

12 September 2017



Mr Ian Carruthers  
Chairman  
International Public Sector Accounting Standards Board  
529 Fifth Avenue  
New York, NY 10014  
USA

**CPA Australia Ltd**  
ABN 64 008 392 452  
Level 20, 28 Freshwater Place  
Southbank VIC 3006  
Australia  
GPO Box 2820  
Melbourne VIC 3001  
Australia  
**Phone** 1300 737 373  
**Outside Aust** +613 9606 9677  
**Website** [cpaaustralia.com.au](http://cpaaustralia.com.au)

Via online submission: [www.ipsasb.org](http://www.ipsasb.org)

Dear Ian

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

CPA Australia welcomes the opportunity to provide comments on the above consultation. CPA Australia represents the diverse interests of more than 160,000 members in 118 countries. We make this submission on behalf of our members and in the broader public interest.

CPA Australia commends the IPSASB for its efforts in developing proposals for public sector financial reporting to include heritage items. We support the approach to draw on the Conceptual Framework in considering whether heritage items could be recognised in financial statements.

We note that the Consultation Paper (CP) does not include any substantive consideration of disclosures to support heritage items. We consider disclosures an important mechanism to allow public sector entities to provide a more complete representation of relevant heritage items. Any financial value that can be attributed to a recognised heritage item is in many cases likely to only reflect some aspects of the value associated with that heritage item. In some cases, the financial value may not provide relevant information or a faithful representation of the special characteristics of heritage items.

We recommend the IPSASB develops proposals on how disclosures may complement or enhance heritage items recognised in financial statements. It is also possible that there may be instances where note disclosures provide information on heritage items that may not be able to be recognised in the financial statements.

Our detailed responses to the specific questions are provided in the attached appendix. If you require further information on our views expressed in this submission, please contact Ram Subramanian, Policy Adviser – Reporting, on +61 3 9606 9755 or at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to be 'Stuart Dignam', written over a horizontal line.

Stuart Dignam  
General Manager, Policy & Corporate Affairs

## Appendix

### **Specific Matters for Comment—Chapter 1 (following paragraph 1.8)**

**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.**

We agree with the characteristics of heritage items as proposed. Restrictions or prohibitions preventing sale, transfer or destruction could also be associated with religious heritage items. The IPSASB may wish to also consider religious restrictions or prohibitions as a characteristic of heritage items. As stated in our cover letter, we believe disclosures should form an essential part of finding a complete solution to capturing and presenting information on heritage items in financial statements.

### **Preliminary View—Chapter 2.1 (following paragraph 2.11)**

**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.**

We support the approach adopted in the CP that draws on the conceptual framework in considering whether heritage items could result in items recognised in the financial statements. We also support using the UNESCO meaning of heritage items as a basis for describing the special characteristics of heritage items. Although religious features are not included in the UNESCO list we recommend the IPSASB considers religious features as well in describing the special characteristics of heritage items.

### **Preliminary View—Chapter 2.2 (following paragraph 2.12)**

**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 are of the view that IPSASB should reconsider its proposal to exclude living plants and organisms for the following reasons:

- The characteristics for heritage items proposed under section 1 include items that have a “long, possibly indefinite” life. However, the proposed exclusion of living plants and organisms are on the basis that they cannot “be held indefinitely”. This approach seems to place a higher threshold on living plants and organisms by requiring them to have an “indefinite life” rather than a “long, possibly indefinite life”.
- There may be examples of living plants and organisms that have a long or possibly indefinite life, through continuous replenishment, that would meet the characteristics test for heritage items. Examples could include the Australian Great Barrier Reef and the Californian Redwood forests.
- The heritage value added to a heritage item through living plants and organisms may be inseparable from other features that add value to that item. For example, living plants and organisms are an essential part of the heritage value associated with national parks and other natural conservation sites. It would be difficult to exclude the value added by living plants and organisms in such cases.

We appreciate that there may be significant difficulties in separately recognising living plants or organisms based on their heritage value. However, it may be possible to consider heritage items that include living plants and organisms as a whole in determining how they may be recognised in financial statements.

**Preliminary View—Chapter 3 (following paragraph 3.11)**

**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 IPSASB's preliminary view that the special characteristics of heritage items do not prevent them from being considered assets for the purposes of financial reporting. We also agree with the view that intangible cultural heritage cannot be controlled by an entity and therefore does not meet the definition of an asset.

**Specific Matters for Comment—Chapter 4.1 (following paragraph 4.17)**

**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 reasons.**

We do not agree with the proposal to recognise heritage assets at a nominal cost of one currency unit as it does not meet the measurement objective of the conceptual framework because it does not provide relevant information on financial capacity, operational capacity or the cost of services. A similar view has been expressed by a majority of IPSASB members in paragraph BC7.41 of the conceptual framework. Where the recognition criteria for heritage assets cannot be met, we suggest the use of disclosures to provide relevant and useful information.

We note that there is worldwide zoo industry practice to recognise zoo animal collections at a nominal value of one dollar. However, in many cases, such collections are considered part of a regional and international collection and not assets within the control of the holding institution.

**Preliminary View—Chapter 4.1 (following paragraph 4.40)**

**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.**

Subject to our comments in the cover letter and in response to the previous question, we agree that heritage assets should be recognised in the statement of financial position if they meet the recognition criteria of the conceptual framework.

**Specific Matters for Comment—Chapter 4.2 (following paragraph 4.40)**

**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.**

As stated in our cover letter, there is a view that monetary values do not necessarily represent the complete heritage value of heritage assets. Many heritage assets preserve historical value for future generations, thereby contributing to society. Societal and economic returns generated by heritage assets can represent the real service potential of such assets and placing a monetary value on such service potential can be highly inaccurate. There will be cases where any valuation technique will misstate the true value of heritage assets.

However, users of public sector financial statements are expected to be knowledgeable. It could therefore be argued that users would be expected to appreciate the limitations of the valuation techniques and valuation bases used in recognising heritage assets. Enhanced disclosures will also assist in providing relevant information to users.

We agree that there is a cost-benefit constraint in valuing heritage assets. In many cases heritage assets are not cash generating. In environments where entities that control such heritage assets could encounter challenges in obtaining funds to maintain or preserve such assets, justifying the expenditure required to value heritage assets may prove extremely challenging.

#### **Preliminary View—Chapter 4.2 (following paragraph 4.40)**

**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 that in many cases some monetary value can be assigned to a heritage asset. However, as discussed in our comments below, we believe there are some significant challenges in measuring in financial terms, the value associated with a heritage asset.

Historical cost, where available, would be a relatively cost-effective measurement option. However, as noted in the CP, it is not always possible to identify historical cost for some heritage assets, for example where they have been acquired without cost or donated. Similar to historical cost, market value, where available would be an appropriate measurement base for heritage assets.

We do not believe replacement cost, or the cost to replace current service potential, can be a meaningful measurement base for valuing heritage assets. By their nature, many heritage assets are unique and cannot be replaced. This characteristic is highlighted in paragraph 1.7(a) of the CP. Also, any replacement value calculated using this measurement base is likely to reflect the operational capacity of the heritage asset rather than its true heritage value. This is demonstrated in the example used in paragraph 4.21, where a replacement cost of a heritage building used as office space could be based on similar office buildings of a similar size and functionality. Whilst such a replacement value is likely to capture the operational value of using the heritage building as office space, it is unlikely to capture the heritage value associated with that building.

We agree with the views expressed in paragraph 4.24 of the CP. We also do not consider net selling price an appropriate measurement base, except in circumstances where an entity is able and plans to sell its heritage assets.

As stated in the CP, many heritage assets are non-cash-generating units and value-in-use would often be equivalent to replacement cost. For the reasons stated in the above paragraph, we do not believe replacement cost, and by inference, value-in-use will be a meaningful measurement base.

Other measurement bases for consideration could include net present value, which may be appropriate for cash-generating heritage assets, or a measurement approach based on future costs to be incurred to maintain or preserve heritage assets.

Measuring heritage can be a complex and require the assistance of an appropriately qualified professional. Given the challenges presented by the different measurement bases that are available to measure heritage assets, the IPSASB may wish to consider a hierarchical approach, similar to that presented in IFRS 13 *Fair Value Measurement*, in arriving at a suitable measurement model for heritage assets.

**Specific Matters for Comment—Chapter 4.3 (following paragraph 4.40)**

**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 have no comments other than those provided in response to the previous question.

**Preliminary View – Chapter 5 (following paragraph 5.14)**

**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.**

**Specific Matters for Comment—Chapter 5 (following paragraph 5.14)**

**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.**

We agree with the comment in paragraph 5.3 that the same considerations apply to initial and subsequent measurement. Our comments in response to the previous question on initial measurement are relevant here.

**Preliminary View—Chapter 6 (following paragraph 6.10)**

**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 IPSASB’s preliminary view that the special characteristics of heritage assets do not, of themselves, give rise to present obligations that would result in the recognition of a liability.

**Preliminary View—Chapter 7 (following paragraph 7.9)**

**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.**

As stated in our cover letter, and reflected in the views of some stakeholders highlighted in paragraph 7.5 of the CP, we believe that the special characteristics of heritage items will require enhanced disclosures to complement the amounts measured and presented in the financial statements. Disclosures may also be required where a reliable financial value cannot be measured for certain heritage assets.

The range of measurement bases available may not always facilitate the capture and presentation of the true value of heritage assets in a meaningful way that meets user information needs. For example, the true heritage value associated with natural heritage items such as mountains may not always be adequately captured in financial terms. Mount Kailash, a mountain in the Himalayan ranges located in

Tibetan China, has religious and historical significance to multiple religions including Hinduism and Buddhism. Whilst it may be possible to place a financial value based on some of the mountain's attributes, it may not be possible to calculate a financial value that reflects its historical or religious significance. In such circumstances, it may be necessary to provide further narrative disclosure that provides users with more information about the heritage value associated with the item.