

GOVERNMENTAL FINANCIAL REPORTING OF HERITAGE ASSETS
IN THE PERSPECTIVE OF USERS NEEDS

NATALIA AVERSANO AND JOHAN CHRISTIAENS *

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Abstract

The implementation of IPSASs in European Union countries and the harmonization of the governmental financial reporting have the aims to respond to the needs of the citizens. Accounting systems of Public Administration are the object of a reform; this means the incorporation to the accounting systems of all patrimonial elements of public entities, among which there are some with special peculiarities, as in the case of 'heritage assets'. The paper has the purpose to investigate to what extent the IPSAS 17 respond to the user needs of governmental financial reporting about heritage assets. The aim has been realized by conducting a survey on mayors and councillors of the Italian local government.

*The authors are respectively, Professor in Non-profit and Public Sector Accountancy at Ghent University, Belgium; and a PhD student at University Of Salerno, Italy.

Address for correspondence: Natalia Aversano, PhD Student, Università di Salerno, DISTRA, Via Ponte don Melillo 84084 Fisciano, Salerno, Italia. e-mail: naversano@unisa.it.

Introduction

Heritage assets are elements such as historical buildings, monuments, archaeological sites, conservation areas, nature reserves, and works of art. Moreover, particularly heritage assets, are land under the roads, military assets, collections and natural resources. They are elements with specific qualities which make them unrepeatable, with an unlimited lifespan as such. Heritage assets are different from other kind of assets because of the value they derive from being incapable of reproduction and replacement and highly unlikely to be traded. Consequently, there are a lot of difficulties to frame these elements in a normalized accounting system designed for decider-users.

Heritage assets have a high historical and cultural importance and must be preserved and maintained in good condition in order to continue to offer their social benefits for an indefinite period of time (*Barton, 2005*). Politicians are interested to have a good financial reporting of heritage assets because they have to be accountable for the correct management of heritage assets against both the government and all of the voters (*Sinclair, 1995; Tolbert Roberts, 1982*).

This paper analyzes the approach adopted concerning these types of goods by IPSAS 17, covering heritage assets. It is organized as follows: the first part provides a short background on heritage assets; the second section examines the International Public Sector Accounting Standard 17; the third section describes the research question. The next section explains the methodology adopted. The remainder is devoted to an analysis and to a discussion of the results.

1. Previous researches on Heritage assets

Heritage assets are elements of tangible nature characterized by historic, artistic, architectural, aesthetic, scientific, technological, geophysical or environmental feature[†].

They are controlled and kept for an indefinite period of time by governments or other public or third sector bodies to make them available for current and future generations. They must be preserved and maintained in a good state in such a way as to ensure a long and indefinite life (*Barton, 2005*). They are usually made available to the public, they may be funded by taxation or private donations, they may be freely available or the price may be subsidized. Frequently, they cannot be sold (they are declared inalienable) (*Barton, 2000*). Most of them are physically irremovable (i.e. moving an asset to a different place might cause it to lose part of its value). These features can also obviously

[†] They are characteristics taken from the definitions in different standards dedicated to this type of assets, particularly, or to non financial fixed assets in general (FASB, 1996; 1999; 2005), (IFAC, 2001), (FRSB, 2004) from New Zealand, (ASB, 1999; 2006a; 2006b), (CICA, 2006)

apply to private property but what differentiates heritage assets is their different public purpose rather than their physical characteristics, in particular, the owners ability to dispose of them (Rowles, 1992).

There is much debate in the literature about whether heritage assets should indeed be classified as assets, or whether they meet the definition at all, given that an essential part of the definition of an asset is that it should provide future economic benefit to the entity. Therefore, the debate is concentrated on the fact that whilst heritage assets display the other two characteristics pertaining to assets, that is, they are resources controlled by an entity as a result of past events, in many cases there is little or no opportunity to obtain future economic benefit. For example, many heritage assets are declared inalienable or have restrictive covenants, meaning that they cannot be sold unless there is a change in legislation. Many museums and other collections are made freely available to the public to visit or view. This means that, as there are very limited opportunities for direct cash inflow, these assets only meet a definition of service potential.

The importance of heritage asset creates the need of accounting rules for the recognition, valuation and disclosure for these types of assets.

Although a few researchers (Anthony, 1985; Lapsley & Pallot, 2000; Mautz, 1988; Pallot, 1992; Rowles et al., 1998) and standard setters (CIPFA, GASB, and IFAC) have made some efforts over the last 20 years, capital assets are still the issue of many unresolved questions and debates in terms of financial accounting. The issue of assets, particularly capital assets, cannot be avoided anymore, as it is a component of this NPM. In the non-profit and public sector one cannot unthinkingly apply characteristics of capital assets from the profit sector since a number of circumstances differ (Mautz, 1988; Pallot, 1990).

There is disagreement about how it should be achieved; there is some common ground in relation to the usefulness of including heritage assets on the balance sheet. A number of national and international accounting standards boards (eg. IPSASB, Australia AASB, New Zealand FRSB, UK ASB) considers that bringing heritage assets on the balance sheet would improve the quality of the information reported.

The inclusion of heritage assets in the balance sheet could provide the opportunity for governments that hold them to obtain useful information about their nature and potential, in order to facilitate the achievement of objectives for decision-making and performance measurement (Barton, 2005; Hone, 1997), whether this is for narrow economic purposes or for the wider social good.

Much of the debate in the literature comes from the Australian and New Zealand cases, where governments were early adopters of NPM techniques, and have required heritage assets to be shown

on balance sheet as part of property, plant and equipment. Some commentators agree with the standard setters that heritage assets are considered assets because they assist the entities to achieve their objectives (*Micallef & Peirson, 2000*) and so they can be included on the balance sheet. Some authors argue that all government assets should be reported (e.g. *Rowles et al., 1998*), notwithstanding their non-compliance with the official definitions[‡] (*Christiaens et al., 2008*).

Considering financial accounting perspective, meaningful and reliable financial valuations may not be obtainable for heritage assets or be relevant for their good management. There are many problems to resolve for the application of accrual accounting to these assets of the public sector (*Barton, 2009*). For these reasons, they require its own special treatment in an accounting system, as examined by e.g. *Barton (2000)*, *Carnegie & Wolnizer (1995)*, *Hooper et al. (2005)*, *Mautz (1988)* and *Pallot (1990)*.

Barton (2005) argues that a more appropriate theoretical framework for the accounting treatment of heritage assets is the economic theory of public goods, because heritage assets are provided for social, not economic, purposes and there is no normal commercial market for them.

According to *Barton (2000)*, as trustee assets they must be represented in a separate budget (as services assets) compared to other assets that are used for operational purposes (as input assets). Similar views are also held by *Pallot (1990)* and *Mautz (1988)* who respectively classify such assets as community assets and facilities assets. It is possible to take the argument further and claim that heritage assets would be better considered liabilities. Mautz's earlier work (1988) took the view that heritage assets should not be considered assets because they are not able to generate positive cash flow. He argues that heritage assets have a use to the external community, rather than being represented by an economic use through the potential of a future sale. As they are vital to the pursuit of social goals to which the public entities aspire, they will not usually be sold. So even though public entities may hold heritage assets which have the same characteristics as those belonging to the private sector, the former are very different because they may be considered essentially to be generating losses. *Pallot (1992)* argues that heritage assets should be classified as 'community assets' because the owner of them has an imperfect ownership since he does not have other kind of economic rights (usufruct, alienation, destruction). Pallot's concept is somewhat followed by other researchers (*Näsi et al., 2001*; *Stanton & Stanton, 1997*), but for rather general reasons such as difficulties in the valuation of heritage assets and the prohibition or inability to sell heritage assets.

[‡] For the International Public Sector Accounting Standards Board IPSASB (IPSASB 2001): "Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity."

Moreover, *Carnegie & Wolnizer (1999)* argue that heritage assets cannot properly be described as financial assets and do not satisfy the criteria for recognition as an asset: heritage assets are not assets, either in conventional accounting terms or in commercial or commonsense terms. *Carnegie & Wolnizer (1995)* argue that given their nature, heritage assets are able to absorb wealth but not to generate it in financial terms. It would be more appropriate to classify them as liabilities, or alternatively to call them facilities and show them separately. Facilities encompass all those heritage assets that are acquired principally to facilitate transferring resources (as social benefits) to the community. In the Table 1 there is a confrontation of different points of view by previous authors about heritage assets.

<i>Authors</i>	<i>Different point of view about heritage assets</i>
<i>Micallef & Peirson (1997)</i>	Heritage assets are considered assets and they can be included on the balance sheet.
<i>Christiaens (2004)</i> <i>Christiaens & Rommel (2008)</i> <i>Rowles et al., 1998</i>	Heritage assets should be reported in the balance sheet notwithstanding their non - compliance with the official definitions.
<i>Barton (2000)</i>	Heritage assets must be represented in a separate budget as " <i>services assets</i> "
<i>Pallot (1990), (1992)</i>	Heritage assets must be represented in a separate category of asset as " <i>community assets</i> "
<i>Mautz (1988)</i>	Heritage assets must be represented in a separate category of asset as " <i>facilities</i> ".
<i>Näsi et al., (2001)</i>	Heritage assets should not be reported in the balance sheet.
<i>Carnegie & Wolnizer (1995)</i>	Heritage assets are not assets and it would be more appropriate to classify them as liabilities, or alternatively to call them facilities and show them separately.

Table 1 Different point of view about heritage assets.

From the Table 1 it is clear that the various authors have different points of view about recognition, valuation and disclosure of heritage assets. Including heritage assets in the balance sheet, whether as part of property, plant and equipment, as required by international standards, or in a separate class as suggested by academics, raises issues about their recognition and valuation, as noted by *Christiaens (2004)* and also their disclosure. Each of these has been discussed in turn.

The impossibility of selling heritage assets on the open market and the social purposes for which they are held, very often prevents accountants from obtaining reliable and relevant valuations and/or from showing the value of the potential services that they encompass. This implies the impossibility of finding a satisfactory evaluation method to be used for these goods that meet the objectives of financial reporting (*Carnegie & Wolnizer, 1999; Hooper et al, 2005*), although many methods of

valuation that meet other purposes, e.g. insurance, agreed value, open market valuation, private treaty are available.

And one issue in allocating a monetary value to these assets is that it focuses attention on market value, i.e. an exit value, rather than emphasising their importance in artistic, historical and cultural terms (*Barton, 2000; Carnegie & Wolnizer, 1995*). More problematic is the fact that it is difficult to find an objective measurement for the entirety of heritage assets held by one entity. Accordingly, the accounting treatment of heritage assets is characterized by a partial inclusion and measurement (*Stanton & Stanton, 1997*), with traditional valuation methods seen as unsatisfactory at capturing the intrinsic value of heritage assets (*Porter, 2004*).

In terms of different methods of valuation for heritage assets, fair value is not generally a reliable measure. It is also costly and difficult to carry out. Where a market exists, an appropriate value for some heritage assets can be determined considering their market price. When no market exists the traditional approach would be to use historical cost, as usually this is an objective way to measure asset value. However, in the case of heritage assets, unless they have been purchased recently, it may be devoid of meaning as even if it is possible to find such purchase cost many of these assets are very old (*Carnegie & Wolnizer, 1999; Porter, 2004*).

Other valuation techniques such as Replacement cost, Reproduction cost, Net present value, Deprival value are also difficult to carry out because they assume the existence of a ready market (*Porter, 2004*). Therefore, in many cases “*commercial valuations cannot serve as a reliable proxy for social valuation*” (*Barton, 2000*).

There is an onus on the preparers and auditors of financial statements to ensure that, if heritage assets are to be included on the balance sheet, any valuations are reliable and objective. Otherwise they could give misleading information to managers and public users of the accounts, thus creating a negative effect on accountability. *Carnegie & Wolnizer (1996)* also argue that any financial evaluation of heritage assets, whilst not only failing to contribute to improving accountability, also hampers what limited existing understanding there may be, as it distracts the attention of readers from the social purposes of the public entities that hold these assets. Given the problems in relation to the reliable recognition and valuation of heritage assets, which mean that is difficult to include them on the face of the balance sheet there is clearly scope for increased disclosure. The literature raises two issues. Firstly, incomplete information, as in the case of partial capitalisation of heritage assets, is not information (*Carnegie & Wolnizer, 1999*). Rather, a non-financial but accurate disclosure of all assets creates less distortion than a set of financial statements that includes only part of those assets (*Stanton & Stanton, 1997*). Secondly, the role of non-financial and qualitative

key performance measurements is important (*Barton, 2005*). The heritage assets manager can collect information to assess whether the functions needed for the provision of services to the community are carried out effectively and efficiently and that there is optimum conservation and maintenance of assets.

In conclusion, heritage assets have a particular nature which distinguishes them from other assets. This makes it difficult to determine a reliable balance sheet value for them. Since there is increasing pressure under NPM that all assets controlled by an entity need to be rendered visible for decision making purposes, there is a place for considering how this can be achieved so as to meet both the needs of NPM for effective and efficient use of resources and the needs of public accountability.

This issue is older but still actual and unresolved because, governments are still waiting for solutions on a number of unresolved questions and problems regarding heritage assets. A possible solution to the need of accounting rules is given by IPSAS 17.

2. IPSAS 17, Property, Plant & Equipment

IPSAS 17 prescribes the accounting treatment for property, plant and equipment, so that users of financial statements can discern information about an entity's investment in its property, plant and equipment, as well as the changes concerning such investment.

The accounting treatment of heritage assets is disciplined in the paragraphs 9-11 of IPSAS 17.

With regard to heritage assets, this standard does not require or prohibit their recognition. Some assets are described as 'heritage assets' because of their cultural, environmental or historical significance. Certain characteristics are often displayed by heritage assets (*IPSAS 17, par. 9*).

The disclosure requirements (*in paragraphs 73 to 79 of IPSAS 17*) require entities to make disclosures about recognized assets.

Therefore, entities that recognize heritage assets are required to disclose in respect of those assets such matters as, for example the measurement basis used; the depreciation method used; the gross carrying amount, etc.

IPSASB, being aware of the special complexity the presence of heritage assets supposes for the reading of financial statements in the sphere of public institutions, starts in 2006 its own work-mechanisms, which are initially defined in the above mentioned publication *CP Accounting for Heritage Assets Under the Accrual Basis of Accounting*, taking as a reference *DP Heritage Assets: Can Accounting Do Better?* (*ASB, 2006a*) which raises some questions which are established as the work basis for a deeper development, from the point of view of accounting, on information about

these assets of such a special nature, information given in the initial contents on this matter on their IPSAS n° 17 (*IFAC, 2010*).

About this CP it is interesting that the CPA Australia (2006), to the question '*Do you think that heritage assets should be addressed in a separate Standard focusing specifically on heritage assets?*', has responded that there might be a benefit from progressing the project as a standalone Standard (at least to ED stage).

Moreover, with regard to the disclosure requirements, it has argued that the nature and scale of heritage assets held and the preservation and management policy adopted is useful information and should be required. The disclosures requirements are indicated in the section 5 of the CP.

A feature of the proposals developed in Section 3 is that the capitalization and non-capitalization accounting approaches should be supplemented with appropriate disclosures to provide useful and relevant information about the heritage assets held.

This Section proposes disclosure requirements in the light of these considerations and the practical issues identified in Section 4.

Existing disclosure requirements imply that if alternative approaches to those given in that standard are applied to the valuation of inalienable and historic assets, then adequate disclosures should be provided by the different treatment, in relation to the age, scale and nature of the assets held.

A Project about heritage Assets has been started by IPSASB with the aim to develop accounting and disclosure requirements for heritage assets. But to this day '*No decision yet taken to reactivate this project*' (IPSASB, February 2009)[§].

IPSASB (*IFAC, 2006*) has chosen the preferential criterion, if possible, of the valuation approach recognizing heritage assets at current value applying the most reasonable methods. This means, where possible, the cost of acquisition for the elements incorporated to the current period and for those previously incorporated at market current values (*IFAC, 2006 par. 4.6*).

3. Users and their information needs

IPSASs are designed to apply to the general purpose financial statement of all public sector entities. *General purpose financial statements* are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs.

[§] www.ifac.org

The activities of governments in satisfying the collective needs of the nation can be summarized as follows (*Barton 2000, 2005*):

1. provision of public goods and services to citizens,
2. provision of social welfare goods and services to citizens,
3. macroeconomic management of the economy,
4. conservation of the nation's natural and cultural environment,
5. pursuit of intergenerational equity, and
6. management of government resources which are used to provide the above goods and services.

The management of these activities determines the financial management information and reporting needs of government. In the standard-setting process, an important element is the identification of users and their needs (*Anthony, 1978*).

In the public sector, many studies have empirically investigated on the users (*Anessi Pessina and Borgonovi, 2000; Anthony, 1978; Hay, 1994; IFAC-PSC, 2000; Jones et al., 1985; Mack and Ryan, 2006; Steccolini, 2004; Walker et al., 2004*). Some of them have identified who are the users of the public sector, others have identified the users' information needs and decisions, and others have investigated if the reports of the public sector satisfy these information needs.

On the basis of an international comparative study, the IFAC identifies the main users of governmental financial statements as being: government authorities (with the aim of monitoring resources, performance and legal compliance), internal users (managers and administrators), the general public (tax-payers, the electorate, the beneficiaries and users of public services), investors and financiers, lenders and financing bodies, and the media (IFAC, 2000: p. 11).

Accurate user groups can be identified by both the normative and empirical public sector accounting literature and they can be divided into *external users* and *internal users*.

The character of the user-community differs between the public and private sectors: in the public sector the dichotomy between internal and external users which is so obvious in the profit-seeking sector is much less marked. Rather, users spread out along a spectrum with fully internal, managerial users at one end and fully external users at the other. In the middle are a variety of intermediate users, internal from some perspectives and external from others.

The importance given to potential users of the financial reporting is not always the same in all countries (*Brusca & Condor, 2002*). In the Anglo-Saxon countries great importance is given to the general public and the suppliers of the resources, trying to give accountability not only in financial terms but also in terms of economy, efficiency and effectiveness. On the other hand, in most Continental European countries more importance has been given to legislative and oversight

groups, such as the Parliament and the Government, so that the important thing is to demonstrate legal compliance with the budget, and so fiscal accountability is more important than operational accountability. The influence of Supreme Audit Institutions can be mentioned too.

The search for external users of public sector financial reports, and for decisions for which users might plausibly need information that could feasibly be provided in general purpose financial statements, has failed empirically and theoretically (*Rutherford 1992*).

The former approach involves applying empirical methods to identify actors who say they use, or would use, public sector financial reports and to establish either what decisions they wish to take or what information they perceive themselves to need, or both. By contrast, a normative approach builds a specification of information needs by *a priori* theorizing, but this theorizing must be derived from empirically plausible, actual or potential, users with empirically plausible classes of decision to be taken. Conceptual frameworks themselves tend, not surprisingly, to be normative in approach and to base arguments about information needs on *a priori* assertions rather than rigorous empirical research.

Many authors have focused their researches on *external users* (citizen, creditor and investor, etc.) (*Boyett & Giroux, 1978; Carpenter & Sharp, 1992; Daniels & Daniels, 1991*), but other studies emphasize the importance of the internal users, the latter are the most important users of governmental financial information (Elected Officials, Councillors and internal management) (*Chan, 1981; Clark, 2002; Coy et al., 1997; Davidson, 1977; Jones et al., 1985; Mack et al., 2001; Mack and Ryan, 2004 and 2006; Steccolini, 2004; Walker et al., 2004*).

Studies on the users' information need have been made fundamentally in the American environment and have attempted to collect empirical evidence of the needs of the users of public sector financial reporting, studying which information is more relevant for the groups of users and the usefulness of financial reporting content in general.

One of the user groups most studied in previous research is creditors and investors (*Boyett & Giroux, 1978*). Extending the study to others user groups, other authors has included citizen groups and legislative and oversight officials. They have concluded that the citizen groups used financial reports for: evaluating efficiency and effectiveness, comparing results of the current year with those of previous years; assessing financial operations and financial conditions; determining compliance with the budget and advocating certain programmes (*Jones et al., 1985*). The above results were supported by *Daniels & Daniels (1991)*, proving that there were differences in the information of interest to users. Information on viability and performance were the most useful for investor and creditor, while legislative and oversight officials rated information on compliance and cost of

services most useful, also expressing an interest in information on performance and viability. Citizens had preference for information on cost of services.

Dye & Bowsher (1987) shows that in addition to basic financial information, such as the government's assets, liabilities, revenues, expenses, deficit and borrowing requirements, most users want an annual report to contain other information which increases the understanding of these items. This is supported by *Antonio & Hay (1990)*, who limit themselves to examining the usefulness of notes to financial statements, showing that users of financial reporting wanted highly detailed disclosures.

The users of public sector reports, not only ask for basic financial information and highly detailed disclosures (*Dye & Bowsher, 1987; Antonio & Hay, 1990*), but they also are interested in information about the management of the heritage assets, about their protection, conservation and maintenance for future generations (*Barker, 2006; Buch Gómez and Cabaleiro Casal, 2008; Micallef and Peirson, 1997; Rowles et al., 1998*) for accountability and decision-making reasons (*Jones et al., 1985; Mack and Ryan, 2006; Steccolini, 2004*).

Few empirical studies have been conducted into reporting practices relating to infrastructure assets (e.g. *Lee, 1999; Lee & Fisher, 2004; Thomson, 1993; Walker et al., 1999 and 2004*). *Lee (1999)* surveyed infrastructure asset reporting practices in New South Wales and the perceptions of users of public sector financial reports that provide information about infrastructure assets. User demand for information about maintenance, physical condition and asset management information was established. A gap was discovered between the information users expected and what had actually been reported in the annual reports.

Walker et al., (2004), in a survey on infrastructure reports of the New South Wales Local Government, attest that mayors and councillors perceive that infrastructure reports are used to some extent as a source of information about these assets, and that these reports have an influence on resource allocation. Both mayors and councillors held slightly positive views about the relevance of the information contained in these reports. Indeed, councillors (and to a lesser extent, mayors) believed that these reports provide a good basis for resource allocation. Councillors also rated the role of infrastructure reports in actually assisting decision-making more highly than mayors within the same council.

4. Research question

From the section relative to heritage assets, it is clear that governments are still waiting for solutions on a number of unresolved questions and problems regarding heritage assets. IPSAS 17 might be a possible solution to the need of accounting rules, but one important problem about the requirements of IPSAS 17 is argued by *Marti (2006)*. This author, in his analysis about the accounting treatment of heritage assets in UK, Sweden and New Zealand, has underlined that their accounting models need even further requirements compared to those of IPSAS. *Sutcliffe (2003)* attests that the analysis of the accounting policies of the three countries studied reveals that some technical accounting problems have been solved, in practice, without having a theoretical framework at the outset. *Christiaens (2003)* argues that, contrary to the Flemish situation where there is an obligation, the recognition of heritage assets is merely an option in the standard.

Of course, the local governments are not obliged to apply IPSASs; moreover, if they choose to implement these standards (for the aim of the harmonization of the governmental and financial reporting) they are not obliged to recognize the heritage assets. However, if a local government decides to use IPSASs and chooses to recognize the heritage assets (for responding to the user needs) IPSAS 17 is the only standard to which they can refer because it is the only one that disciplines the fixed assets (including heritage assets).

Previous research has shown that financial information need is satisfied by the information put in the annual report (*Steccolini, 2004*), but with regard to infrastructure assets, the previous research argues that a gap exists between information considered relevant by users and those disclosed in the annual reports (*Lee, 1999; Van Daniker & Kwiatkowski, 1986; Walker et al., 1999*). For the *heritage assets*, instead, there is uncertainty about the level of adequacy of the requisite disclosure requirements of IPSAS 17 (*Christiaens, 2003; CPA Australia, 2006; IFAC, 2006; Marti, 2006; Sutcliffe, 2003*).

On the one hand, there is the need of information about heritage assets from the user of the governmental financial reporting, and on the other, it is necessary to consider if the disclosure requirements of IPSAS 17 about heritage assets are able to respond to user needs.

Therefore, the research question is:

To what extent does IPSAS 17 respond to the needs of users about heritage assets of governmental financial reporting?

IPSAS 17 is designed to apply to meet the particular information needs of users and should provide information useful for decision-making and demonstrate the accountability of the entity for the resources entrusted to it. Nevertheless, previous researches (*Christiaens, 2003; Marti, 2006;*

Sutcliffe, 2003) have underlined that in case of application of IPSAS 17 there could be problems that the disclosure requirement of these standards could not be able to respond to user needs about heritage assets.

While IPSASB is of the view that, in principle, all assets should be recognized in the financial statements, it acknowledges that more work needs to be undertaken in determining the measurement basis and recognition criteria that should be applied to heritage assets. *IFAC (2006)*, working for a specific project about heritage assets, have also confirmed that the disclosure requirements, could be insufficient compared to the needs of the user. Moreover, the *CPA Australia (2006)*, in relation to the disclosure requirements, has argued that the nature and scale of heritage assets held and the preservation and management policy adopted is useful information and it should be required.

A theoretical analysis on the disclosure requirement of IPSAS 17 and user needs shows that the preliminary conclusions tend not to be so favorable for IPSAS 17 because the users seem to be interested in information that are not required by IPSAS 17. Therefore, the following hypothesis can be formulated:

H1: IPSAS 17 does not respond to the needs of users about heritage of the continental western European countries.

For testing this hypothesis there is the need to define the variables for the analysis. For satisfying this demand, a list of the information needs of users has been created considering the different previous (user needs) researches and heritage assets researches. Moreover, the need to select the data to measure these variables has been satisfied with the choice of Italy as prototype of the continental Western European countries.

5. Methodology

To test the hypotheses, a survey of Italian local government with populations above 30,000 has been conducted. The analysis is focused on local government, indeed it is seen as *significant* because of the central position which it occupies in the arrangement and delivery of public services (*Lapsley et al, 2009*).

Many authors have investigated the challenge in the local government (*Anessi Pessina & Borgonovi, 2000; Anessi Pessina et al, 2008; Boyett & Giroux, 1978; Brusca Alijarde, 1997; Christiaens, 2004; Christiaens, 2009; Steccolini, 2004*).

The Italian municipalities with populations above 30,000 are 293^{**} and each municipality has a mayor, a cabinet, a city council, and a professional bureaucracy. The mayor is the head of the executive; he is elected directly by the population and appoints the members of the cabinet.

A central feature of public-sector – and, specifically, accounting – reforms has been the introduction of accruals accounting. In the international literature, the ‘new’ basis of accounting is claimed to have a number of advantages (*Barrett, 1993; Evans, 1995; Funnell and Cooper, 1998; Mellor, 1996*). Nevertheless, an increasing body of literature has criticised the adoption of accruals accounting by public organisations on both theoretical grounds (*Carnegie and Wolnizer, 1995; Christiaens, 1999; Ellwood, 1999; Guthrie, 1998; Lewis, 1995; Montesinos et al., 1995; Stanton & Stanton, 1998*) and practical considerations (*Carlin and Guthrie, 2003; Guthrie, 1998; Stanton & Stanton, 1998*).

In principle, an appealing compromise could be for budgetary and accruals accounting to coexist, letting governments combine the benefits of ‘both worlds’.

Thus, some authors have contended that accruals and budgetary accounting can be usefully integrated which can facilitate the production of data for both accounting systems. At the same time, however, such coexistence may cause confusion in managers, who receive conflicting signals by the two sets of parallel accounting numbers (*Guthrie, 1998*) and usually end up disregarding accruals data (*Anthony, 2000*).

The Italian version of such coexistence for LGs was introduced by legislative decree (D.lgs.) 77/95. One of the reform’s main provisions was the introduction of accruals accounting or, better, accrual-based reporting. With the 1995 decree states the double-entry bookkeeping is not mandatory but alternatively, LGs can derive their balance sheets and operating statements from their budgetary accounting statements through a complex system of year-end adjustments. LGs can thus choose between a ‘traditional’ and an ‘integrated’ accounting system. D.lgs. 77/95 did provide some guidance, but only in very general terms, especially with respect to accruals accounting. LGs have consequently been free to draw from other sets of standards (e.g., IFRSs, IPSASs, Italian national standards for private firms), if any.

The survey has been conducted through a questionnaire sent by e-mail and by post to the users of the local governmental financial reporting^{††}.

^{**} Last population census of 2001.

^{††} This technique is preferred to personal interviews, due to the large number and wide geographical dispersion of the LGs and it is also preferred to phone interviews, due to the high cost derived from the large number of the LGs. This technique has been used by many researchers in the empirical analyses, particularly, in the empirical analyses about local governments (*Brusca Alijarde, 1997; Christiaens, 2009; Steccolini, 2004*).

The questionnaire has been sent to the Mayors and their city councils. Many authors have focused their researches on this type of user (*Chan, 1981; Jones et al., 1985; Mack et al, 2001; Mack and Ryan, 2004; Steccolini, 2004; Walker et al., 2004*).

According to these analyses, the mayors are considered the most interested users of annual report (*Chan, 1981; Steccolini, 2004*) for political accountability reason (*Sinclair, 1995*) and for decision-making reason (*Walker et al., 2004*); however, there are differences in the information of interest to users. In local government the private sector accountability flow is replicated by the flow to elected councilors, but those councilors are then accountable to the electorate, who are also the funders in their role as taxpayers.

On the contrary, *Mack and Ryan (2004)* argues that the Elected Officials, that are regarded as a category of 'non-dependent' users of the general purpose financial reports, look for financial statement information for the purpose of 'public accountability' rather than for decision-making.

Elected officials are regarded as a category of 'non-dependent' users by other researches (*Collins et al., 1991; Taylor and Rosair, 2000*).

Politicians are invested by institutional leaders and must give an explanation to the community of actions taken during public activities. It is called *public accountability* because politicians have to be accountable for their actions against both the government and all of the voters (*Tolbert Roberts, 1982; Sinclair, 1995*).

The public activities of politicians is carried out in the interest of the community. Taxpayers provide the monetary resources and are interested in receiving financial information to evaluate whether management has efficiently and effectively administrated and used correctly the monetary resources provided by taxpayers.

Citizens need to have information about the performance of the local government, resources available, the cost of their services and, generally, on the policy outcome in the territory, in order to express an opinion on the political and administrative activity.

Heritage assets have a high historical and cultural importance and must be preserved and maintained in good condition in order to continue to offer their social benefits for an indefinite period of time (*Barton, 2005*). The in-depth knowledge and the correct management of heritage assets are critical to the future of public entities.

A good system of financial reporting of heritage assets should provide information to stakeholders about the nature and, if possible, the value of such assets, should also give information on the correctly management of heritage assets by local government that hold them.

After the definition of the purpose of the study and the sample which will be the object of it, a standardized questionnaire is designed.

The questionnaire^{††} was composed by seven questions. They were multiple choice questions with answers on a scale of one to five: one corresponds to the lowest degree of importance, three corresponds to the indifference and five to the highest degree of importance.

The questionnaire can be divided in three parts:

- the *first* question expresses the importance that responders give to a general information about heritage assets;
- the *second* (12 items), *third* (1 items), *fourth* (12 items), *fifth* (1 items) questions express the importance that responders give to a specific information about heritage assets (for each items the users have been express a degree of importance);
- the *sixth* and *seventh* questions express the importance that responders give to a specific reasons for which they research or not research information about heritage assets (for each reasons the users have been express a degree of importance).

The list of the 26 information needs (items) useful of the Mayor and councilors of the second part of the questionnaire (12+1+12+1) has been created considering various user needs researches and heritage assets researches (*Barton, 2000; Barker, 2006; Lee & Fisherb, 2004; Mack & Ryan, 2004; Robbins, 1984; Stafford & Lacerra, 2009*); moreover, the information requested by IPSASB in the Consultation Paper (CP 2006) are examined.

As opposed to the list of information useful of the Mayor and councilors, a list of the information required by IPSAS 17 has been created.

These items have been divided into four groups: valuation (*Lee & Fisherb, 2004*), information disclosure (*Robbins, 1984*), narrative information (*Mack and& Ryan, 2006*) and performance information (*Mack & Ryan, 2006*). The Table 2 shows, for each group of information, if the items are required only by IPSAS 17, if they are required only by user need researches or required by both.

^{††} The questionnaire was sent for four times to Mayors and city councils of the Large Italian local governments. The first time the questionnaire was sent by e-mail and every 15 days there was a follow-up. For the first and second follow-up the questionnaire was sent by e-mail, for the third follow-up the questionnaire was sent by post.

<i>Items</i>	<i>IPSAS 17</i>	<i>User needs researches</i>	<i>References</i>
1) Valuation			
Financial value	X	X	Lee & Fisherb, 2004
Measurement based of financial value	X	X	Lee & Fisherb, 2004
2) Disclosure information			
The net exchange differences.	X	-	Antonio& Hay, 1990
Useful life of assets	X	-	Mayston, 1992
Depreciation method used	X	-	Mayston, 1992
Depreciation value	X	-	Mayston, 1992
Revaluation Method used	X	-	Barth & Clinch, 1998
Date of the revaluation	X	-	Barth & Clinch, 1998
Changes in valuation criteria	X	-	Arcelus & Trenholm, 1989
Custody costs	-	X	Barker, 2006
Information about allocation and uses of financial resources	-	X	Robbins, 1984
Cost of the conservation, restoration and maintenance of the heritage assets	-	X	Stafford & Lacerra, 2009
3) Narrative information			
The estimated costs of dismantling, removing or restoring items of heritage assets.	X	-	IPSAS 17
The temporarily idle heritage assets	X	-	IPSAS 17
The value of the heritage asset retired from active use and held for disposal.	X	-	IPSAS 17
Restrictions on the heritage assets	X	-	IPSAS 17
Overview of entities operations (Acquisitions through entity combinations, contract commitment for the acquisition of the heritage assets).	X	X	Mack & Ryan, 2006
Physical condition of the Heritage assets	-	X	Barton, 2000
Event after financial statement date	-	X	Robbins, 1984
Description of the heritage assets	-	X	Robbins,1984
Identification of the funding sources for acquisitions (for example, government grants, cash donations, donated assets and utilisation of existing cash resources).	-	X	IPSASB.C.P.2006
Policies for the conservation, restoration and maintenance of the heritage assets	-	X	Stafford & Lacerra, 2009
4) Performance information			
Performance indicators	-	X	Mack & Ryan, 2006
Budget VS Actual information	-	X	Mack & Ryan, 2006
To compare the results with the previous years results	-	X	Mack & Ryan, 2006
A five year financial summary of activity (including acquisitions and disposals of heritage assets).	-	X	IPSASB, C.P.2006

Table 2 The list of the information needs useful of the Mayor and councilors by user need researches and IPSAS 17.

The observations highlighted by the analysis relative to a theoretical comparison between the list of items required by IPSAS 17 and the list of those derived from user need researches, are the following:

- with regard to *valuation* there is not a gap between a information needs of the Mayor and councilors and the requirements of IPSAS 17; with regard to the *Information Disclosure* there is a gap between the information needs of the Mayor and councilors and the disclosure requirements of IPSAS 17;
- with regard to the *Narrative information*, some information needs of the Mayor and councilors are required from the Standard too, as the overview of entities operations; instead, other information as the description and the physical condition of the heritage assets, the event after financial statement date, the policies for the conservation, restoration and maintenance of the heritage assets, are not required by IPSAS 17;
- with regard to *Performance information*, there is a strong gap because the users ask for performance indicators, a five year financial summary of activity and a comparison between budget and actual information; on the contrary, IPSAS 17 does not require these information.

Afterward, the specific information about heritage assets were adjusted to the needs of the analysis so the items have been listed according to the degree of importance represented by the average importance. The items with an average importance of at least 3,5 have been chosen because these values express the highest degree of importance that users give to the specific information about heritage assets. Even if the average importance of 3 express 'indifference', the value above 3,5 shows that, in average, some users consider 'important' to see this type of information in the governmental financial reporting.

Subsequently, it has been calculated the percentage of satisfaction and the percentage of unsatisfaction of the user needs by IPSAS 17. The first percentage considers the items important for the users that are also required by IPSAS 17; on the contrary, the second percentage considers the items important for the users that are not required by IPSAS 17.

Finally, the reasons for which users require or do not require information about heritage assets were investigated.

6. Results

The sample is composed by 293 Italian municipalities with populations above 30,000.

130 municipalities out of 293 have responded to the questionnaire sent, with a resulting response rate of 44%^{§§}. This response rate compares favorably to the response rates achieved by other surveys of this type (*Coy et al., 1997 – 56%*; *Mack & Ryan, 2004 – 24,6%*; *Jones et. al., 1985 – 10%*; *Priest et al., 1999 – 19%*).

Moreover, considering that the political class rarely responds to questionnaires and that the e-mail technique has a lower response rate, compared to other techniques (for example, personal interviews or phone interviews), the rate response is enough high.

Among the municipalities with respond, there are some (80%) with only one questionnaire filled out (only Mayor or only councillor), some municipalities (18%) with two questionnaires filled out (Mayors and one councillor or two councillors) and some others (only 2%) with three questionnaires filled out (Mayor and two councillors)^{***} (Figure 1).

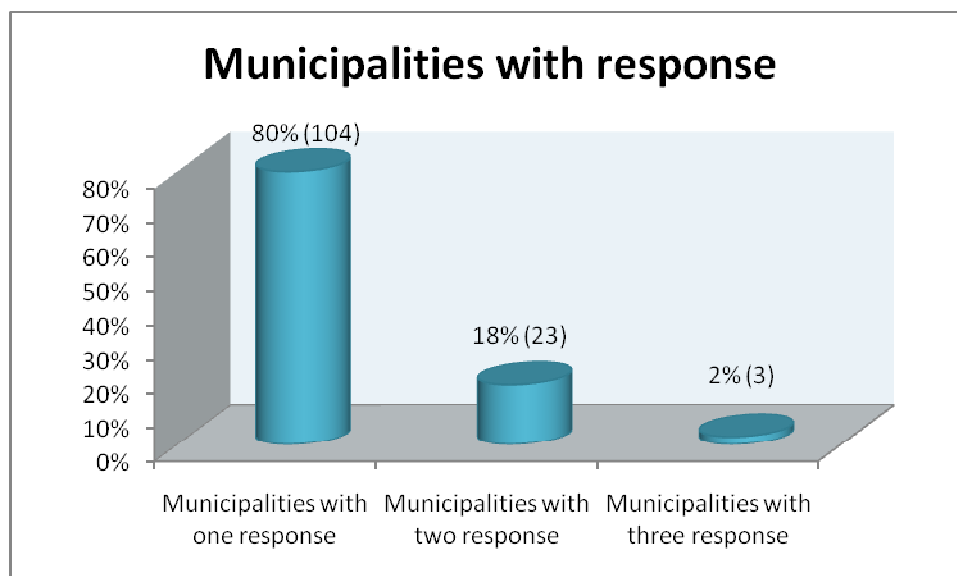


Figure 1 Italian municipalities with one, two and three responses.

The questionnaires filled out were in total 159.

^{§§} Many of the most important cities of Italy such as Milan, Naples, Rome, Catanzaro, Pisa, Viareggio, Perugia, Venice, Verona have responded to the questionnaire sent.

^{***} The municipalities with three questionnaires filled out (Mayor and two councillors) are: Milan, Naples and Verona.

7. Data analysis

After the theoretical comparison between the list of items required by IPSAS 17 and the list of items derived from user need researches, the answers of the respondents of the questionnaires have been analyzed. For each item, the answers of the respondents have been summed and the value of the average importance has been calculated.

Mayors and city councillors gave to 'information about heritage assets' an average importance of 4,3 (Figure 2). They think that the presence of information about heritage assets is 'important' in the governmental financial reporting.

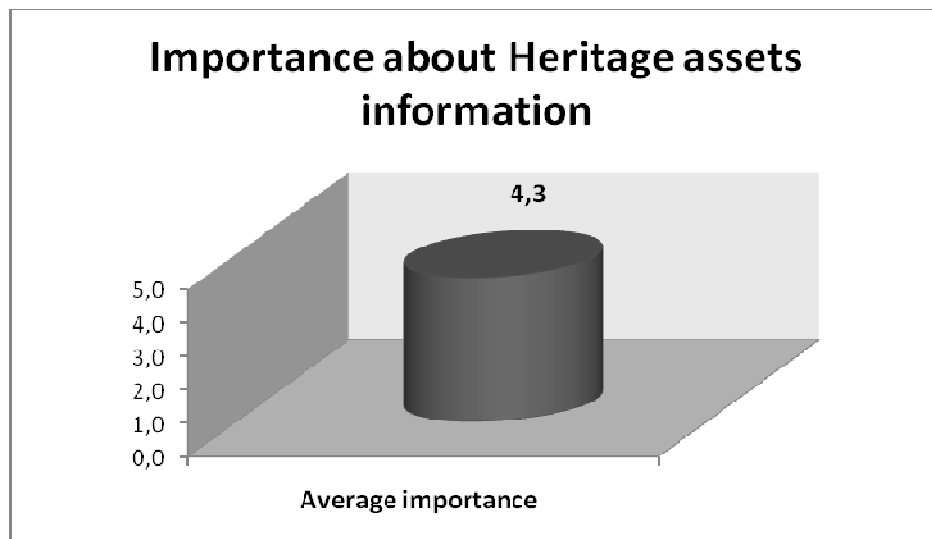


Figure 2 Average importance that Mayors and city councillors gave to 'information about heritage assets'.

Afterward, the specific information about heritage assets (items) have been listed according to the degree of importance and *the items with an average importance of at least 3,5 are the first twenty one items of the Table 3**.

* The table 3 has six columns: the first column shows the number of the item considered, the second column shows the group (VAL= valuation; DI= disclosure information; NI= narrative information; PI= performance information) to which the item belongs to; the third column shows the items considered; the fourth and fifth column show whether the items are required only by IPSAS 17 (in Red), whether they are required only by user need researches (in Yellow) or are required by both (in Green); the sixth column shows the average importance of each items.

<i>Nº</i>	<i>Group</i>	<i>Items</i>	<i>IPSAS 17</i>	<i>User needs researches</i>	<i>Average importance</i>
1	DI	Cost of the preservation, conservation, restoration and maintenance of the heritage assets	-	X	4,6
2	NI	Identification of the funding sources for acquisitions (for example, government grants, cash donations, donated assets and utilization of existing cash resources).	-	X	4,4
3	DI	Information about allocation and uses of financial resources	-	X	4,3
4	NI	Description of the heritage assets	-	X	4,2
5	NI	Policies for the preservation, conservation, restoration and maintenance of the heritage assets	-	X	4,2
6	DI	Custody costs	-	X	4,2
7	NI	Physical condition of the heritage assets	-	X	4,1
8	PI	Comparison between the current results and those of the previous year	-	X	4,0
9	PI	Performance indicators	-	X	4,0
10	PI	Budget VS Actual information	-	X	4,0
11	PI	A five year financial summary of activities (including acquisitions and disposals of heritage assets).	-	X	4,0
12	VAL	Financial value	X	X	3,9
13	NI	Overview of entities operations (Acquisitions through entity combinations, contract commitment for the acquisition of the heritage assets).	X	X	3,9
14	DI	Useful lives of assets	X	-	3,8
15	NI	The estimated costs of dismantling, removing or restoring items of heritage assets.	X	-	3,7
16	NI	Restrictions on the heritage assets	X	-	3,7
17	VAL	Measurement based of financial value	X	X	3,6
18	NI	Event after financial statement date	-	X	3,6
19	DI	Depreciation method used	X	-	3,6
20	NI	The temporarily idle heritage assets.	X	-	3,5
21	DI	Date of the revaluation.	X	-	3,5
22	DI	Depreciation value	X	-	3,4
23	DI	Revaluation Method used	X	-	3,4
24	DI	Changes in valuation criteria	X	-	3,3
25	NI	The value of the heritage asset retired from active use and held for disposal.	X	-	3,3
26	DI	The net exchange differences.	X	-	2,7

Table 3 The specific information about heritage assets (items) with an average of importance of at least 3,5.

Afterward, the 21 Items with an average importance of at least of 3,5 are divided into 3 classes:

1. the items considered important for the users by the previous user need researches and required by IPSAS 17 too (*three items*).
2. The items required only by IPSAS 17 which are not considered important by the previous user need researches (*six items*).
3. the items considered important for the users by the previous user need researches, but which are not required by IPSAS 17 (*twelve items*).

For each class the percentage is calculated (Figure 3).

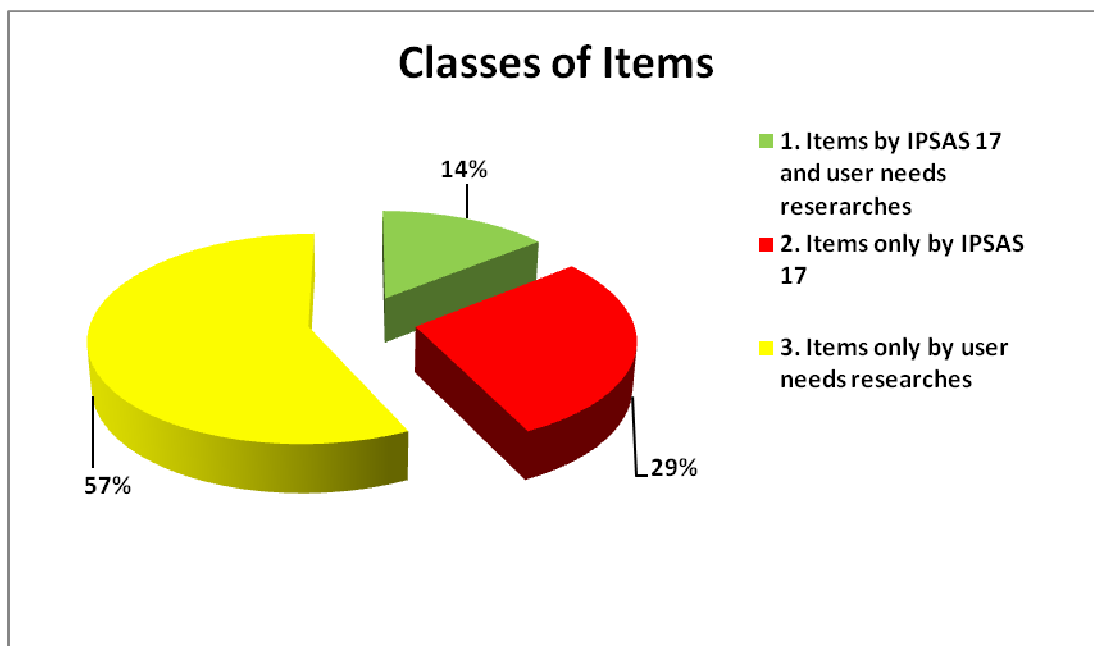


Figure 3 The classes of items in percentage.

The sum of the percentage of the first (14%) and second (29%) classes represents the *percentage of satisfaction* of the user needs by IPSAS 17 (Table 4), because there are:

1. items that are considered important for the users both by previous user need researches and by the analysis results; moreover, they are required by IPSAS 17;
2. items that are required by IPSAS 17, they are considered important for the users by the analysis results, but they are NOT considered important for the users by previous user need researches.

The percentage of the third class (57%) represents the *percentage of unsatisfaction* because there are items that are considered important for the users both by previous user need researches and by the analysis results. However, they are NOT required by IPSAS 17.

<i>CLASS</i>	<i>Number of Items</i>	<i>Percentage of each class</i>	<i>Percentage of satisfaction</i>	<i>Percentage of unsatisfaction</i>
<i>1. Items by IPSAS 17 and User needs researches</i>	3	14%		
<i>2. Items only by IPSAS 17</i>	6	29%	43% <i>(Sum Class 1+2)</i>	
<i>3. Items only by User needs researches</i>	12	57%		57% <i>(Class 3)</i>
TOTAL	19	100%	43%	57%

Table 4 The percentages of satisfaction and the percentage of unsatisfaction of the user needs by IPSAS 17.

The empirical result asserts that the user needs information of governmental financial statement are satisfied by IPSAS 17 only for the 43%.

The research highlights that a lot of user needs information (12 items already considered important by the previous user need researches) are not satisfied by the standard, with a percentage of unsatisfaction of the 57%.

If the IPSAS standards are used by the local government, the user needs information about heritage assets, will be satisfied by the specific standard for only the 43%, a very low percentage of satisfaction.

Reasons for researching or not researching information about heritage assets in the local government.

Regarding the purposes for which users require information about heritage assets (*the ‘why’ question*), the previous surveys on the government and municipal users show that accountability and decision-making were both important reasons for which users required financial information (*Jones et al., 1985; Steccolini, 2004*).

Ryan and Mack (2006) assert that all users find financial statement information more useful for the purpose of ‘*public accountability*’. In addition, they regard financial statement information as being more useful for discharging financial accountability and public accountability than for decision-making.

In the Table 5, the empirical results, according to *Ryan and Mack (2006)*, show that ‘*financial accountability*’ (average importance of 4,3) and ‘*public accountability*’ (average importance 4,1)

are the most important reasons for which users require information about heritage assets. However, ‘Political decision’ and ‘Performance measurement’, with an average importance of 4, are important reasons for users to require information about heritage assets.

<i>Reasons for researching heritage assets information</i>	<i>Average importance</i>
Financial accountability	4,3
Public accountability	4,1
Political decisions	4,0
Performance measurement	4,0

Table 5 The reasons for which users require information about heritage assets.

Finally, the research investigates the reasons for which users do not require information about heritage assets. In the Table 6, the empirical results show that the most important reason is that it is not compulsory to put information about heritage assets in the governmental financial reporting; the second most important reasons is the ‘disinterest’ for this type of information and at the end for some Mayors and Councillors is *difficult to understand* the information about heritage assets.

<i>Reasons for not researching heritage assets information</i>	<i>Average importance</i>
The fact that it is not compulsory to put information about heritage assets in the financial statement.	4,2
Not interest for information about heritage assets.	3,9
The incomprehensibility of the information about heritage assets	3,7

Table 6 The reasons for which users do not require information about heritage assets.

8. Discussion and conclusions

Mayors and Councillors state that it is ‘important’ to find information about heritage assets in the governmental financial reporting for financial and public accountability reasons. The present research had the aim to investigate *to what extent IPSAS 17 respond to the needs of users about heritage assets of the continental western European countries.*

Previous researches (*Christiaens, 2003; Marti, 2006; Sutcliffe, 2003*) have highlighted that IPSAS 17 could not be able to respond to the user needs about heritage assets. Also IFAC states that this disclosure requirement could be insufficient compared to the user needs.

Started by this consideration, the hypothesis of research was: *IPSAS 17 does not respond to the needs of users about heritage of the continental western European countries.*

The empirical analysis is conducted on the politicians (mayor and councillors). Of course, the results are influenced by the choice of politicians such as type of users, Alternative choices might have produced significantly different results.

The empirical results of the survey on the Mayor and Councillors of large LGs confirm the hypothesis because twelve of the most important information (57%) that users research in the governmental financial reporting are not required by the standard. These results are not only going to confirm the hypothesis, but they are going to fortify the previous user needs research too.

In response to the research question, IPSAS 17 responds to the user needs about heritage assets only for the 43%. Therefore, if the local governments are going to use IPSAS standards and want to recognize the heritage assets, they have the problem that the only standard that they can apply to does not satisfy or it satisfies hardly anything the user needs about heritage assets.

A good solution could be the development of a new specific standard for the heritage assets. The small paragraph in IPSAS 17 is not enough to give the accounting rules for the recognition, valuation and disclosure for heritage assets. Moreover, many rules are created for the general fixed assets and it is very difficult to apply them to specific heritage assets.

This is an old but still actual big problem; IPSASB in the 2004 had already understood this problem and started a project histories about heritage assets with the aim to develop accounting and disclosure requirements for this type of assets. Unluckily this project stopped to 2009 and until now nothing of new is being done.

Finally, IPSAS 17 does not require or prohibit the recognition of the heritage assets. The fact that it is not compulsory to insert information about heritage assets in the governmental financial reporting is the most important reason for which users do not require information about heritage assets.

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