School of Accounting, Information Systems and Supply Chain

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25 October 2021

Mr Ian Carruthers
Chairman
International Public Sector Accounting Standards Board (IPSASB)
529 Fifth Avenue New York, NY 10017 USA
Via online submission: www.ipsasb.org

Dear Mr Carruthers

Submission on Exposure Draft 78, *Property, Plant, and Equipment*

We are five academics and policy specialists from Australia and Europe who have been researching and publishing on accounting standards issues, with particular focus in accounting and accountability in the public sector, as well as accounting for heritage assets.

Our comments on the ED are specially prepared in the context of "heritage assets" and, most particularly, the cultural, heritage and scientific collections of public, not-for-profit cultural and arts institutions. Our comments respond to specific matters for comment 1, 3, 5 and 6, which relate expressly to "heritage assets" and reflect our more extensive and analytical comments presented in our paper (under peer review on the date of writing) entitled "Accounting as technical, social and moral practice: The monetary valuation of public cultural, heritage and scientific collections in financial reports".

The Abstract of this paper is attached in Appendix 1. This paper (under review) is authored by Garry Carnegie, Paolo Ferri, Lee Parker, Shannon Sidaway and Eva Tsahuridu, all of whom in the past have been employed by RMIT University. Parker and Sidaway remain employed by RMIT University, and Carnegie is an Emeritus Professor of the university. This paper is referred to in this submission as Carnegie, Ferri, Parker, Sidaway and Tsahuridu (2021). The paper itself is being separately made available to the IPSASB by means of its provision on this date to Gwenda Jenson, Principal of the Board. It is provided to IPSASB on the basis that the paper is not published, in any form, including on the web site of submissions made on ED 78 or any other IPSASB website or other publication outlet.

Overall, while we commend IPSASB for seeking to further develop and refine the accounting standard pertaining to "property, plant and equipment", we argue that heritage assets are unique in nature, uses and care, specifically aimed at conservation, preservation and protection into perpetuity. Accordingly, we argue that these non-financial resources in the contexts in which they are held under custodianship are expressly excluded from this generic accounting standard on "property, plant and equipment".

Furthermore, we do not support any attempt to recognise the cultural, heritage and scientific collections of public, not-for-profit cultural and arts institutions as "heritage assets" or as any other class of assets in statements of *financial* position. Our comments on the specific matters we are addressing, set out below, are premised on this position as reached by all five authors of the above-titled paper.

Specific Matter for Comment 1

Do you agree with the proposed restructuring of IPSAS 17 within [draft] IPSAS [X] (ED 78)? If not, what changes do you consider to be necessary and why?

Response

- We do not support the extension of IPSAS 17 to include accounting for "heritage assets".
- We do not support any attempt to recognise the cultural, heritage and scientific collections of public, not-for-profit cultural and arts institutions as "heritage assets" or as any other class of assets in statements of *financial* position.

We propose that the collections of public, not-for-profit cultural and arts institutions be accounted for in the manner as advanced by Carnegie and Wolnizer (1996)[1], entitled "Enabling Accountability in Museums" (EAM), which "outlines a set of factual, reliable and interpretable financial and non-financial indicators of the vitality and viability of museums by which the accountability of museum managers may properly be assessed" (Abstract).

The first paragraph of section 4 of Carnegie Ferri, Parker, Sidaway and Tsahuridu (2021) states:

> The prime focus of the analysis of the monetary valuation of public collections proposals in this study is the … [Consultation Paper of IPSASB] rather than the exposure draft (ED78). Although in substance both documents essentially propose the same accounting treatments, it is the CP that has been seemingly endorsed by the IPSASB through 'public consultation' and, therefore, is the subject of our critique. Furthermore, the ED builds on what was developed and proposed in the CP and there were not any key changes pertaining to the treatment of heritage assets observed in the subsequently issued ED. More generally, the CP focussed on heritage assets, while the ED deals with other classes of assets under the extensive umbrella of the somewhat mundane and colourless term of "property, plant and equipment".

[1] Carnegie, G.D. and Wolnizer, P.W., (1996), "Enabling accountability in museums", *Accounting, Auditing & Accountability Journal*, Vol. 9 No. 5, pp. 84-99.

By way of interpretation, the cultural, heritage and scientific collections of public, not-for-profit cultural and arts institutions are *not* property, plant or equipment. This reflects a clear misunderstanding of the nature of these public collections in the organisational and social contexts in which they are held for preservation, conversation and protection into perpetuity.

Carnegie, Ferri, Parker, Sidaway and Tsahuridu (2021) further state in section 4, entitled "Accountability", the following:

> Collections, as non-financial resources in the contexts in which they are positioned, under the unambiguous declared state of custodianship, are inappropriately misclassified as heritage assets or indeed as any other asset.
>
> The financial valuation of public collections does not suddenly or mystically increase the accountability of the custodians of these collections as they, importantly, have no accountability for changes (increases or decreases) in the financial values of objects, however these may be ascertained or even imagined. In other words, custodians of public, not-for-profit collections do not owe this accountability to anyone, that is, they cannot be held accountable for financial values of objects comprising collections to anybody. None of us can be legitimately made accountable for what is not within our formal responsibility. This is particularly the case in the contexts in which these collection objects are held for preservation and conservation as well as for their protection.
>
> ……..
>
> At a more general level, in the CP there is, unfortunately, no apparent attempt to identify, explain or appreciate the world views of heritage professionals (and other non-accounting stakeholders) on the valuation of public collections in non-financial terms in the specific organisational and social contexts in which such institutions operate. As argued by Ferri, Sidaway and Carnegie (2021, p. 984), "professional accountants aspire to attribute financial values to collections, whereas heritage professionals are concerned with the non-financial values of the collections to society". The latter professional community understands and fully "acknowledge[s] the broad-based cultural, heritage and scientific values of prized public collections as well as their educative values, which each represent non-financial values in the unique contexts in which such museums operate (Carnegie and Wolnizer, 1995b, 1996)".[2]

We argue that it is inappropriate to regard heritage assets in the form of cultural, heritage and scientific collections of public, not-for-profit cultural and arts institutions as heritage assets or any other assets. These resources are not financial resources in the contexts in which they are held but are non-financial resources. The IPSASB is respectfully advised not to be dismissive or not seek to appreciate the unique organisational and social contexts in which resources are held. These rare, prized and treasured non-financial resources have been

[2] Ferri, P., Sidaway, S.I.L. and Carnegie, G.D., (2021), "The paradox of accounting for cultural heritage: a longitudinal study on the financial reporting of heritage assets of major Australian public cultural institutions (1992–2019)", *Accounting, Auditing & Accountability Journal*, Vol. 34 No. 4, pp. 983-1012.

declared "off-the-market" (that is, expressly positioned beyond the economics of the marketplace) and are being purposefully held under custodianship for preservation, conversation and protection into perpetuity.

Specific Matter for Comment 3

Are there any additional characteristics of heritage assets (other than those noted in paragraph AG3) that present complexities when applying the principles of [draft] IPSAS [X] (ED 78) in practice? Please provide your reasons, stating clearly what further characteristics present complexities when accounting for heritage assets, and why.

Response

Apart from comments made above in respect to specific matter for comment 1, the conclusions of Carnegie, Ferri, Parker, Sidaway and Tsahuridu (2021) are pertinent in respect to this specific matter, including the following statements:

> Overall, in examining the CP "Financial Reporting for Heritage in the Public Sector" to assess the rationale of the proposed amendments in respect to "users", "decision making and decisions" and "accountability", our analysis reveals that the reasons given are poorly justified and explained. Specifically, the CP, based on a close reading of the document, indicates that:
>
> - The purpose is to benefit users, yet we are not enlightened as to the identity of the users.
> - The information is needed for decision-making, yet there is little-to-no insight provided as to which decisions are to be made based on this information.
> - The information is useful for accountability purposes, yet it remains unclear to whom accountability is owed and for what.
>
> In the absence of clearly defined users who require this information for the purposes of decision-making and/or to ensure that accountability is being appropriately discharged, the relevance of such information is highly questionable. Relevance is a fundamental qualitative characteristic of financial information, with information being considered as "relevant" only "if it is capable of making a difference in achieving the objectives of financial reporting" (IPSASB, 2014, para. 3.6). Apparently, this interpretation of relevance ignores or disallows financial reporting aligned with the objectives or missions of public, not-for-profit cultural and arts institutions.
>
> In this context, therefore, the monetary valuation of collections runs counter to the notion of appropriate accountability, has the potential to undermine trust in the accounting profession due to misreporting and/or misrepresentation of the monetary values of artefacts and raises serious issues around the fundamental moral values of fairness and respect. One may ask, 'is this what accounting should do?' or perhaps 'is this what accounting should not do?' For the purposes of credibility, the accounting profession

would be wise not to depart too far from universally understood notions of proper representation with respect to such unique institutions.

Specific Matter for Comment 5

This Exposure Draft proposes to require disclosures in respect of heritage property, plant, and equipment that is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably. Do you agree that such disclosure should be limited to heritage items? If not, please provide your reasons, stating clearly the most appropriate scope for the disclosure, and why.

Response

As argued above at specific matter for comment 1, we argue that it is inappropriate to regard heritage assets in the form of cultural, heritage and scientific collections of public, not-for-profit cultural and arts institutions as heritage assets or any other class of assets for recognition in statements of *financial* position.

The CP, and the ED, appear to be fixated on measurement. This is seen as a simplification of the many and strong arguments against this proposal, which comprise a body of literature against this "accounting fiction" and "accountability mirage" (respectively see Carnegie and Wolnizer, 1995, 1996)[3] dating back to the early-to-mid 1990s (also see Ferri, Sidaway and Carnegie, 2021).

Specific Matter for Comment 6

Do you agree with the Implementation Guidance developed as part of this Exposure Draft for heritage assets? If not, please provide your reasons, stating clearly what changes to the Implementation Guidance on heritage assets are required, and why.

Response

Given the comments above, we do not agree with the implementation guidance in respect to the cultural, heritage and scientific collections of public, not-for-profit cultural and arts institutions. These resources are utterly misclassified and fundamentally misrepresented in statements of *financial* position.

[3] Carnegie, G.D. and Wolnizer, P.W., (1995), "The financial value of cultural, heritage and scientific collections: an accounting fiction". *Australian Accounting Review*, Vol. 5 Iss No. 9, pp. 31-47.

What alternative does the IPSASB have to support and adopt?

The answer to this question lies in the article of Carnegie and Wolnizer (1996), entitled "Enabling accountability in museums" (EAM), published in *Accounting, Auditing & Accountability Journal* (*AAAJ)* – an A* journal in Australia under the Australian Business Deans Council (ABDC) Ranking in Field of Research (FoR) 1501 on "Accounting, Auditing, Accountability".

By way of summary, the Abstract of this article, published 25 years ago, states:

> Building on analytical arguments against the valuation of collections for financial reporting purposes, this paper outlines a set of factual, reliable and interpretable financial and non-financial indicators of the vitality and viability of museums by which the accountability of museum managers may properly be assessed. It explains that enabling accountability in museums is concerned with optimizing accountability while maintaining the integrity of organizational objectives/missions (Carnegie and Wolnizer, 1996).

While accounting standard-setters appear not to have afforded any consideration of the arguments and proposals in this article, in our view, the IPSASB will benefit from the insights offered in this study.

Should you require further information on our views expressed in this submission, please contact Emeritus Professor Garry Carnegie via email at garry.carnegie@rmit.edu.au. Thank you for considering this submission.

Yours sincerely,

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Paolo Ferri
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Appendix 1

Accounting as technical, social and moral practice: The monetary valuation of public cultural, heritage and scientific collections in financial reports

Garry Carnegie, Paolo Ferri, Lee Parker, Shannon Sidaway and Eva Tsahuridu

Abstract

The International Public Sector Accounting Standards Board of the International Federation of Accountants issued Exposure Draft, ED78, "Property Plant and Equipment" in April 2021. It proposes valuing 'heritage items' for recognition as 'heritage assets' in statements of financial position. This proposed requirement for global application casts the spotlight on a highly controversial topic in regulated financial reporting. The monetary valuation of cultural, heritage and scientific collections of public not-for-profit museums, art galleries, and similar repositories has been subject to considerable discussion and debate for the past three decades. Our purpose is to critically examine this perennial financial reporting controversary, in the context of the three conceptions of accounting: Accounting as technical practice, social practice and moral practice as articulated in the definition of accounting proposed by Carnegie et al. (2020b, 2021) for discussion, debate and potential adoption in the accounting profession, including by accounting standard-setters in all sectors. This commentary is intended to challenge accounting to enhanced self-awareness in reaching its full potential.