

Mr Ian Carruthers  
Chair  
International Public Sector Accounting Standards Board

26 September, 2017

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

Dear Mr Carruthers

I refer to IPSASB's Consultation Paper on Financial Reporting for Heritage in the Public Sector where you have sought consultation responses by due on 30 September 2017.

The Council of Australasian Museum Directors (CAMD) is the regional peak body representing the principal museums in Australia and New Zealand. Collectively we hold more than 100 million heritage collection objects. The asset value represented by the natural and cultural collection objects of our member institutions comprises many billions of dollars and the valuation and auditing of these collections represents a major resource investment by our members.

Many of our members encounter ongoing challenges posed by the absence of a national standard for valuation of collections, with inconsistency in approaches on the appraisal and valuation of objects, the calculation of fair value, revaluation and the itemising of large collections being just a few of the many issues we face. Some of our members hold concerns as to whether collections housed as a public good venture for future generations should be valued at all.

Recognising that the Australian Accounting Standards and the regulatory frameworks of most jurisdictions in Australia require valuation of collections, over the past nine months CAMD has undertaken a considerable body of work aimed towards developing a national framework for valuation of heritage collections. After lengthy consultation between member institutions, we are now at the point of a preliminary draft that still requires a significant amount of work in synthesising with the Australian Accounting Standards as well as consultation with audit agencies and government agencies.

The following is CAMD's response to the specific matters for comment.

**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.**

The Council of Australasian Museum Directors (CAMD) agrees that the items in Chapter 1 encapsulate the key characteristics of heritage items and financial reporting from a Museum perspective. CAMD notes that the question of "scale" needs to be added to the consequences of financial reporting. Most Museums are not-for-profit public agencies or charities and the scale of many collections can number in the tens of millions of objects. The exponential cost of applying

valuation methodologies to large non-commercial collections with a public good intent is at the limit or beyond what most institutions can afford to do in a cost effective manner.

**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.**

CAMD supports the preliminary view but has reservations about the discussion that developed the IPSASB preliminary view. The intent of the UNESCO World Heritage Criteria was primarily place-based to identify areas of outstanding cultural or natural significance. The adoption of this methodology for 'portable' or 'movable' heritage items, e.g. specimens or individual cultural artefacts such as comprise the bulk of museum collections, is not appropriate, and manifests itself, for example, in the discussion paper's mistaken belief that a heritage list would be practicable for museum specimens. Heritage lists provide a statutory means of identifying geographic areas or particular outstanding artefacts but are impracticable for routinely identifying the enormous number of objects comprising a museum collection. If IPSASB were to confirm the preliminary view, it would be essential to divorce this definition from any direct link to UNESCO World Heritage criteria.

**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.**

CAMD disagrees with the preliminary view. Firstly, from the perspective of natural heritage areas, there are many sites heritage listed based on the presence of individual living species. An iconic example is Sequoia National Park, because of the presence of *Sequoiadendron giganteum*. Hypothetically, this would result in IPSASB recognising a national park as requiring valuation, but not being able to provide a value because the preliminary view excludes the asset for which the park is being valued. Similar examples include migratory bird areas etc. Secondly, the definition would exclude the inclusion of important scientific locations such as botanical gardens, again, where the principal asset comprises living species. CAMD also considers that the definition needs to explicitly exclude scientific specimens. Although the definition refers to living individuals, all scientific collections comprise large numbers of preserved, and in some cases, living specimens (as in seed banks, botanical and zoological gardens etc) and this could be the basis for confusion.

**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.**

CAMD agrees with the preliminary view, however CAMD has major reservations about the inability of accounting and auditing bodies to agree on a single cost effective methodology for collections that may number in the tens of millions of objects. While most New Zealand members of CAMD do not value collections, the Australian members of CAMD have experience from the past twenty years of a wide variety of proposed valuation methodologies, all of which have been cost-prohibitive and disruptive to implement. Any valuation methodology needs to factor in the unique character of

Museum collections. The intent of collections is to remove items of scientific and/or cultural significance from general circulation and place them in secure and curated environments for future generations. The dedication of collection objects to future generations is of fundamental importance in understanding the inherent difficulty in valuation of collection objects. This difficulty is amply demonstrated by the collective CAMD experience of the inability of either valuers or audit officials to develop a single repeatable methodology towards even individual items in successive audits. Individual objects are routinely assessed as being “priceless” (without market value) in one assessment and then as having a market value in the next assessment. While there is common acceptance that scientific specimens can be valued at “replacement value”, there is no consistency on what this reasonably comprises. A key concern with valuation of collections is that valuation can lead to motivation to seek financial gain which is at odds with the purpose of making public collections. As valuation is a requirement of most jurisdictions in Australia, CAMD is currently developing a national framework on valuation of collections to use as a reference point. CAMD’s view is that the special characteristics of heritage objects do prevent them from being considered as assets for the purposes of financial reporting, but that those assets do need special consideration.

**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.**

CAMD disagrees with the preliminary view. CAMD insists that a sensible consistent valuation methodology be applied, logically a combination of historical cost (where available), market value (where applicable) or replacement value (for standard biological collections, for example, where it is possible). Using a nominal cost of one currency unit where historical cost is zero, but presumably using either acquisition costs or market value where historical cost is available exists will result in most collections having two identical items of different value. For example, a historically acquired mineral specimen with no purchase information will a nominal cost of one currency unit whereas a second specimen of the same type, purchased for the collection would have a different value. The adoption of a system recognising all heritage objects as assets with a nominal value of one currency unit will skew value based on simple abundance, resulting in a skew towards natural history collections over cultural collections (most natural history collections being far larger than cultural collections) and large collections over small collections. The intent of the IPSASB preliminary view is to value collections based on their heritage value or significance, this methodology fails this essential test.

**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.**

CAMD disagrees in part with the preliminary view. CAMD does agree that heritage assets should be recognised in the statement of financial position if criteria are met. However, the IPSASB proposal that monetary values increase the inherent understanding of a heritage asset for management purposes is demonstrably false. The Australian experience, involving over twenty years of market testability in valuation and audit function has failed to produce a coherent, consistently applicable methodology within or between jurisdictions, resulting in fluctuation in the valuation of even high-value, well understood assets. This has led to collection valuations fluctuating over time and jurisdictional authorities refusing to accept the results of valuations. Even where methodologies have remained consistent over time, valuers and auditors have been demonstrably unable to

consistently agree on market valuations or replacement values because the intangible value of heritage assets causes wide error margins in the application of valuation methodologies. Again, the Australian experience is that it has not been possible to achieve comparability temporally (over time between valuations) or spatially (between jurisdictions). CAMD argues strongly that this is because the tangible value of the asset interferes with recognition criteria making consistency of valuation impossible. CAMD further disagrees with the suggestion of IPSASB that valuation represents a benefit to users and public sector entities. The cost of implementing valuation methodologies in not-for-profit or publicly-funded institutions where the primary management intent is preservation of heritage assets for future generations can be prohibitive. For most institutions of this type, valuation represents a major tactical opportunity cost to financial operations with no strategic advantage to the operational effectiveness of the institution.

**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.**

CAMD strongly agrees with both specific matters for comment. For (a), as CAMD has already submitted under previous questions, the intangible value of heritage collections interferes with recognition criteria making consistency of valuation impossible. Valuations based on market value are highly subjective, vary greatly between valuers and between valuers and audit agencies. The impact of intangibility is demonstrated by the exponential relationship between subjectivity and perceived heritage value – that is, the more unique the object, the more valuation estimates are likely to vary. CAMD believes for valuation to work, there has to be an unambiguous agreed standard based on the uniqueness for those items with market value. With regards to (b) as CAMD has already submitted, public museums are not-for-profit public agencies or charities and the scale of many collections can number in the tens of millions of objects. The exponential cost of applying valuation methodologies to large non-commercial collections with a public good intent is at the limit or beyond what most institutions can afford to do in a cost effective or reliable manner. Any valuation has to recognise the enormous size of many collections and the inability of those collections to be able to apply standard accounting and auditing practices. Collections by definition are gathered over centuries and the records covering them are not digitised, making the cost of application of valuation, counting or audit checking processes run into tens or hundreds of millions of dollars. This must be recognised by IPSASB and any standard must recognise the necessity of using statistical based methodologies.

**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.**

CAMD agrees with the preliminary view. Many Australian Museums already operate under a combination of historical cost, market value and replacement cost. However CAMD raised extreme concern at the inability of accounting and auditing bodies to agree on a single cost effective methodology. As discussed above, the Australian experience, across all jurisdictions, has demonstrated over multiple audits over more than 20 years, that attempting to regard collection objects as assets has failed to produce a consistent, repeatable, reliable, successful methodology for historical cost, market value and replacement cost.

The intangible value of heritage collections interferes with recognition criteria making consistency of valuation highly subjective. CAMD recommends that any standard be developed with advice from the sector on what is possible.

**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?**

CAMD is currently developing a national framework for the valuation of collections to try to develop national consistency in terms of historical, market and replacement costs in the context of jurisdictional regulatory requirements. CAMD would be prepared to share this guidance with IPSASB.

**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.**

CAMD disagrees with the preliminary view in part. Subsequent measurement should encompass additions or losses from the collection, but because of the non-tradable nature of items in the collection, CAMD’s position is that items should only accrue an agreed standard annual value such as CPI or similar.

**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.**

IPSASB has adequately covered these issues, noting that museum objects, by definition, are intended to be retained for active use on very long timescales (in effect, in perpetuity). CAMD would therefore recommend that the statement “Many heritage assets deteriorate over time, although some, for example land and jewellery, do not.” should be altered to reflect the fact that the management intent of most Museum collections is to avoid or minimise deterioration over time.

**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.**

CAMD disagrees with the IPSASB view. In the case of public institutions, there is a statutory basis for the imperative to manage for future generations, not a “moral” obligation. The statutory obligation means there is no realistic alternative to avoid an outflow of resources and therefore there is the ability to recognise 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.**

CAMD agrees with the preliminary view.

Mr Stephen Forbes, the Executive Officer (CAMD), is the central contact point for this matter and may be contacted on +61 484 342 286 or [eo@camd.org.au](mailto:eo@camd.org.au).

Yours faithfully

A handwritten signature in black ink, appearing to read 'Daryl Karp', written over a faint, illegible printed name.

Ms Daryl Karp  
Interim Chair  
Council of Australasian Museum Directors