

IPSASB CONSULTATION PAPER: APRIL 2017.

COMMENTS DUE: SEPTEMBER, 30 2017.

FINANCIAL REPORTING FOR HERITAGE IN THE PUBLIC SECTOR.

SPECIFIC MATTERS FOR COMMENT CHAPTERS 1 AND PRELIMINARY VIEW CHAPTER 2.

QUESTIONS:

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”.

Preliminary View: CHAPTER 2 (following paragraph 2.11); 2.6; (following paragraph 2.12) are outlined below.

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 archeological, architectural, artistic, cultural, environmental, historical, natural, scientific or technological features.

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

Statement 2.6.

“Areas of natural heritage such as conservation areas. Examples include natural features such as mountains, naturally occurring rock formations and bodies of water such as lakes or waterfalls”.

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?”

RESPONSES TO ABOVE:

Preservation of heritage asset for future generations. What do we mean by the statement, as it can have different meanings depending on the viewpoint of public stakeholder/s?

- There is a view by some conservationists that all natural resources should be protected from commercial, even human, activity. The value of nature is asset independent of human

needs and should only be used by humans to satisfy their vital needs. (Devall and Sessions 1998, p. 221).

- Another view is to protect the asset from exploitation, which means that the asset is to serve human requirements. What if any, is the commercial focus (self-interest) of the organisation being held accountable, and will this exploit the asset under management?
- Some artefacts are preserved simply for their own sake.

In the example of the Great Barrier Reef, is the preservation to keep the coral reef in their pristine condition, and human activity limited to tourism? Or does this mean that larger ships can use the reef subject to specific conditions? Thus, the fish and plant life living within the reef may not be preserved in the longer term, giving rise to the question: are we preserving the asset i.e. the barrier reef *per se* for future generations?

Continuing from above, it may be difficult to avoid the management. Thus, some reporting exclusion of living plant-life, as these form part of the 'asset' to be managed and preserved (Chapter 2.2). (Please note the paper 2003 by Purnell *et al.* in which the issue of management and measurement of wildlife for financial statements of a listed public company was inconsistent with sound management practices. The company was subsequently liquidated.¹

Therefore, the definition of the heritage asset, and what constitutes its components; its 'value' to the community, and to the organisation may need be carefully determined prior to an attempt to measure and attach a monetary value/s to the asset to be reported.

¹ Purnell, A., Raar, J. and Hone P. (2003). "Valuation and Reporting Of Native Fauna In Monetary Terms: Compatibility Between A Market Based System And Natural Resources?" in T. Featherstone and J. Batten (eds) *Research in International Business and Finance*, special edition on Governance and Social Responsibility. (A copy can be forwarded if required). pp 173-198.

Furthermore, is the management of natural assets, e.g. wilderness areas, or the Great Barrier Reef, shared by a number of government or regulatory bodies? If so, who has control over the resources needed for its preservation? How are the economic costs and benefits of such assets shared between them?

As mentioned each asset will differ, as will the options to manage for the 'best use' and preserve it for the future (Des Jardins, 2001). The report can include management's goals, and integrate these with the resources used to efficiently and effectively manage their relevant asset.

It is also noted in the Consultation paper in Section 2.7

"Some jurisdictions have developed different ways to identify heritage items. For example

- 1) Schedules or lists enshrined in legislation or regulation
- 2) Criteria or principles enshrined in legislation or regulation
- 3) A defined review and approval process, involving expert recommendation and independent review: or
- 4) A combination of two or more of the approaches above."

RESPONSE:

These are issues for government departments (at all levels of government) that are involved in the management of natural assets, that are not mutually exclusive from the APSASB's definition of "*Natural heritage covers natural features. Examples include mountains, lakes and waterfalls*".

The management of biodiversity may fall outside the above definition, but regulation is placing pressure on government departments, to manage it. Obviously, for some departments, there will be a number

of 'grey' areas, that do not falling into a particular definition or category. As mentioned may e difficult to avoid the management of wildlife and plant life as these may form part of the 'asset' to be managed.

Given regulatory requirements as outlined below; it may be feasible to draw a distinct line between the reporting of heritage assets and the reporting of the plant and wildlife inhabiting the landscape of a specific natural asset!

Please note the following:

Biodiversity legislation review

Draft regulations and other key subordinate instruments that will support the land management and biodiversity conservation reforms were exhibited in May and June 2017.

[🔗 Visit the NSW Government's land management and biodiversity conservation reforms webpage for more information.](#)

Extract from Barut et al. (2016).

"The Australian Government's response to conserve Australian biodiversity is addressed in the Commonwealth *Environment Protection and Biodiversity Conservation Act 1999* (the EPBC Act) and *Australia's Biodiversity Conservation Strategy 2010–2030*. As a framework for biodiversity conservation in future decades, these plans include integrating biodiversity considerations into the management of planning and performance at all levels of government, including local government. This national strategy acknowledges that "local government is a valuable and ongoing contributor to efforts to conserve biodiversity through its role in local and regional planning and, increasingly, through its role in environmental management, monitoring and reporting" (AGDE, 2010, p. 69). Accordingly, the actions and responsibilities of local government authorities (LGAs) makes them important partners in monitoring the state of the Australian environment.

On the global front the UN Convention on Biodiversity, notes that "local authorities ... are considered guardians of natural resources because they set local environment and development policy, are responsible for land-use planning, and develop and manage infrastructure that depend on and/or impact biodiversity, such as water and waste management systems" (UNEP, 2005). The role of LGAs in the biodiversity conservation agenda is crucial, as too is the recognition that they are the custodians of vast biodiversity assets.

The reporting of sustainability issues in public sector organisations is still in its infancy

(Dickinson *et al.*, 2005; Ball and Grubnic, 2007.....”²

QUESTIONS

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 no please provide your reasons. “

RESPONSE.

In 1997, the then Associate Professor in Economics at Deakin University, Phillip Hone published paper in the Australian Accounting Review, entitled “The Financial Value of Cultural, Heritage and Scientific Collections: A Public Management Necessity”³

This paper was written in response to Carnegie and Wolnizer’s 1995 paper, also published in the Australian Accounting Review. The title of their paper was “The financial Value of Cultural Heritage and Scientific Collections: An Accounting Fiction”.⁴ Hone’s paper was based on the literature discussion which flowed from the topic on management and accountability for publicly held heritage assets. While Hone argued for the valuation of heritage assets such as art and museum collections, he suggested that the measurement and value to be attached to the nonmarketable assets would involve ‘a

² Barut, M., Raar, J. and Azim, M.I. (2016) ‘Biodiversity and local government: A reporting and accountability perspective’, *Managerial Auditing Journal*, 31(2), pp. 197–227. doi: 10.1108/maj-08-2014-1082.

³ Hone, P. (1997) “The Financial Value of Cultural, Heritage and Scientific Collections: A Public Management Necessity?” *The Australian Accounting Review*. Vol 7. No. 1. Pp 38-42.

⁴ Carnegie, GD., and Wolnizer, P.W. (1995) “The Financial Value of Cultural, Heritage and Scientific Collections: An Accounting Fiction”. *Australian Accounting Review*, Vol;. 5. No. 1.

multidisciplinary approach'. (p.42). Hone also highlighted that a valuation based on the transaction price is 'a relatively straight forward exercise, the validation of service flows from collections may only be feasible at a procedural level: (42). Non-marketable assets may attract measurements that are not necessarily supported by options outlined the Consultation Paper. The impact on relevance and reliability of the measurement chosen may require deeper consideration, to avoid dilemmas.

While Hone outlined other measurement option/s, he also presented their applicable difficulties e.g (cost-benefit/statistical reliability). For the purposes of responding to this Consultation paper, it is important to highlight that the measurement requirements for a general purpose report (incorporating the financial measurement options outlined), may differ from the measurement information consistent with a report on non- marketable assets and the '*direct and intentional outputs from collection managers*'.

SUMMARY

The IPSASB's Consultation Paper on the financial reporting of heritage assets managed in the public sector, is encouraging. Its objective is accountability, for the sound management of these assets, and the financial benefits and resources used to do so.

Accounting standards have directed their focus to financial benefits and resources used in the management of marketable assets. The valuation and reporting of non-marketable assets, places this standard into a relatively unfamiliar area where relevance and reliability of asset measurement may differ for each asset, and indeed for each organization controlling a similar asset on behalf of the public. Thus as mentioned above, the aspects of measurement relevance and reliability may be worthy of further dialogue.

For some organisations, the reporting of biodiversity within areas of national heritage may need to be aligned with this standard. While this standard is limited to areas of natural heritage alignment its interrelationship with the issue of plant and wildlife may also prompt further dialogue.