considers that there would be significant barriers to revaluation, including:

- the type, level and availability of valuers

- availability and reliability of comparative market value or replacement cost data
- increased time and cost to perform valuations
- the practical ability to audit the valuation methodology.

ACAG agrees with the views expressed in paragraph 5.10, that the estimation of useful lives of some heritage assets will be difficult due to the special characteristics of the asset. As depreciation represents the consumption of service potential of an asset, for some heritage assets (natural and unique assets) the service potential does not diminish over time.

ACAG questions the relevance and appropriateness of impairing heritage assets as suggested in paragraph 5.11. As the consultation paper alludes to, due to the difficulty in measuring heritage assets, and determining their recoverable amount as the higher of its fair value less costs of disposal and its value in use is highly problematic and questions the usefulness of this information to financial statement users.

### **Specific Matters for Comment—Chapter 5**

*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.*

As the reliable measurement of heritage assets is complex in nature and implicitly subject to a high degree of subjectivity and judgement, the assistance of an appropriately qualified professional valuer would be required in most cases. This raises concerns on their existence, availability, expertise in valuing heritage items (given their uniqueness and often lacking comparative assets), their accounting knowledge in relation to depreciation and impairment considerations, and the overall cost to be incurred in obtaining such a highly specialised/unique valuation. As a result, ACAG question whether a suitably qualified valuer with the appropriate heritage asset and financial reporting knowledge could be sourced in a timely manner.

In addition, ACAG has reservations on how to include considerations for religious or cultural factors that are very significant to some groups in the population, but not others. If you do, how do you include those considerations in the valuation?

### **Preliminary View—Chapter 6**

*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 recognise a liability.*

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

No, ACAG does not support IPSASB's preliminary view, as it will be determined by the cost base selected for initial measurement.

Please consider the cost components of IAS 16, paragraph 16, especially IAS 16, paragraph 16(c) which advocates capitalisation of an initial estimate of costs because of having used the item during a particular period.

Paragraph 6.4 of the consultation paper concludes that it is unlikely that the types of events and transactions listed in bullet points 6.3 (c) and (d) would, on their own, create a legally binding obligation. ACAG agree with this position for 6.3 (d), however, we disagree that legislation that requires entities to preserve heritage items (including penalties for failure to preserve them) would not constitute a legally binding obligation. As an example, some cemetery trusts in Australia are legally required to set up maintenance reserves and recognise associated liabilities to aesthetically beautify the surrounding areas to the cemetery. These legislative liability requirements are enshrined in their enabling legislation.

However, ACAG suggests that guidance be developed that assists in the determination of whether a legally binding obligation meets the liability recognition criteria in the Conceptual Framework. Each obligation will require evaluation on a case-by-case basis.

### **Preliminary View—Chapter 7**

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

*Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and describe what further guidance should be provided to address these.*

Yes, ACAG supports IPSASB's preliminary view that heritage assets should be presented in line with existing IPSASB pronouncements.