A comparative study of the accounting treatment of heritage assets in South Africa and New Zealand

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COMMENTS

The reader should be aware that:

- The NWU Harvard referencing style was used for this mini-dissertation as prescribed by the NWU referencing guides.
- This mini- dissertation takes the format of the inclusion of a research article. The editorial style specified by ICCS was used in the article including the guidelines provided for tables.

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ABSTRACT

Title: A comparative study of the accounting treatment of heritage assets in South Africa and New Zealand

Key Words: Accounting treatment, comparability, disclosure, financial statements, heritage assets, public sector, transparency

Heritage assets belong to the people of a region and are safeguarded by the government in that region. It is of grave concern that most of these heritage assets are not accounted for at their true value in the financial statements of these regions especially in a time where accountability and governance is of grave concern to all stakeholders involved.

The widely debated heritage assets accounting problem is at the forefront of various public sector accounting standard setters and received renewed attention in 2017 by a consultation paper issued by the International Public Sector Accounting Standards Board. Various comment letters were received from varied stakeholders and analysed as part of this study. Findings revealed that views about the accounting treatment of heritage assets is varied and further investigation is justified to ascertain whether the mandatory recognition of heritage assets will solve the heritage asset accounting problem.

The financial statements of nine capital cities from South Africa and New Zealand were selected in this study. A content analysis was used to investigate whether the mandatory recognition of heritage assets is the solution to the heritage asset problem. The content analysis comprised both a thematic analysis, as well as a ratio analysis of the key differences and similarities between the two countries. The results provide valuable information about whether the mandatory recognition of heritage assets in South Africa and New Zealand leads to transparent and comparable heritage asset values.

CHAPTER 1

1 INTRODUCTION

1.1 Background

Heritage assets are unique to entities in the public sector and are generally described internationally as having cultural, environmental or historical significance (IPSASB, 2017c:509). Historically the accounting treatment of heritage assets in public entities has been neglected (Biondi & Lapsley, 2014:147). Ellwood and Greenwood (2016:1) confirms that in the past, heritage assets, with a potentially significant economic value, were invisible in the financial statements of certain government bodies and entities.

Public entities across the world have various accounting frameworks to choose from (Fawzi & Botica, 2015:143). These accounting frameworks include the cash basis of accounting and accrual accounting as well as a hybrid between the two. Adam, Mussari and Jones (2011:128) purports that there has been a definite move towards accrual accounting in government accounting Rossi *et al.* (2016:189) concurs that there has been an international drive to move from the cash to accrual basis of accounting over the past thirty years. These accounting frameworks are the incorporated into a set of accounting standards used to prepare general-purpose financial statements.

Each country has its own set of public sector accounting standards, for example, International Financial Reporting Standards (IFRS) modified for the public sector, or International Public Sector Reporting Standards (IPSAS). Certain countries chose to develop their own public sector accounting standards or to create a country-specific set of accounting standards by modifying existing IPSAS.

In many countries, government prescribes the accounting framework applicable to the public sector. In New Zealand, the Extremal Reporting Board (XRB) as appointed by the Governor-General on the recommendation of the Minister of Commerce and Consumer Affairs prescribes the accounting framework to be used by public entities. In South Africa, for example, the National Treasury issued the South African version of modified IPSAS, referred to as Generally Recognised Accounting Practices (GRAP) as the accounting framework for public entities.

The International Federation of Accountants (IFAC) is both the promotor of IFRS and IPSAS (Ratios, 2020). IFAC's purpose is to serve public interest by empowering the accounting profession through its accounting standard setting process (IPSASB, 2017c:13). Following on the IFRS for listed companies, IFAC through the International Public Sector Accounting Standards Board (IPSASB) issued IPSAS in an attempt to harmonise public sector reporting on an international level. This need for harmonisation is inevitable as the effects of globalisation affects

both the private and public sector. In this regard, Rossi, Cohen Caperchione and Brusca (2016:191) advocates that there is a dire need for the harmonisation of accounting in the public sector to achieve improved comparability and transparency in the financial reports. Mussari and Sorrentino (2017:143) however observed that the IPSAS model is unappealing in promoting harmonised public sector accounting practices. Needless to say, not all countries in the world have adopted IPSAS in its current format for public sector reporting purposes.

Since the issuance of IPSAS, the formulators thereof, IPSASB embarked on a harmonisation project to further align IPSAS with IFRS in an effort to align differences between IPSAS and IFRS when developing new accounting developments (IPSASB, 2019:1). This project is still in progress in 2020 and not all differences have yet been aligned. The minutes of the recurring IPSASB meetings document progress of this harmonisation project. By May 2020 for example IPSAS 17 Property, plant and equipment (IPSAS 17), the IPSASB acknowledged that 50% of the standard is currently public sector specific and the other 50% needs to be updated for changes made in the comparable IFRS standard. IPSAS 17 is thus not yet fully aligned with IFRS. By May 2020 it is however noted that there were already six IPSAS's that were 50% aligned with IFRS (IPSASB, 2019:2).

1.2 Accounting for heritage assets

The various accounting frameworks, available in public entities across the world, is the first reason that the accounting treatment of heritage assets is not comparable or transparent internationally. Peter van der Hoek (2005:35) agrees that accounting on the cash versus the accrual basis of accounting leads to very different answers. A second reason for the lack of comparability and transparency in the accounting treatment of heritage assets is that different accounting standards exist in different countries (IPSASB, 2017b:3). The third reason is that the application of even similar standards could lead to different accounting outcomes due to choices in accounting policies and interpretation of the respective accounting standards. Adam, Mussari and Jones (2011:128) concurs that the choices available in IPSAS prevents uniformity in financial reporting. The lack of comparability and transparency, that the IPSAS choices evoke, contradicts the stated objective of the IPSASB in its preface which includes strengthening the transparency of financial reporting in the public sector (IPSASB, 2017c:13).

Biondi and Lapsley (2014:11) acknowledges that the IPSASB's international heritage asset project has had a troubled history, which goes back to 2004. International Public Sector Accounting Standards IPSAS 17 was first issued in 2010 and it includes a section dealing with the accounting treatment for heritage assets.

IPSAS 17 allows preparers of annual financial statements to decide whether to recognise or not to recognise heritage assets as assets for purposes of financial reporting. This choice is as

dramatic as the Shakespeare quote in Hamlet's soliloquy: "to be or not to be". As a result, financial statements being compiled in accordance with IPSAS 17 are not comparable at all, as the same set of financials could either capitalise or not capitalise heritage assets. Ironically, both financial statements would be to be compliant with IPSAS 17 regardless of the very different financial results under the application of the same accounting standard. Biondi and Lapsley (2014:146) agrees that it is unlikely that transparency will be achieved in the accounting of heritage assets in public organisations.

Subsequent measurement in IPSAS 17 requires that heritage assets need to be accounted for on the cost or the revaluation model with depreciation being provided if the asset has a finite useful life (IPSASB, 2017d:518). Heritage assets would be subjected to impairment testing if an impairment indicator existed (IPSASB, 2017d:518). However, as mentioned previously, not all governments elect to use IPSAS.

2 PROBLEM STATEMENT

The accounting treatment of heritage assets across the globe has not been without its challenges. The ASB recently made a gallant effort by issuing a consultation paper in 2017 (CP 2017) Financial reporting for heritage in the public sector to bridge the gap of comparability and transparency of financial reporting of heritage assets. The ASB (2017b:26) asks the following question in CP 2017: "Should heritage assets be recognised as an asset if the recognition criteria in the Conceptual Framework is met?" South Africa has however been applying the principle of mandatory recognition of heritage assets since 2008.

Based on the aforementioned problem statement the following research question is formulated: "How does South Africa's accounting treatment of heritage assets compare with another leading country in the world and could mandatory recognition be the solution to the global heritage asset accounting problem?"

3 OBJECTIVES OF THE STUDY

This study aims to establish whether the application of the mandatory recognition of heritage assets in South Africa leads to comparability and transparency of the accounting treatment of heritage assets. The accounting treatment of heritage assets in the public sector was considered from two perspectives: South Africa, New Zealand in the backdrop of international standards.

An assessment of existing and proposed accounting guidance was considered in each of the three areas as well as the application of the existing standards in South Africa and New Zealand.

The following objectives have been formulated for the study:

3.1 Primary objective

The primary objective of this study is to explore if the application of the accounting standards in South Africa and New Zealand has led to transparency and comparability of heritage assets.

3.2 Secondary Objectives

In order to achieve the primary objective, the following theoretical and empirical objectives are formulated for the study:

Theoretical objectives

Once heritage assets have been identified and described a comparison was made of the current accounting standards available for these assets in South Africa and New Zealand. Similarities and differences in these standards was identified as well as factors that affect the application of these respective standards. Specific proposals made in the IASB's CP 2017 on heritage assets was critically analysed together with comments made thereon by various countries.

Empirical objectives

A comparison was made of the accounting treatment of heritage assets in the 2018 annual financial statements of the nine capital cities in South Africa and nine capital cities in New Zealand's North Island to establish if the compulsory recognition of heritage assets leads to transparency and comparability of heritage assets.

4 RESEARCH DESIGN AND METHODOLOGY

4.1 World view

Creswell (2014:6) considers ontology and epistemology to be part of every researchers world view. The study of accounting is a social phenomenon as it is a discipline that is considered to be a science, an economic science (Plotnikov & Plotnikova, 2019:1). Welmann, Kruger and Mitchel (Welmann *et al.*, 2005:4) supports this by stating that scientific knowledge includes systematic observation. This study has a constructivist worldview as this is going to be an interpretive observation of accounting. According to Burrell and Morgan's paradigms of 1979, this would from a social order perspective, be a subjective study of the sociology of regulation as it is closely linked to compliance with accounting regulation. Ahrens (2008:2) however challenged the latter paradigm with a strong argument that accounting research crosses the boundary of both subjective and objective research.

Ontology includes our beliefs about reality and what we deem to be the truth. This study followed an ontology of relativism due to the subjective nature of the assessment of the application of accounting practices. This could also referred to as anti-positivism due to the personal interpretive experience included in the study. Henning, Van Rensburg and Smit (2004:20) considers such

interpretive research to fall within the ambit of realism as the reality that exists is flawed due to human bias underpinning their work. The finding of this study could result in multiple truths supporting this relativism approach.

Epistemology is ultimately the search of truthful knowledge by scientific researchers (Mouton, 2011:138). In terms of epistemology, an emic approach was pursued, as more than one truth could exist in the analysis of the application and the analysis of accounting for heritage assets. Baghramiam (2004:118) considers an emic approach to research to lead to a truth with conditions and concurs that epistemic outlook aligns itself with relativism.

4.2 Research methodology

The study comprised a literature review and an empirical study of existing secondary data. A qualitative research approach was followed even though such methods have both strengths and limitations (Creswell, 2014:215). The qualitative approach included the subjective identification and analysis of themes within the context of heritage assets accounting.

Literature review

The literature review included a review of existing secondary data sources that relate to research and the accounting treatment of heritage assets. These data sources include:

- Current and proposed accounting treatments available for heritage assets;
- Comment letters on proposed accounting treatments; and
- Relevant textbooks, journal articles, newspaper articles and the internet.

The purpose of the literature review was to compare the current and proposed accounting treatment in South Africa, New Zealand and Internationally.

Empirical study

The empirical portion of this study comprised the following methodology dimensions:

Target population

A capital city is generally considered to be the city that functions as the seat of government and administrative centre of a geographical region and is usually highly populated. Each capital city is managed by a municipality in South Africa, referred to as a council in New Zealand's North Island. Capital cities are often densely populated and representative of the population in that area.

The target population was the annual financial statements of all nine capital cities in South Africa and all nine capital cities in New Zealand's North Island. Bless, Higson-Smith and Sithole (2013:99) confirms this by implying that the target population is the element on which the researcher is focused. The New Zealand South Island were not included in the target population as they have very small population numbers.

Municipalities and councils are charged with the safeguarding of heritage assets for the population in that area and it is expected that the annual financial statements reflect to stakeholders whether this duty of governance has been discharged.

The justification for choosing these two geographical areas as the target population is set out below:

South Africa

South Africa has been identified as a leader in the field of heritage asset accounting. The ASB developed its own standard GRAP 103 for heritage assets in 2008 already. According to GRAP 103 heritage assets need to be classified under either the future economic benefit for the entity or service potential that will flow to the entity (Accounting standards board ASB, 2017:30). Furthermore, GRAP 103 paragraph 13 guides entities to determine if heritage assets can be measured reliably at cost or fair value (ASB, 2017:11). GRAP 103 recognises heritage assets under its control if it is probable that future economic benefits or service potential will flow to the entity and if the cost or fair value can be measured reliably (ASB, 2017:11). The IPSAS 17choice on whether or not to recognise heritage assets is not available in GRAP 103. Subsequent measurement of heritage assets in GRAP 103 differs from IPSAS 17, as assets are not depreciated; instead, these assets are tested for impairment at the reporting date if an impairment indicator exists.

New Zealand

Hooper, Kearins and Green (2005:410) maintain that accounting for heritage assets has been problematic for New Zealand in the past. New Zealand's public entities used to use International Financial Reporting Standards (IFRS) before switching to IPSAS based standards in 2014 (Fawzi & Botica, 2015:176). Some amendments have however been made to the IPSAS before branding them as Public Benefit Entity International Public Sector Accounting Standard (PBE IPSAS). New Zealand currently accounts for its heritage assets in accordance with Public Benefit Entity International Public Sector Accounting Standard 17 (PBE IPSAS 17) Property plant and equipment. PBE IPSAS 17 treats heritage assets as property plant and equipment and recognises all heritage assets if it is probable that future economic benefits or service potential will flow to the entity and if the cost or fair value can be measured reliably. Recognition is not optional as in IPSAS 17. Subsequent measurement in PBE IPSAS 17 is the same as IPSAS 17 allowing for choice between the cost and the revaluation model and the resulting depreciation and impairments if applicable.

There is thus also a difference between the accounting treatment of heritage assets in the international IPSAS and the New Zealand PBE IPSAS. Removing the choice of recognition in

South Africa and New Zealand could however lead to improved comparability of financial statements as it relates to heritage assets.

Comparison

It would, however, appear as if South Africa's GRAP is ahead of IPSAS as it issued a separate accounting standard in 2008 for heritage assets and it removed the choice of recognition from the standard. Although New Zealand accounts for heritage assets as part of property plant and equipment, it thankfully also removed voluntary recognition in 2014 proving to be a leader in accounting for heritage assets.

Although the recognition of heritage assets in South Africa and New Zealand is the same the subsequent measurement is different. South Africa follows a pure impairment approach but New Zealand allows for depreciation and impairment.

The release by the IASB of CP 2017 appears to be its efforts to strengthen the transparency and accountability in the public sector as it relates to heritage assets. The IPSASB engaged public sector stakeholders to comment on proposed new guidance for the accounting treatment of heritage assets. With the assumption that heritage assets meet the definition of an asset in the conceptual framework this paper proposes to recognise heritage assets, as assets, when they meet the recognition criteria in the IPSAS Conceptual Framework (IPSASB, 2017a:11). IPSAS is thus proposing a move closer to a model already followed by South Africa and New Zealand. Accounting standards are underpinned by a Conceptual Framework, which is the one chapter in the set of the accounting standards that underpins all other standards in the relevant reporting framework. Standards issued in contradiction with the Conceptual Framework do not sit well with most accounting academics. Recognition criteria in terms of the IPSAS Conceptual Framework requires an item to be measurable in a way to achieve qualitative characteristics and takes into account the constraints on information in the general purpose financial reports. CP 2017 proposes that subsequent measurement is broadly accounted for in the same manner as non-heritage assets. Subsequent measurement should thus be in line with the Conceptual Framework and would entail possible depreciation, impairments and revaluations.

Biondi, Grandis and Mattei (2018:3) concludes that although CP 2017 is a step in the right direction it does not solve the heritage asset problem. (Biondi *et al.*, 2018) criticises the murky definition of heritage assets, is opposed to mandatory recognition and considers the guidance to be lacking as it relates to measurement of these assets.

Sampling frame

Dane (2011:107) considers a sampling frame to be a listing of the elements in a population and also the largest possible sample of a population. The sampling frame included the financial statements of all 18 of these capital cities in South African and New Zealand North Island:

Country	Province	Capital city	Population
New Zealand	Northland	Whangerie	188 700
New Zealand	Auckland	Auckland	1 642 800
New Zealand	Waikato	Hamilton	482 100
New Zealand	Bay of Plenty	Whakatane	324 200
New Zealand	Gisborne	Gisborne City	49 300
New Zealand	Hawke's bay	Napier	173 700
New Zealand	Teranaki	New Plymouth	122 700
New Zealand	Manawatu-Wananui	Palmerstone North	249 700
New Zealand	Wellington	Wellington	527 800
South Africa	Gauteng	Johannesburg	14 717 000
South Africa	Western Cape	Cape Town	4 005 016
South Africa	Eastern Cape	Bisho	834 997
South Africa	Free-State	Bloemfontein	787 803
South Africa	Natal	Pietermaritzburg	223 448
South Africa	Limpopo	Polokwane	130 028
South Africa	Mpumalanga	Mbombela	110 159
South Africa	North Cape	Kimberly	1 225 600
South Africa	North West	Mahikeng	3 797 000

Sample method

The non-probability sampling method was used in the selection of the 18 capital cities in the target population. This selection did not take place on a random basis. Bless *et al.* (2013:106-107)

agrees that non- probability sampling will lead to a sample selection where the probability is unknown.

Use was made of purposive sampling as a deliberate selection of the capital cities in target population. Welman, Kruger and Mitchell (2005:68) however cautions that it is not possible to prove that such a sample is always representative.

Sample size

Costa, Backes, Figueuredo and Castro (2018:481) considers it very important to justify in a theses or dissertation that an adequate sample size has been selected. This is a non- probabilistic study as sample size has not been calculated using a model. Such convenience samples do not invalidate the research being conducted as long as the sample is well described (Rocha Costa *et al.*, 2018:485). A non- probabilistic sample size selection method is appropriate if the sample has the same type of criterion. This is the case in this study as the sample is made of financial statements of all capital cities in South Africa and New Zealand North Island respectively. The total sample size is thus 18, nine from each geographical area.

Heritage assets belong to the people of the area. Capital cities are highly populated and sufficient coverage of population and their heritage should be obtained by selecting all the capital cities in the target population. Sufficient coverage is necessary for high quality research. In the above sample, the population of the sample represents 76% of the New Zealand population and 44% of the South African population and this coverage is considered sufficient to assess the accounting treatment of heritage assets belonging to the people of each region.

Research method

A content analysis was done as this study includes the analysis of texts and documents (Mouton, 2011:165). This content analysis included a subjective analysis due to its interpretive nature and it is thus closely linked to qualitative research. Historically many authors considered most content analysis to be quantitative in nature (Prasad, 2019:2). This interpretative study made use of data collection and analysis using a simplified coding mechanism. Once the coding was completed, results were analysed and interpreted. Kuckartz (2019:14) agrees the true qualitative nature of a study follows the coding process by interpreting the findings of the coding.

An archival research method of content analysis was used in an effort to make appropriate inferences on the relevant accounting information and disclosures. Flesher, Previts and Sharp (2020:1) considers archival research as appropriate in identifying accounting differences in historical financial records. The empirical study of the respective annual financial statements involved the coding of themes identified in the literature review into yes, no and not applicable answers. Ismail & Mahood (2019:1) also considers a content analysis as an appropriate research method in the analysis of financial reports. This is supported by other academics too and is

considered to be specifically on point when analysing narratives such as those found in financial statement narrative disclosures (Smith & Taffler Richard, 2000:1).

Ratio analysis

A comparative study was performed by comparing the value of heritage assets relative to the population in each sample and relative to accounting policy choices made by the preparers of the respective annual financial statements in an effort to establish whether mandatory recognition of heritage assets results in comparable and transparent heritage asset reporting and whether heritage asset values are a function of accounting policy choices.

5 ETHICAL CONSIDERATIONS

This study made use of secondary data including:

- journals in the NWU library, Google scholar, EBSCOhost,
- accounting standards, exposure drafts and comment letters related to public sector accounting,
- web site articles
- annual financial statements of cities in South Africa and New Zealand, and
- books available in the NWU library.

Al the above-mentioned secondary data is freely available to the public and thus complies with the minimum ethical standards pertaining to academic research. This study has minimal risk and adhered to the requirements of the EMS REC ethical requirements. The information will not be used to discredit any city's reputation and findings will be reported in aggregate.

6 OVERVIEW

6.1 Chapter 1: Introduction (research proposal)

Chapter one provides the introduction and motivation for the proposed research. It outlines the international backdrop for the research topic and conveys the challenges faced in accounting for heritage assets in the public sector. The resulting problem statement gets converted into the objectives of this study which clarifies the purpose of this study.

6.2 Chapter 2: Research article

In this chapter, a comparative study is documented for the accounting treatment of heritage assets in South Africa and New Zealand.

6.3 Chapter 3: Conclusion

This chapter summarises the findings of this proposed study with reference to limitations and recommendations.

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CHAPTER 2 RESEARCH ARTICLE

-ICSS 2020-132 P

ACCOUNTING FOR HERITAGE ASSETS: A COMPARATIVE EVALUATION BETWEEN SOUTH AFRICA AND NEW ZEALAND

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Abstract

Heritage assets are unique to entities in the public sector and are generally described internationally as having cultural, environmental or historical significance. In the past, the accounting treatment of heritage assets in public entities has been neglected, as preparers of various financial statements could choose whether or not to recognise heritage assets. Assets, with a potentially significant economic value, were invisible in the financial statements of certain government bodies and entities. The problem is that those charged with governance, would not be held accountable, if these understated assets were squandered, as they were not recorded in the financial statements. Disclosure in itself would not suffice, as it would be difficult to track the abandonment, destruction or sale of unrecorded assets. South Africa and New Zealand have however been forerunners in mandatory recognition of heritage assets leaving the international standard setters lagging behind with their elective approach towards the recognition of heritage assets. The International Public Sector Accounting Standards Board has issued a consultation paper in 2017 in a brave effort to bridge the gap of comparability and transparency of financial reporting of heritage assets with a recommended change requiring heritage assets to be recognised.

The financial statements of nine capital cities from South Africa and New Zealand were utilised in this study. A content analysis was used to investigate whether the mandatory recognition of heritage assets is the solution to the heritage asset problem. The content analysis comprised both a thematic analysis, as well as a ratio analysis of the key differences and similarities between the

two countries. The results provide valuable information about whether the mandatory recognition of heritage assets in South Africa and New Zealand leads to transparent and comparable heritage asset values.

Key Words: Accounting treatment, comparability, disclosure, financial statements, heritage assets, public sector, transparency.

JEL Classification: H83, M41, M48

1 INTRODUCTION

From an accounting perspective, globalisation has put pressure on accounting standard setters to create uniform accounting practices. Mohammed and Haruna (Mohammed & Haruna, 2019) concur that the adoption of uniform policies across borders, leads to more comparable financial information. In response, the International Accounting Standards Board (IASB) developed International Financial Reporting Standards (IFRS) in an attempt to harmonise diverse accounting practices worldwide. One of the key objectives of the IASB, is to develop a single set of high quality, understandable, enforceable and globally acceptable financial reporting standards (Pope & McLeay, 2011). Since the formation of the IASB in 2001 IFRS was adopted by 166 jurisdictions across the globe and applied by more than 49 000 listed companies, representing 98% of the world's GDP (IFRS, 2020).

Following on the overwhelming acceptance of IFRS, public sector reforms followed suit (Timoshenko & Adhikari, 2010). Governments, operating in the globalised economy, experienced the need to adopt internationally recognised practices in an effort to legitimise its accounting function and financial reporting (Rahaman & Lawrence, 2001). Hence, the International Public Sector Accounting Standards Board (IPSASB) was established to develop International Public Sector Accounting Standards (IPSAS) for public sector entities. According to Neves and Gómez-Villegas (2020) most IPSAS are based on a corresponding IFRS. There are however fundamental differences between IFRS and IPSAS. The key stakeholders of companies applying IFRS are the shareholders or owners of the company, while the citizens are the key stakeholders of public entities applying IPSAS. Another important difference is the profit motive of companies applying IFRS, compared to the service potential of assets under IPSAS (Ellwood & Greenwood, 2016). Vardiashvili (2018) posited that public sector entities do not utilise assets in commercial activities, and for this reason, the measurement of assets is not influenced by its ability to generate cash flows or its contribution to profits, but instead by the asset's potential contribution to service delivery.

1.1. Accounting for heritage assets

Although public sector accounting has its roots in IFRS, there is not necessarily an equivalent IFRS for all items accounted for in the public sector. One such example is the accounting for

heritage assets. There are many different interpretations of the definition, and different criteria is applied by governments, to classify an item as a heritage asset. The Accounting Standards Board in the UK describe heritage assets as “tangible fixed assets with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture” (ASB, 2009). Biondi and Lapsley (2014) identified key characteristics of heritage assets as items that (i) normally have no purchase price or acquisition cost; (ii) have public values that is not based on traditional market prices, (iii) have restrictions on the disposal of the item; (iv) are irreplaceable and incomparable; (v) have a long-lasting useful life; and (vi) have non-excludable consumptions attributes.

Concerning the accounting for heritage assets, Christiaens *et al.* (2012) suggested that heritage assets should be divided into business-type assets that can be valued according to traditional market methods and cultural assets that should be reported in non-financial social reports. Biondi and Lapsley (2014) furthermore observed two alternative arguments in connection with the accounting for heritage assets. Firstly, many authors believe that heritage assets cannot be included in the financial statements because it does not meet the recognition criteria of an asset. Secondly, the IPSASB recognises the service potential of heritage assets and argues that heritage assets can indeed generate cash flows in the form of entrance fees and copyright income.

In April 2017, the IPSASB released a consultation paper titled “Financial Reporting for Heritage Assets in the Public Sector” (ED 156) and received a total number of 40 comment letters from governmental organisations, professional associations, auditing firms and academics. The IPSASB acknowledges in ED 156, that there are various practices followed for heritage assets across the globe. By removing the voluntary recognition approach in the current standard, it could potentially lead to comparability and transparency in heritage asset reporting (IPSASB, 2017b:9). They furthermore acknowledge that, measurement base choices could be a current challenge in achieving comparability that accounting academics yearn for in financial reporting. In a subsequent study, the comment letters received by the IPSASB was analysed by Aversano *et al.* (2019). Their study focussed on the position of public sector entities regarding the recognition, valuation and disclosure of heritage assets. Their analysis revealed that most governments prefer to recognise and disclose information about heritage assets in the financial statements in order to demonstrate to the citizens that such assets are preserved for future generations. The vast majority of the respondents indicated that heritage assets qualify to be included as assets in the financial statements. Although the majority of the respondents were committed to include adequate information in the financial statements a number of respondents noted the relatively wide definition of heritage assets as a major accounting challenge. In this regard, not only cultural assets, but also natural assets, could be classified as heritage assets. The respondents

furthermore indicated that the valuation of heritage assets is extremely difficult or impossible to determine; and also very expensive. As a result, many of the respondents suggested that more qualitative information about heritage assets should be included in the financial statements instead.

What the IPSASB is only considering as a proposal in 2017 has already been implemented by South Africa since 2008 and by New Zealand in 2014. They are pioneers in the mandatory recognition of heritage assets in line with the measurement basis proposed by the IPSASB. The objective of this paper is to analyse the accounting treatment of heritage assets in the financial statements of selected public sector entities in South Africa and New Zealand to establish if mandatory recognition of heritage assets leads to comparability and transparency in accounting for heritage assets. Management is held accountable by stakeholders for assets under their control. Unrecorded assets may fall by the wayside when it is time to assess whether assets have been well managed by government officials. Will the mandatory recognition of heritage assets hold, those charged with governance, accountable for assets that belong to the people covered by their reign? The remainder of the paper is structured as follows. The methodology is discussed in section 2 and the results and findings are discussed in section 3. The paper is concluded in section 4.

2 METHODOLOGY

2.1. Method

The purpose of the paper is to evaluate the accounting treatment of heritage assets by means of a content analysis research method. Krippendorff (2004) describes a content analysis as a research technique to make replicable and valid inferences from text. Content analysis is arguably the most widely used research method to analyse corporate disclosure practices (Milne & Adler, 1999; Miles & Huberman, 1994). In content analysis, a unit is a small part of the whole text that is subject to counting and analysis. Content analysis serves as a basis for identifying the population and drawing a sample, in which variables are measured and analysed (Neuendorf, 2002).

Abeysekera and Guthrie (2005) observed that the analysis of financial statements entails more than the identification of single words and amounts and advocated that the context of the sentences should be interpreted in financial terms. Gregory and Chasomeris (2016) considers a content analyses to be a study that derives themes, by applying data to those themes. According to Saldana (2012), content analysis of financial statements involves open coding as the “initial step of theoretical analysis that pertains to the initial discovery of categories and their properties”. It allows the analysis of the information disclosed by exploring the elements of financial

statements and assigning relevant and target information within the financial statements. Van Zyl (2014) utilised a five-point Likert scale to analyse the disclosure of sustainability reporting.

A form-oriented index design (Smith & Taffler, 2000) was adopted to identify categories from the underlying literature and to analyse the disclosure patterns pertaining to heritage assets. Form-oriented designs have a strong presence in the literature and are often used to identify disclosure types and trends. According to Vourvachis and Woodward (2014), form-oriented studies identify categories from the underlying literature in order to employ or customise the identified categories to the research objectives.

For purposes of this paper, a simple binary coding scheme was adopted to analyse the information presented in the financial statements. The pertinent points included in the comment letters, as summarised by Aversano *et al.* (2019), were used to categorise the presence or absence of the items included in the financial statements of public sector entities. The criteria used in the coding scheme ranged from accounting policy choices to compliance with proposed accounting treatment and disclosures. Mandatory disclosures are only needed for material items, disclosure is thus a subjective decision, made by the preparer of financial statements. The focus of this research is recognition and measurement of asset values not its disclosures.

Following on the coding scheme heritage assets as a percentage of total assets were analysed, as well as heritage assets in relation to the size of the population. This ratio analysis was considered useful to answer the question whether the mandatory recognition of heritages assets lead to comparability of heritage asset values. The ratio analysis was extended in relation to measurement basis chosen in an effort to establish if measurement basis has a significant impact on comparability and transparency of heritage assets.

2.2. Data and population

South Africa and New Zealand were identified as two countries that have been accounting for heritage assets for a number or years. Another reason why these countries were selected was that, despite the fact that IPSAS has historically had a voluntary recognition approach, both South Africa and New Zealand for many years know been following a mandatory recognition approach. Moreover, both these countries are forerunners in the early adoption of international accounting practices and well represented on the international accounting setting boards. South Africa holds a seat on the IASB board (IASB, 2020) and New Zealand is considered to be a partner of the IPSASB (IPSASB, 2020).

The publically available financial statements of nine capital cities in each of the selected regions were analysed to establish trends and key differences in the application and interpretation of their respective accounting practises for heritage assets.

As heritage is something that belongs to the people of an area, city or country, the population of each of capital cities in various provinces was used, as a gage to ensure that the sample of nine capital cities per region, was sufficient to ensure a meaningful analysis. South Africa has nine provinces and all nine capital cities in each province was selected to be part of the sample. In South Africa, 44% of the population resides in these nine capital cities. New Zealand has a North Island, a South Island and Off-shore Islands. In New Zealand, 76% of the population resides in the North Island. For comparison purposes, the nine capital cities in each of the nine provinces of North Island was selected to be part of the sample.

3 RESULTS AND FINDINGS

3.1. The accounting treatment of heritage assets in New Zealand and South Africa

The results and findings of this paper should be understood in the context of the similarities and differences in the accounting treatment of heritage assets in the two sample countries. The results and findings section is structured as follows: Section 3.1 describes the accounting treatment of heritage assets in the two countries resulting from the extensive literature review. Section 3.2 contains the content analysis of the accounting treatment of heritage assets in the financial statements resulting from the empirical review. Section 3.3 provides a ratio analysis of the key differences and similarities pertaining to the accounting for heritage assets in the sampled financial statements.

3.1.1. Accounting framework

Public entities in New Zealand currently account for heritage assets using their own accounting standard, Public Benefit Entity International Public Sector Accounting Standard 17 (BPE IPSAS 17) - Property plant and equipment (PPE). BPE IPSAS 17 was issued by New Zealand in 2014 and is based on International Public Sector Accounting Standards 17 - Property Plant and Equipment (IPSAS 17) as originally issued by the ASB in 2001. New Zealand however made changes to some of the guidelines in IPSAS 17 before issuing BPE IPSAS 17, resulting in a modified IPSAS standard. Subsequent amendments have since been made to IPSAS 17, before being adopted within BPE IPSAS 17. Heritage assets in New Zealand is thus treated as a class of asset within PPE.

Public entities in South Africa report for heritage assets in accordance with a separate accounting standard, Generally Recognised Accounting Practices (GRAP) 103 - Heritage Assets. South Africa thus deals with heritage assets separately from other classes of PPE. GRAP 103 appears to be a forerunner of the international equivalent in the form of a separate accounting standard for heritage assets.

New Zealand and South Africa agree that heritage assets should be culturally, environmentally or historically significant. However, South Africa’s definition broadens the significance to include

natural, scientific, technological or artistic significance. The South African definition is broader than that of New Zealand and it is expected that this key difference should be revealed in the results. The New Zealand Accounting standards board elaborates that characteristics of heritage assets could include the fact that the (i) true value thereof is unlikely to be reflected in the market value of the asset; (ii) there could be restrictions linked to the heritage asset; (iii) these assets are often irreplaceable and its value could in fact increase over time; and (iv) estimating useful lives could be a challenge to estimate with some useful lives in the hundreds of years. Unlike New Zealand, South Africa provides an illustrative list of heritage assets and has a stronger view that the useful life of a heritage asset is more likely to be indefinite.

3.1.2. Recognition

Recognition date is the day that an element, such as a heritage asset, is accounted for in the accounting records for the first time. IPSAS 17 allows preparers to choose whether or not to recognise heritage assets. This concept is unsettling for most accounting academics as elective recognition could lead to financial statements that are no longer transparent or comparable and a contradiction to the conceptual frameworks of financial reporting. Nowhere in any other internationally acclaimed accounting standard, whether it be IPSAS or IFRS, is recognition up to the choice of the preparer. De Wolf, Christiaens and Aversons (2020) also considered it worthy to investigate the recognition of heritage assets in relation to certain respondents comment letters on ED 156 confirming that 84% of the academics agreed with mandatory recognition of heritage assets as proposed by the IPSASB.

Fortunately, New Zealand and South Africa identified this as a fatal flaw many years ago before finalising their accounting standards applicable to heritage assets. Both New Zealand and South Africa require the compulsory recognition of heritage assets as long as the usual recognition criteria of probable inflow and reliable measurement is met, as per the conceptual framework.

It is encouraging to see that New Zealand and South Africa were ahead in their progressive thinking as the most recent accounting development for heritage assets, as set out in the 2017 consultation paper ED 156, also supports mandatory recognition for heritage assets providing the recognition criteria has been met (IPSASB, 2017b).

3.1.3. Measurement

New Zealand and South Africa both initially recognise heritage assets at cost or fair value in a non-exchange transaction. If the heritage asset meets the definition of a public sector asset and meets the recognition criteria. it shall be recognised.

Subsequent measurement is driven by an accounting policy choice. Both New Zealand and South Africa have a choice of either the cost model or the revaluation model, through other comprehensive income.

In South Africa, it is presumed that fair value can be measured for heritage assets and promotes the fair value model unless the presumption is rebutted. If this presumption is rebutted, detailed disclosure thereof is evoked.

The subsequent measurement of heritage assets is different in these two countries as New Zealand depreciates heritage assets. If needed, New Zealand would also impair heritage assets. South Africa does not depreciate heritage assets, but impairment is required in the case of an impairment indicator. This difference would however lead to the same accounting outcome if New Zealand assumed an indefinite useful life for heritage assets.

3.1.4. Disclosure

New Zealand and South Africa require the disclosure of the chosen measurement basis. If the revaluation model is elected details of recent revaluations are required by both countries. New Zealand requires detail about the depreciation method and the heritage asset's useful life. New Zealand and South Africa both require detailed disclosure of heritage assets not recognised.

South Africa furthermore encourages disclosure of the fair value of heritage assets where the cost model has been followed. In contrast, New Zealand only requires such disclosure where the fair values differ significantly from the carrying amounts on the cost model.

3.2. Content analysis

The empirically based content analysis yielded the findings presented in Table 1. The form-orientated classification are coded as Yes, No or Not Applicable (N/A) observations and documented as percentages of the total sample per country. Comments on these questions are documented below the table.

Table 1.Content analysis: disclosure of heritage assets

	*NZ	*NZ	*NZ	**SA	**SA	**SA
Content analysis questions coded	**Yes**	**No**	**N/A**	**Yes**	**No**	**N/A**
1. HA on the face of the statement of financial position?	0%	100%	0%	78%	22%	0%
2. Separate accounting policy note for HA?	0%	100%	0%	78%	22%	0%
3. Accounting policy for HA part of PPE policy?	67%	33%	0%	0%	100%	0%
4. Separate heritage asset note to the AFS?	0%	100%	0%	78%	22%	0%
5. HA's part of the PPE note?	100%	0%	0%	0%	100%	0%
6. Are heritage type assets identified as HA's?	33%	67%	0%	78%	11%	11%
7. HA on revaluation model?	78%	22%	0%	11%	67%	22%

Source: Compiled by authors from accumulated data

* New Zealand (NZ-Government, 2020)

** South Africa (SA-Government, 2020)

It is evident that, due to the fact that, New Zealand treats heritage assets as part of property, plant and equipment (PPE), that it does not consider it necessary to show heritage assets separately on the face of the statement of financial position, have a separate accounting policy or a separate

note to the financial statements for heritage assets. The converse is true for South Africa, but there were however two out of the nine capitals in South Africa that made no mention anywhere in their financial statements of any recognised heritage assets. It is difficult to comprehend that a capital city of a province could be void of any heritage.

Point 6 in Table 1 raises an area of concern, as it was found that 67% of the New Zealand sample, had heritage type assets according to the South African definition, but they did not necessarily include it in the heritage asset category. Some were included in operational assets and others in restricted assets. This is acceptable to New Zealand preparers of financial statements as these assets still form part of PPE. Such heritage type assets include, but are not limited to the following examples found in the study: works of art, reserve land, parks and reserves, buildings as well as museum collections. This study thus reveals that an alignment of the definition of heritage assets is crucial for comparable and transparent reporting thereof.

Accounting academics driven by the fair presentation motive would think that the revaluation model would more fairly present the value of heritage assets due to the fact that the historical cost of such assets are often low or zero due to bequests and donations of heritage assets to the state. Here it is reassuring that 78% of the New Zealand sample elected the revaluation model but it is concerning that only 11% of the South Africa sample followed suit, even though South Africa promotes the fair value model in GRAP 103. Various academics hang their hat on the statement that the measurement of heritage assets is the overriding challenge in the accounting for heritage assets. Hooper, Kearins and Green (2005) refer to the measurement of heritage assets as being absurd and others claim fair value is not determinable. De Wolf *et al.* (2020) showed in their analysis of 38 comment letters written on ED 156 that most respondents indicated that assigning a monetary value to heritage assets remains a challenge. New Zealand has however proved that this challenge, can surely be overcome.

Six of the South African sample elected the cost model but hardly any of them disclosed fair value of heritage in the notes to the financial statements as required by GRAP 103, proof that disclosure is a subjective matter.

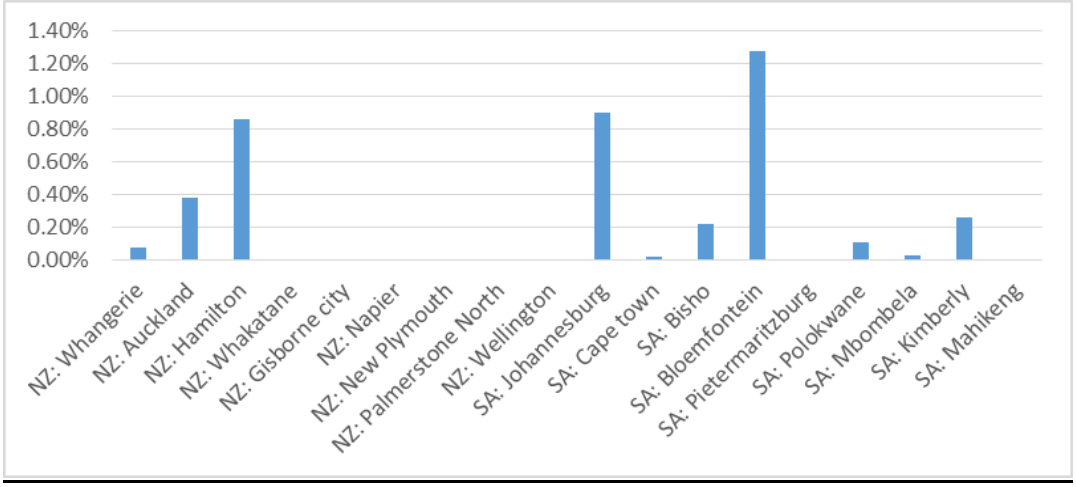
3.3. Ratio Analysis

3.3.1. Heritage assets' values in relation to total asset values

The purpose of the next phase was to establish if the application of the respective accounting standards resulted in a comparable heritage asset values in relation to total assets. It is important to note, as set out in section 3.2, that New Zealand often classified many heritage type assets as operational or restricted assets and this could lead to an understatement of heritage assets. Figure-:1 sets out the carrying amount of items specifically classified as heritage assets as a

percentage of total assets. In order to be included in Figure-:1 the asset had to be disclosed under a heritage asset heading or referred to as a heritage asset.

Figure 1-: Items classified as heritage assets as percentage of total assets



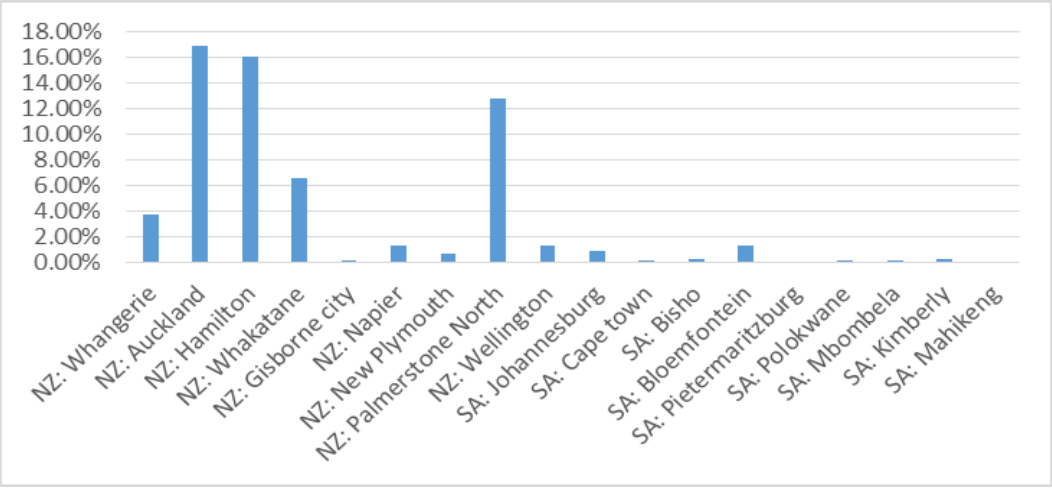
Source: Compiled by authors from accumulated data

The value of heritage assets as a percentage of total assets is extremely low across the whole sample. This observation is difficult to interpret where a cost model is followed, but not if the revaluation model was elected. The average percentage in New Zealand was 0.15% and in South Africa almost double at 0.31% exacerbated by the fact that two of the South Africa capital cities made no mention at all of heritage assets in the financial statements.

The heritage assets in Figure-:1 is however understated in relation to those in South Africa, because the heritage asset definition in South Africa is broader than New Zealand and New Zealand often fails to label heritage type assets as such.

For this reason, the data summarised in Figure-:2 takes into account the carrying amount of heritage type assets, according to the broader definition in South Africa, even though New Zealand categorised these assets as operational or restricted assets. Figure 2 presents this broader category of heritage type assets as a percentage of total assets.

Figure 2-: Heritage type assets as percentage of total assets (using broader definition)



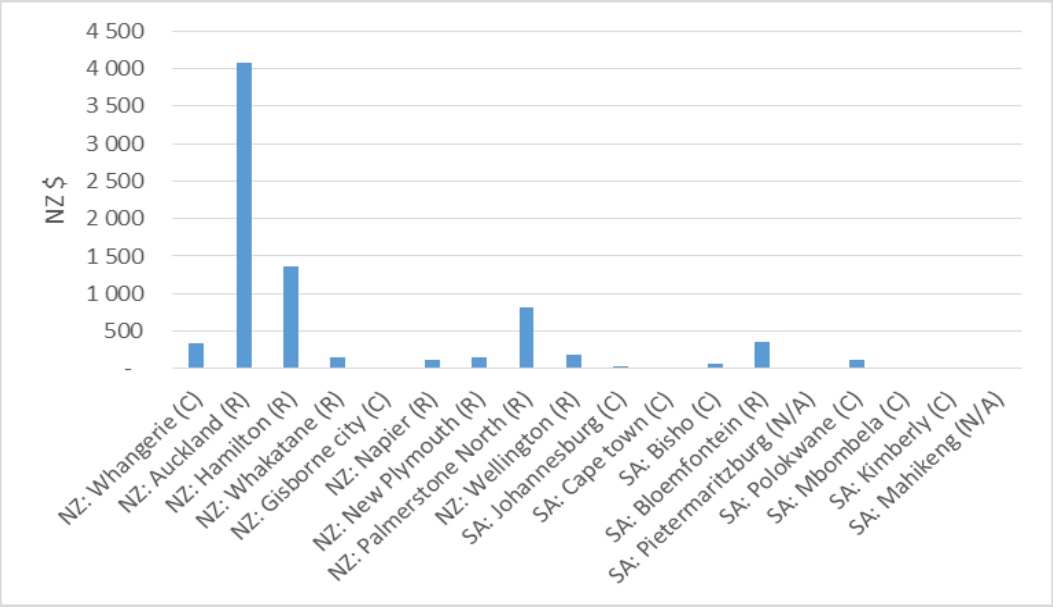
Source: Compiled by authors from accumulated data

After including additional heritage type asset items, as per the broader South African definition, the tables have turned. New Zealand has an average of 6.59% heritage assets in relation to total assets and South Africa significantly less at 0.31%. This completely opposite result as presented in Figure-:1 is due to the slight differences in the definition of heritage assets and, in certain instances, the failure to clearly identify heritage assets as such. Regardless of this, it is astonishing to note that six capitals have no heritage assets in relation to total assets even when using the broadened definition.

3.3.2. Heritage asset values in relation to the population

As heritage belongs to the people of a country this paper would be amiss not to compare the value of heritage type assets per capita. This ratio was calculated by dividing the heritage type asset values by the population numbers published by each respective government. Figure-:3 represents these findings in New Zealand dollars (NZ $). For purposes of this paper, the average exchange rate of 10:1 was not used. Instead, the conversion from South African Rand (ZAR) to NZ $ was made by using a Big Mac conversion rate (Clementi *et al.* 2010). As a Big Mac costs 12 NZ $ and 40 ZAR a conversion rate of 3.33 was used as it represents a more reliable measure of the buying power in the two countries.

Figure 3-: Heritage type asset value per capita



Source: Compiled by authors from accumulated data

In an accountants search for comparability in financial reporting it is disturbing to see that the heritage per capita varies so significantly even after applying mandatory recognition. The highest value being 4 000 NZ $ and the second highest is more than half less than the first. The average value of heritage per capita in New Zealand is 800 NZ $ with the South African average lagging behind at 223 NZ $. New Zealand has one capital with less than 100 NZ $ heritage value and South Africa has five.

At the inception of this paper and during the initial design of the content analysis it was contemplated that a link would be found between the heritage asset values and choice in accounting policies. Figure 3 indicates in brackets next to the capital name an (R) for revaluation model and a (C) for the cost model. In New Zealand all three of the capitals with an above average heritage value per capita elected the revaluation model. In South Africa two of the sample capitals were above the average and one capital followed the cost model while all the other followed the revaluation model. There appears to be a clear link between the revaluation model and higher heritage asset values.

4 CONCLUSION

The current international guidance for heritage assets, with its elective recognition approach, is inadequate in this day and age where account is to be made of the stewardship of all assets. Gratefully, ED 156 provides hope for the future accounting treatment with the mandatory recognition of heritage assets subject to the recognition criteria in the framework.

The question remains whether the mandatory recognition of heritage assets, as proposed by ED 156, is sufficient to ensure comparability and transparency in the accounting for heritage assets.

This paper found that in two countries where mandatory recognition of heritage assets has been in play for a few years already, the results are not necessarily comparable or transparent.

The value of heritage assets, expressed as a percentage of total assets, in South Africa (0.31% average) exceeded the New Zealand values (0.15% average). If the broader South African definition of heritage assets is however applied to New Zealand, the New Zealand values revealed a significant increase in heritage assets to an average of 6.59% of total assets. Moreover, the results revealed a remarkable variation in heritage assets per capita with an average value of 800 NZ $ in New Zealand compared to an average value of 223 NZ $ in South Africa.

Of the five capitals across both countries with an above average heritage value, four chose the revaluation model which requires that the heritage assets be re-measured to fair value on a regular basis. The inference made is that the revaluation model could lead to higher accounting values for heritage assets and that by, eliminating the accounting policy choice, it could lead to improved comparability and transparency. It is further suggested that the cost model does not appear appropriate because many heritage assets arise from bequests or donations at a nil cost. Alternatively, a cost model could be followed, but a deemed cost representing fair value could be proposed for the adoption of the new heritage assets standard proposed by ED 156 and any new heritage assets need to initially be recognised at fair value. This recommendation could lead to improved stewardship of citizen assets.

Based on the observations in this study, future research could include (i) the definition and meaning of heritage assets in different countries not limited to accounting bodies; (ii) guidance on determining the fair value of heritage assets; (iii) the accounting implications of other heritage measures such as world heritage sites; (iv) compliance with mandatory and voluntary heritage asset disclosures and (v) the adoption of the revaluation model in relation to asset values.

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CHAPTER 3 CONCLUSIONS, LIMITATIONS AND RECOMMENDATIONS

In this chapter I purport to report back whether the research objectives in this study were achieved.

The primary objective of this study was to ascertain whether the application of accounting standards in South Africa and New Zealand led to transparency and comparability of the age old heritage assets problem. In order to achieve this primary objective a theoretical objective in the form of an in-depth study of what heritage assets are and how they are accounted for in South Africa and New Zealand had to be undertook. This necessitated the empirical objective to compare the accounting treatment of heritage assets in South Africa and New Zealand to establish if the mandatory recognition of heritage assets is the solution comparability and transparency of heritage assets.

There were however limitations in this study which included the different definitions of heritage assets being applied in South Africa and New Zealand and even within the public sector entities within the same country. In an attempt to overcome this limitation heritage type assets were also analysed even if not specifically identified as heritage assets. Furthermore the preparers of the analysed financial statements were granted an accounting policy choice to either account for the heritage assets on either the cost model or the fair value model. This made comparability of analysed values and ratios a challenge but also revealed findings that heritage asset values are linked to accounting policy choices elected by the preparers of financial statements.

Based on the findings of this study, as detailed above, it would appear as if mandatory recognition of heritage assets is not enough to ensure that those charged with governance are held accountable for the heritage assets under their control. Comparability and transparency of heritage asset accounting is however closely linked to the accounting policy choice elected by the preparer of financial statements. Although there are obvious challenges related to determining the fair value of heritage assets I recommend that all heritage assets should be accounted for using the fair value model to prevent them from being invisible to users of financial statements. Accounting for heritage assets at fair value will help make those charged with governance being held accountable for these assets that belong to the people of that region.