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Dear Sir/Madam

COMMENT ON CONSULTATION PAPER: FINANCIAL REPORTING FOR HERITAGE IN THE PUBLIC SECTOR

The Technical Director

International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2 Canada

We welcome the opportunity to comment on Consultation Paper: *Financial Reporting for Heritage in the Public Sector*.

The Consultation Paper, *Financial Reporting for Heritage in the Public Sector* aims to improve financial reporting for heritage by public sector entities and support the comparability of heritage-related information in general purpose financial reports, while providing information that users need for accountability and decision making.

Overall, we are supportive of the IPSASB's Consultation Paper: *Financial Reporting for Heritage in the Public Sector*. Our responses to the preliminary views and specific matters for comment are listed below.

Please feel free to contact me should you have any queries relating to this letter.

Yours sincerely

KPMG Services Proprietary Limited

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Registration number 1999/012876/07

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Chief Executive: TH Hoole

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The company's principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors' names is available for inspection.

PRELIMINARY VIEWS & SPECIFIC MATTERS FOR COMMENT

Specific Matter 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.

We agree with the characteristics of heritage items and the potential consequences for financial reporting in paragraphs 1.7 and 1.8. We note that the use of “and” in paragraph 1.7 might create the impression that all the characteristics will need to be met to qualify as a heritage item. The IPSASB should consider rewording the paragraph to provide clarity as to whether some or all of the characteristics should be present for an item to be classified as a heritage item.

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 archeological, 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 proposed description of heritage items. We suggest that the IPSASB includes examples of items with the features described above in the application guidance.

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.

We agree that natural heritage includes areas and features, but excludes living plants and organisms that occupy or visit those areas and features, as they cannot be held indefinitely or preserved for the benefit of present and future generations.

Preliminary View – Chapter 3:

*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 that the special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting.

Specific Matter for Comment – Chapter 4.1:

*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.*

In our view, heritage assets should not initially be recognised at a nominal cost of one currency unit where historical cost is zero.

Recognising heritage assets at one currency unit undermines faithful representation of the value of the heritage assets. It does not provide useful information to the users of the general purpose financial reports (GPFRs), and does not enhance comparability with the GPFRs of other public sector entities. For instance, one entity might have one heritage asset with a determinable value of one million currency units, whilst another entity might have 10 heritage assets with no determinable values recognised at one currency unit each.

Property, plant and equipment and intangible assets that have been fully depreciated/ amortised should not be carried at one currency unit. The asset should be derecognised, or, if the asset is still in use, the useful life of the asset should be reassessed and the carrying amount recalculated as if the reassessed useful life has always been applicable. Assets reclassified as heritage assets should therefore not have a nominal value of one currency unit.

Recognising heritage assets at one currency unit will not be consistent with the other IPSASs and International Financial Reporting Standards (IFRS) that require assets obtained without consideration to be recognised at fair value. We recommend that heritage assets obtained without consideration be recognised at fair value in line with other IPSASs and IFRS. Where there are specific conditions attached to the use of the heritage asset, the related income should be recognised as deferred income in the Statement of Financial Position. We note that the consultation paper does not refer to

fair value as a measurement basis, which is inconsistent with other IPSASs. We recommend that the IPSASB provides guidance on why it considers market value to be an appropriate measurement basis for heritage assets, rather than fair value.

Where it is not possible or practicable to obtain the fair value of a donated heritage asset, the standard should allow such assets to be recognised at another value such as historical cost, or not to be recognised on the balance sheet with appropriate disclosure. Disclosure of the quantity of heritage assets owned by an entity for which no value can be determined, as well as the reasons why no value can be determined, could provide useful information to the users of the GPFs.

Preliminary View – Chapter 4.1:

*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.*

We agree that heritage assets should be recognised in the statement of financial position if they meet the recognition criteria in the Conceptual Framework.

Specific Matter for Comment – Chapter 4.2:

*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.*

We are of the opinion that heritage assets should not be recognised if it is not possible to assign a relevant or verifiable monetary value to the asset, or the cost-benefit constraint applies and the costs of doing so would not justify the benefits. The Conceptual Framework requires that an item be recognised only if the recognition criteria is met, which includes measurement in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFs. The Conceptual Framework also requires that the benefits of financial reporting justifies the costs it imposes. The special characteristics of heritage items should not exempt them from the requirements of the Conceptual Framework.

One suggestion for reducing the cost of valuing heritage assets and encouraging the adoption of the standard would be to allow internal valuations by any method that is appropriate and relevant. The cost of external valuers will very often outweigh the benefit to users and allowing appropriate and relevant internal valuations would be beneficial to preparers.

Natural heritage items such as wetlands, waterfalls etc. could describe heritage-related situations (factors) where heritage assets should not be recognised. Waterfalls might not have a verifiable monetary value as there is no active market for them. They might not have been obtained in exchange for any consideration and restoration might not be possible if, for instance, the entire mountain side collapsed. A public sector entity might also struggle to prove that they control the heritage asset as the public enjoys the benefits of the waterfall, and use of the asset may be regulated by International bodies such as UNESCO. Cultural heritage items can often be replicated, but would lose their heritage/significance and therefore their value.

Preliminary View – Chapter 4.2:

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 it will be possible to assign a monetary value to heritage assets, and that historical cost and replacement cost are appropriate measurement bases. In our opinion, fair value is also an appropriate measurement basis. We recommend that the IPSASB provides guidance on why it considers market value to be an appropriate measurement basis for heritage assets, rather than fair value. Net selling price and value in use could also be appropriate measurement bases, depending on the asset and its unique circumstances. We recommend that the IPSASB includes application guidance/illustrative examples of different scenarios to help preparers of the GFRs to apply the measurement bases consistently, for example:

- A statue/painting created by a famous artist derives its value from its association with the artist. If the statue/painting was lost/destroyed, a replica/replacement would not have the same value as the original. In such an instance, replacement cost may not be an appropriate measurement bases.
- Cash generating assets such as a waterfalls where the public pays fees to view the asset, may be appropriately measured using value in use.

Specific Matter 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?

We recommend that the IPSASB assigns a hierarchy to the measurement bases to assist preparers of the GPFRs in selecting the most appropriate basis. If a hierarchy cannot be assigned, preparers should be required to make an accounting policy choice per group of assets and apply the selected measurement basis consistently. The hierarchy should take into account the practical implications that affect governments. Fair value, although appropriate as it provides the current value of the heritage item, may not be easily obtainable. Cost, on the other hand, could be easier to adopt but may only be obtainable for the relatively newer heritage assets.

Preliminary View – Chapter 5:

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.

We agree with the IPSASB's Preliminary View on the subsequent measurement of heritage assets above, however, we believe that heritage assets should not be depreciated. We are of the opinion that assets that are used and consumed in line with an entity's operations, should be classified as property, plant and equipment or intangibles as appropriate. Heritage assets are to be preserved for the benefit of present and future generations, but impairment losses should be recognised if the asset becomes impaired. We recommend that the IPSASB provides guidance that is consistent with national standard setters, such as the Accounting Standards Board (ASB) in South Africa, that have already published a standard on accounting for heritage assets.

Specific Matter for Comment – Chapter 5:

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 are not aware of any types of heritage assets or heritage-related factors that raise special issues for the subsequent measurement of heritage assets.

Preliminary View – Chapter 6:

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 that 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 recognise a liability, unless a present obligation to preserve or restore a heritage asset exists. A liability should be recognised where a present obligation exists to preserve or restore an asset that has the characteristics of a heritage item but has been classified as property, plant and equipment, intangibles, investment property, etc. In our view, no liability can/should be recognised if the related asset is not recognised.

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.

We agree that information about heritage should be presented in line with existing IPSASB pronouncements. In addition, disclosure of the quantity of heritage assets owned by an entity for which no value can be determined could provide useful information to the users of the GPFs.



OTHER COMMENTS

Control of heritage assets

The Conceptual Framework defines an asset as a resource presently controlled by the entity as a result of a past event. Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives. In assessing whether an entity presently controls a resource, it considers the following indicators (however, these indicators are not conclusive determinants of whether control exists):

- Legal ownership;
- Access to the resource, and its ability to deny or restrict access to the resource;
- The means to ensure that the resource is used to achieve its objectives; and
- The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource.

We recommend that the IPSASB considers providing guidance on whether a public entity controls a heritage asset, and should therefore recognise the heritage asset on its Statement of Financial Position, in uncertain circumstances such as the following:

- An asset, such as a waterfall or statue, is situated on a piece of land that is privately owned. The asset is identified as a heritage item and government has a legal obligation to maintain and preserve the asset. Government also has the ability to allow or restrict the public's access to the asset. Government does not have legal ownership of the asset as it does not have legal ownership of the land. Government enters into an agreement with the owner of the land to share the economic benefits generated from the use of the asset.
- An asset, such as a waterfall or statue, is situated on a piece of land that is owned by a public entity. The asset is identified as a heritage item by an international body such as UNESCO. The public entity still has legal ownership of the asset and it has a legal obligation to maintain and preserve the asset. The international body prescribes the use of, and access to the asset and therefore determines the service potential and economic benefits that the asset is able to generate.



Classification of heritage assets

We recommend that the IPSASB considers providing guidance on the classification of assets as to what constitutes heritage assets, property plant and equipment, intangible assets, investment property etc. This is a 'grey area' which may confuse preparers of financial statements. Most of these assets are similar in nature and appropriate guidance is needed from the IPSASB on how to distinguish between each of the classifications. Many heritage assets will meet the criteria of both heritage assets and property plant and equipment or intangible assets or investment property. For example, an entity could use a building for administrative purposes, but the building has characteristics of heritage assets and the entity has a legal obligation to preserve the building for future generations. Guidance should be provided as to which of the features take precedence and how the asset should be classified in such an instance, as well as how this affects the related liability.

