



Australian Government

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Dear Sir

AASB comments on IPSASB Consultation Paper *Accounting for Heritage Assets Under the Accrual Basis of Accounting*

The AASB commends the IPSASB for providing the opportunity to comment on issues relating to heritage assets at an international level. The AASB notes that the issues are particularly significant for, although not unique to, not-for-profit public sector entities and therefore the IPSASB's initiative in looking at the issues from a public sector perspective is welcome.

The AASB has prepared its response to each of the 'Key Matters and Observations from Constituents' identified in the IPSASB Introduction to the Consultation Paper. The responses, attached to this letter, indicate that the AASB does not support a number of the specific proposals in the UK Discussion Paper. However, the AASB appreciates the problems that the proposals are endeavouring to resolve and regards the Consultation Paper as a useful first step in exploring the issues more fully.

The reason the AASB disagrees with a number of the proposals in the UK Discussion Paper is that, contrary to the UK proposals, it believes that heritage assets are a subset of property, plant and equipment that should be subject to the same definition (including identification of the unit of account), recognition, measurement and presentation requirements as for other categories of property, plant and equipment. However given the nature of heritage assets, the AASB believes that there is a basis for requiring additional disclosures, along the lines of those proposed in the UK Discussion Paper (see our responses to Question 9), to meet the needs of users. The AASB believes that the problems of accounting for heritage assets identified in the UK Discussion Paper give rise to transitional issues. These problems however do not justify the specification in Accounting Standards of fundamentally different accounting treatments.

In determining whether the reliable measurement recognition criterion can be satisfied in relation to a particular heritage asset the AASB believes that this will depend on the circumstances. In acknowledging the difficulties in obtaining reliable measurements for many types of heritage assets, the AASB suggests that the IPSASB consider whether there is a need for practical valuation guidance to assist entities in the transition and the best way for that to be provided. The AASB suggests that, in providing such guidance, regard be had to the different kinds of heritage assets, including multi-purpose heritage assets. From a measurement perspective, the AASB believes that there are two broad kinds of assets that have heritage attributes that are at opposite

ends of the measurement spectrum that would warrant separate consideration in accounting for those attributes:

- those assets that can be reliably measured and the measurement fully incorporates the heritage attribute and other 'value' associated with the assets. This may be the case for many heritage assets of art galleries and museums for which there are markets for the same or similar assets. The experience in Australia shows that unless such assets are identified and recognised, they are not effectively managed. The AASB believes that such assets should be recognised and initially measured at cost or fair value. For the purpose of transition, fair value could be deemed to be cost where an entity elects to adopt cost rather than remeasure annually at fair value;
- those assets that cannot be reliably measured. In discussing this category the AASB noted that there are some heritage assets for which there is no reliable measure of any of their attributes, whether heritage or other. This may be the case, for example, for an asset for which neither cost information nor fair value information (such as attributable cash flows) is available. The AASB believes that whilst these are property, plant and equipment assets they cannot be recognised. Instead, non-financial information about the heritage attributes of the assets should be required to be made in the notes to the financial statements.

In between these two extremes, the AASB also noted that there are some heritage assets for which a reliable measure can be obtained for some or all of the non-heritage attributes of the assets but none of the heritage attributes. Assets that fall into this category create the most difficulty from a measurement perspective. This may be the case for a heritage building currently used as office space. The AASB suggests that the IPSASB consider whether these kinds of assets should be recognised and initially measured at an appropriately determined amount, with disclosures to explain the measurement basis and to provide non-financial information about the heritage attribute that may not be adequately captured in the measurement.

The AASB acknowledges that the transition to recognition of previously unrecognised heritage assets that meet the asset recognition criteria raises some difficult issues. Although the preference is for full recognition of those heritage assets that satisfy the asset recognition criteria, given the transitional nature of the issues, and subject to a cost/benefit assessment, the AASB could accept a mixed model so that at least the accounting for future acquisitions of heritage assets is consistent with the accounting for other types of property, plant and equipment.

Based on the above comments and our responses to the key matters identified in the Consultation Paper, if the IPSASB were to adopt the proposals in the UK DP, it would be unlikely that Australia would be able to follow suit.

I hope that you find the above comments and the attached responses to the specific issues raised in the Consultation Paper helpful in resolving the issues relating to heritage assets at an international level. If you wish to discuss any of the comments, please do not hesitate to contact me.

Yours sincerely



David Boymal
Chairman

Question 1

Do you think that the definition of heritage assets in paragraph 1.16 of the Discussion Paper is appropriate? If not what definition would you propose?

We do not think that the definition of heritage assets in paragraph 1.16 is appropriate, as noted in the following:

- (a) We believe the intrinsic nature of an asset should determine whether it is a heritage asset rather than its functional use to the entity. In the proposed definition a heritage asset is defined in terms of its "*principal*" purpose that is "*central*" to the objectives of the entity holding the asset. A major concern with this approach is that it results in entity-specific accounting rather than transaction-neutral accounting. As a result, like transactions in different entities may be accounted for differently.

A consequence of the proposed definition is that items that would normally be regarded as heritage assets would not be treated as heritage assets. For example heritage items held by a private museum whose central objective may include making a profit from exhibiting its collections would be excluded. Furthermore, an asset with heritage attributes that is held and maintained principally for its contribution to knowledge and culture by an entity that does not have central objectives of contributing to knowledge and culture¹ would not be classed as a heritage asset. For example, in a whole of government financial reporting context, the holding and maintenance of heritage items are unlikely to be central to the government's objectives. As such, using the proposed definition, heritage items would not meet the definition of heritage assets in the whole of government context. Another example, brought to our attention by the Australian Department of Defence, relates to defence artefacts and memorabilia. Under the proposed definition, such assets would not be treated as heritage assets, despite their heritage nature. We think such a focus is too narrow.

A broader definition of heritage assets is more desirable because it facilitates identification of assets with heritage attributes for which the controlling entity is publicly accountable to the community/mankind. For example, an entity may have a statutory obligation to maintain a heritage asset.

There is also a public accountability issue that arises if, for example, multi-purpose heritage assets are accounted for only as 'operational' property, plant and equipment under IPSAS 17. That is, users may not be able to readily determine that assets within property, plant and equipment possess heritage attributes. Public and private sector entities that hold and maintain multi-purpose heritage assets have an obligation to protect and preserve these items and users should be provided with information regarding the heritage (and operational) significance of such assets.

- (b) The definition should include community assets such as parks, recreational reserves and sites or objects of indigenous significance by making explicit reference to "*natural or cultural*" qualities.
- (c) The phrase "*for its contribution to knowledge and culture*" is too restrictive, and should be replaced with the phrase "*for public benefit purposes*." This change would make the definition consistent with principles-based standard setting and align it with the point made at paragraph 1.10 of the DP that "a common defining characteristic of heritage assets is that they are held and maintained for public benefit purposes such as contribution to knowledge and culture".

¹ Described as primarily heritage organisations in paragraph 7.1 of the DP.

The phrase “*contribution to knowledge and culture*” is superfluous to the definition because the definition already refers to specific qualities possessed by heritage assets.

- (d) If the phrase “*and this purpose is central to the objectives of the entity holding it*” is retained in the definition the second last word “holding” should be replaced with the word “controlling” for consistency with the IPSAS definition of an asset.
- (e) The word “qualities” should be changed to “significance” because it better distinguishes assets with heritage attributes that have technological qualities (such as the first mainframe computer) from assets (such as modern computers) that do not have heritage attributes but have operational attributes and technological qualities.
- (f) The DP does not state who determines or how it is determined that potential heritage assets possess the qualities required to satisfy the definition of heritage assets. This may result in the subjective and inconsistent designation of heritage assets by entities. We suggest that the IPSASB consider whether an external/formal designation should be required before an item can be considered to be a heritage asset.

In light of the above comments we believe the definition of a heritage asset should be changed to:

An asset with historic, artistic, scientific, technological, geographical, ~~or environmental,~~ natural or cultural qualities significance that is held and maintained ~~principally for its contribution to knowledge and culture and this purpose is central to the objectives of the entity holding it for public benefit purposes.~~

The above reworded definition should be supported by amplifying text (grey letter) to clarify its meaning. For example, the text should clarify that the reference to ‘technological’ does not mean that all computers in a museum used for maintaining an electronic data base are heritage assets.

Question 2

Do you think that the proposals in the Discussion Paper are applicable to all types of heritage assets? If not please give your reasons.

As indicated in our covering letter, we think that heritage assets are a sub-category of property, plant and equipment and therefore, subject to practical issues associated with transition, should be subject to the same recognition and measurement principles. Accordingly, we do not think that all the proposals in the DP are suitable for heritage assets.

Question 3

Do you agree with the view in Section 4 of the Discussion Paper that, where a majority, by value, of heritage assets held by an entity cannot be recognised, because reliable valuations cannot be obtained, all other heritage assets should also not be recognised? Alternatively, do you support other approaches such as those outlined in Section 3 of the Discussion Paper? Please give your reasons.

We believe that, where practicable, each heritage asset of an entity should be recognised in the balance sheet. We do not agree with the all-or-nothing basis proposed in the DP. Our views on different aspects of the DP proposals follow:

(a) *The majority by value criterion*

The majority of heritage assets by value criterion is circular and has a flawed logic. Besides being subjective, use of such a criterion may be problematic since the “value” of the heritage assets is the parameter that is the subject of the measurement problem. That is, it is not possible to determine if that proportion of assets, that cannot be reliably valued, represents a majority (or minority) of heritage assets’ total value. Preparers of the financial statements need a total value in order to determine whether a majority, by value, of heritage assets can or cannot be reliably determined.

Instead of such a subjective/circular criterion, any proposed Standard should use the asset recognition criteria to determine whether each heritage asset should be capitalised. This would be consistent with the approach taken to the ‘unit of account’ typically taken for other kinds of assets.

(b) *All other items should also not be recognised*

Even though this treatment would provide for a consistent approach we do not agree with such a treatment.

The proposals to prohibit capitalisation do not appear to be a sound approach because:

- they do not allow, let alone encourage, entities to capitalise their heritage assets even though the values of some of those assets are determinable and meet the definition and recognition criteria for assets;
- they effectively sanction non-recognition of assets by an entity;
- they do not assist with the move towards improving the financial reporting of heritage assets in those entities’ financial statements;
- they lead to the de-recognition of items that are currently recognised;
- they appear to give undue emphasis to the consistent application of accounting policies by an entity at the expense of usefulness or relevance of the information in financial statements to users;
- they raise questions about the usefulness of core financial statements given that, by the proposed definition, heritage assets would be “central” to the objectives of the entities and would, presumably, form a core or significant part of the assets of the entities;
- it is difficult to see how such an approach would meet the qualitative characteristics required of a set of financial statements;
- as the examples of the Statement of Change in Net Assets format in Appendix 3 illustrate, there are many alternative ways in which such a statement could be prepared, each purporting to provide useful information; and
- the Statement of Change in Net Assets format contains a mixture of asset-type transactions and income/expense type transactions. The usefulness of this information is at best questionable.

Throughout the DP there is a focus on consistent treatment for all heritage assets. We acknowledge this view has been arrived at in the context of the current UK treatment (FRS 15) where, in principle, all heritage assets should be capitalised. However we do not believe that the focus on consistency in relation to a class of assets is as important as the DP seems to emphasise. Rather, in accordance IPSAS 17.13, we believe that heritage assets should be recognised in the balance sheet when:

- (a) It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
- (b) The cost or fair value of the asset to the entity can be measured reliably.

Accordingly we would prefer the full capitalisation approach discussed in paragraphs 3.6 – 3.8 of the DP be adopted for those heritage assets that satisfy the asset recognition criteria.

However given the transitional nature of the issues and subject to cost/benefit assessments, we could accept the notion of a mixed capitalisation approach along the lines of that discussed in paragraphs 3.2 – 3.5 of the DP so that at least the accounting for future acquisitions of heritage assets is consistent with the accounting for other types of property, plant and equipment.

As indicated by our introductory comments in the covering letter, subject to transitional considerations, the recognition of heritage assets in the financial statements of a reporting entity should be determined by applying the following principles:

- Those heritage assets that can be reliably measured and the measurement fully incorporates the heritage attribute of the assets should be recognised and initially measured at cost or fair value, and fair value deemed to be cost where an entity elects to adopt cost rather than remeasure annually at fair value;
- Those heritage assets that cannot be reliably measured. We believe that these assets should not be recognised as assets. Instead, non-financial information about the heritage attributes of the assets should be required to be disclosed.

Consideration should be given to those heritage assets for which a reliable measure can be obtained for some or all of the non-heritage attributes of the assets but none of the heritage attributes. In particular, consideration should be given to whether assets that fall into this category should be recognised and initially measured at an appropriately determined amount, with disclosures to explain the measurement basis and to provide non-financial information about the heritage attribute that may not be adequately captured in the measurement.

Question 4

Do you think that, for financial reporting purposes, assets that might otherwise be regarded as heritage assets, but are not held for purposes central to the objectives of the entity, should be accounted for as property, plant and equipment or investment property in line with the proposals in paragraphs 7.2 – 7.4 of the Discussion Paper? Please give reasons.

Consistent with our response to Question 1, we believe that assets that might otherwise be regarded as heritage assets, but are not held for purposes central to the objectives of the entity, should be accounted for as property, plant and equipment (or where appropriate, investment property) consistent with the proposals in paragraphs 7.2 – 7.4. The financial statements also should include additional note disclosures about the assets' heritage attributes to satisfy public accountability obligations.

Question 5

IPSAS 17 requires entities to initially measure property, plant and equipment at cost and allows the historical cost or revaluation model to be adopted subsequent to initial recognition. In contrast, the Discussion Paper proposes at 3.16 that where heritage assets are recognized they should be carried at current value with valuations on a regular basis. What measurement basis or bases (fair value, historical cost or another basis) do you think should be allowed or required for heritage assets that are to be initially recognized as assets? Please give your reasons, and, if a basis other than fair value or historical cost, identify that basis.

For consistency with international standards, the term "fair value" is preferable to "current value". Fair value is a more acceptable and understandable term in international accounting.

Given that the costs associated with the revaluation of heritage assets may be high, the requirement for heritage assets to be valued at current values on an ongoing basis may be onerous for entities and may limit and/or discourage the recognition of heritage assets.

Accordingly, we believe that it is preferable, at this time, consistent with the requirements for property, plant and equipment, to permit heritage assets (once recognised) to be held at either cost (deemed, where necessary) or revaluation, and for them to be subject to depreciation and impairment requirements (see our response to Question 8 below).

At present, the following methods are contemplated as a basis for determining fair value in accordance with IPSAS 17:

- (i) reference (if available) to quoted prices in an active and liquid market (IPSAS 17, paragraph 40);
- (ii) reference to other items with similar characteristics, in similar circumstances and location (IPSAS 17, paragraph 42); and
- (iii) reproduction costs or depreciated replacement costs (IPSAS 17, paragraph 43).

As heritage assets are a sub-category of property, plant and equipment we would support the use of the methods outlined above although we acknowledge that reproduction costs and depreciated replacement costs (IPSAS 17.43) are unlikely to be suitable in relation to the heritage attributes of a heritage asset because those attributes are unlikely to be capable of reproduction or replacement.

We also acknowledge the difficulties in obtaining reliable measurements for many types of heritage assets, and therefore suggest that practical valuation guidance for heritage assets would assist entities in the transition stage of recognition.

Question 6

Where heritage assets are carried on a revaluation basis do you think that it is appropriate to relax the requirements for their revaluation below the criteria for other items of property plant and equipment as proposed in the Discussion Paper at paragraph 4.8? Please give your reasons.

To facilitate the recognition of heritage assets on the balance sheet we broadly support the proposals outlined in the DP at paragraph 4.8. In particular, on cost benefit grounds, we would support the wider use of internal valuations, allowing indices in place of formal revaluations and extending the interval between formal revaluations. Consistent with our comments in question 5 that heritage assets should not be required to be measured at fair value and that cost is a valid measurement base, we do not believe that it is necessary to allow greater use of historical cost as a measure of fair value.

As we noted in our response to Question 5 we also believe there should be practical valuation guidance to assist entities in the transition from non-recognition to recognition of heritage assets.

Question 7

Where heritage assets are not recognized do you think that transactions such as acquisitions and disposals, restoration costs and grants and donations for the purchase of heritage assets should be presented in a separate statement other than the Statement of Financial Performance, as suggested and exemplified in paragraphs 4.14 and 4.16 ? Do you think that IPSASs should be amended to include such an additional statement? Please give your reasons.

Consistent with our view that heritage assets are a sub-category of property, plant and equipment, we believe that, where a heritage asset cannot be recognised in the Balance Sheet, transactions such as acquisitions and disposals, restoration costs and grants and donations for the purchase of heritage assets should not be presented in a separate statement other than the Statement of Financial Performance.

We believe non-financial information about the heritage attributes of the assets should be required to be made by way of a note disclosure to satisfy public accountability obligations.

Question 8

IPSAS 17 and IPSAS 21, *Impairment of Non-Cash Generating Assets* specify requirements for the depreciation of property, plant and equipment and impairment of assets primarily held for service delivery purposes. What requirements, if any, do you think should be applied to heritage assets for depreciation and impairment testing? Please give your reasons.

We believe the broad requirements for depreciation and impairment testing of property, plant and equipment should be applied to heritage assets.

Depreciation

We acknowledge that, given the nature of many heritage assets and the manner in which they are preserved or maintained, they may have indefinite useful lives and therefore should not be subject to depreciation.

Impairment Testing

We believe that a heritage asset should be subject to the requirements of IPSAS 21 if it is a non-cash-generating asset or IAS 36 if it is a cash-generating asset.

Question 9

Do you agree with the disclosure requirements proposed in Section 5 of the Discussion Paper? If you think that the disclosures are too onerous or, alternatively, inadequate please indicate which disclosures should be omitted, or which further disclosures should be inserted.

Consistent with our view that heritage assets are a sub-category of property, plant and equipment, we believe that the disclosure requirements for heritage assets (both capitalised and non-capitalised) should, at a minimum, align with the requirements in IPSAS 17.73-79.

In general, we agree that the proposals in section 5 of the DP are useful, except for the following:

- Para 5.7 of the DP states that some entities may provide detailed information for some of these disclosures in the (UK) Operating and Financial Review. It considers that it may therefore be appropriate to refer, in the notes to the financial statements, to this more detailed accompanying information.

As management commentary sections are not mandatory in all jurisdictions, we believe that all required disclosures should be in the financial statements or in the notes to the financial statements.

- Para 5.14 of the DP proposes that the notes should disclose the financial information for the current reporting period and comparative information for the four previous reporting periods given that activity of an entity holding heritage assets in the current reporting period may vary significantly from that in the previous period.

This disclosure seems onerous. Such comparative information is not required of other types of entities and the varying transactions of entities holding heritage assets are no different from entities engaged in, for example, activities that are of a cyclical nature.

Question 10

Do you think that the proposals in the DP have particular audit implications? If so, please outline what these implications are.

We are not aware that the proposals in the DP have particular audit implications, other than the usual type of judgements required in applying accounting principles. We note that an audit issue may arise regarding information that is outside the audited financial statements that is referenced in the financial statements.

Question 11

IPSAS 17, specifies requirements in relation to property, plant and equipment held for operational purposes. Do you think that the IPSASB should develop requirements for heritage assets by amending IPSAS 17 or do you think that heritage assets should be addressed in a separate Standard focusing specifically on heritage assets? Please give your reasons.

We believe, because heritage assets are a sub-category of property, plant and equipment, the IPSASB should incorporate any requirements relating to heritage assets into IPSAS 17.