



AUSTRALASIAN
COUNCIL OF
AUDITORS-GENERAL

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.

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.

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

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

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.