



# **PUBLIC ACCOUNTS COMMITTEE**

## **VALUATION OF THE AUSTRALIAN MUSEUM'S COLLECTION ASSETS**



Report No. 136

November 2002

[No. 18/52]

This report was compiled using *Word 97*  
and printed by the Parliamentary Printing Services.

This report will also be available on the Internet via:

*<http://www.parliament.nsw.gov.au>*

## **New South Wales Parliamentary Library cataloguing-in-publication data:**

### **New South Wales. Parliament. Public Accounts Committee**

Valuation of the Australian Museum's collection assets / Public Accounts Committee. [Sydney, N.S.W.] : The Committee, 2002. – iv, 11 p. ; 30 cm. (Report no. 136 / Public Accounts Committee) ([Parliamentary paper] ; no. 18/52)

At head of title: Parliament, NSW.

"November 2002".

Chair: Joseph Tripodi.

ISBN 0734766181

1. Australian Museum
2. Museums—New South Wales—Sydney—Valuation.
  - I. Tripodi, Joseph.
  - II. Title
- III. Series: New South Wales. Parliament. Public Accounts Committee. Report ; no. 136
- IV. Series: Parliamentary paper (New South Wales. Parliament) ; no. 52/18

DDC 069.099441



## Table of Contents

Charter of the Committee and Membership.....	ii
Chairman’s Foreword .....	iv
Chapter One, Introduction .....	1
Terms of reference .....	1
Chapter Two, The Museum Visit .....	2
Introduction.....	2
How is the current valuation progressing?.....	2
What difficulties are being experienced in completing the valuation?.....	3
When will the valuation exercise be completed? .....	4
Does the methodology comply with Treasury’s valuation guidelines?.....	4
Who is doing the current valuation? .....	4
What valuation methodologies are being used for the collections? .....	4
Has the Audit Office endorsed the methodology? .....	5
Are any collections not recorded on a database?.....	5
Are there any collections/objects that won’t be valued? If so, why? .....	5
Will all collections be digitally recorded on the database?.....	5
What is the anticipated cost of the valuation exercise? .....	5
Is it feasible for any collections to be sold to fund the valuation? .....	6
Is the expected value of the collection in line with previous estimates? .....	8
Does the Museum see benefits in this recording and valuation?.....	8
Will the valuation provide risk management benefits?.....	8
Chapter Three, Conclusions .....	9
Appendix, Submissions and Documents Received by the Committee .....	10



## Charter of the Committee

The Public Accounts Committee has responsibilities under the *Public Finance and Audit Act 1983* to inquire into and report on activities of government that are reported in the State's Public Accounts and the accounts of the State's authorities.<sup>1</sup> The Committee, which was established in 1902, scrutinises the actions of the Executive Branch of Government on behalf of the Legislative Assembly.

The Committee recommends improvements to the efficiency and effectiveness of government activities. The sources of inquiries are the Auditor-General's reports to Parliament, referrals from Ministers and references initiated by the Committee. Evidence is primarily gathered through public hearings and submissions. As the Committee is an extension of the Legislative Assembly, its proceedings and reports are subject to Parliamentary privilege.

## Members of the Committee

The Committee comprises members of the Legislative Assembly and assumes a bi-partisan approach in carrying out its duties.

**Chairman:** Joseph Tripodi MP, Member for Fairfield

**Vice-Chairman:** Pam Allan MP, Member for Wentworthville

**Members:** Ian Glachan MP, Member for Albury

Katrina Hodgkinson MP, Member for Burrinjuck

Richard Torbay MP, Member for Northern Tablelands

Barry Collier MP, Member for Miranda

---

<sup>1</sup> See Part 4 of the Act – The Public Accounts Committee.



---

## Committee Secretariat

Secretariat members involved in the Inquiry were:

Committee Manager:	David Monk
Project Officer:	Vicki Buchbach
Committee Officer:	Jacqui Isles
Assistant Committee Officer:	Mohini Mehta
Advisor to the Committee	John Viljoen

### To contact the Committee:

Public Accounts Committee	Telephone (02) 9230 2631
Parliament House	Facsimile (02) 9230 2831
Macquarie Street	E-mail <a href="mailto:pac@parliament.nsw.gov.au">pac@parliament.nsw.gov.au</a>
Sydney NSW 2000	



## Chairman's Foreword

The Auditor-General reports to Parliament each year on the results of audits of the accounts of Authorities of the State and the State's public accounts. One noticeable comment in the reports in recent years has been the valuation of the collection assets of the Australian Museum.

Under the accrual accounting system, these assets must be valued so the statement of financial position will be accurately reported for both the Museum and the New South Wales Total State Sector.

The Committee noted that this qualification had continued for a number of years, but was unsure whether a full inquiry was warranted. The Committee decided, therefore, to initially hold a visit of inspection at the Museum to determine the best course of action.

The visit occurred on Tuesday, 10 September 2002. The Committee observed that the valuation was well under way. Further, the Museum's management demonstrated a commitment to complete the valuation, hopefully in time for the 2001-02 accounts. Although the Museum did not meet this deadline, it appears that, at this stage, matters are well in hand for 2002-03.

The Museum's collection is diverse and the evaluation has been a challenging exercise. To bring some of these issues to light, the Committee decided to release a report on the visit of inspection and the further correspondence with the Museum. This report has been prepared by John Viljoen, an Advisor to the Committee on secondment from the Audit Office.

There has been recent discussion whether valuing collection assets is worthwhile. Although this report is not designed to answer this question, the Committee notes that the valuation now puts the Museum in a better position to apply risk management practices, such as ensuring it has appropriate insurance cover. Other benefits are discussed at the end of chapter two.

The Committee also recognises the inherent value of these collections in that some aspects of their value cannot be quantified. This idea is often expressed as the danger of knowing the price of everything and the value of nothing.

The Committee thanks the representatives of the Museum for their expert input and co-operation in arranging the visit of inspection. The Committee also wishes the Museum the best of luck in completing the valuation.

Joseph Tripodi MP  
Chairman



## Chapter One

### Introduction

#### ***Terms of reference***

The Auditor-General raised the matter of the Australian Museum failing to recognise a value for its collection assets in its financial report in his *Report to Parliament 2001 – Volume 7*. This has been an ongoing issue for some years because it is a departure from Australian Accounting Standards and has resulted in qualified Independent Audit Reports for both the Museum and the Total State Sector.

The Audit Office believes recognition and valuation of collection assets is fundamental to understanding the Museum's financial position and the results of its operations.

The Committee wished to examine:

- the Museum's need for a valuation of its collection assets;
- its ability to complete a valuation;
- the nature of the impediments delaying a valuation; and
- the benefits, if any, of performing a valuation.

To determine whether an inquiry was necessary, the Committee resolved to visit the Museum under its powers to follow-up reports of the Auditor-General in section 57(1) of the *Public Finance and Audit Act 1983*. The Committee wished to gain a first hand understanding of:

- the Museum's operations;
- progress to date of the valuation exercise;
- the difficulties in performing the valuation;
- the valuation methodology;
- costs to date and those estimated to complete the valuation;
- the benefits, if any, to the Museum and other stakeholders of performing a valuation; and
- the estimated value of the collection.

The results of the visit of inspection are discussed in the next chapter.



## Chapter Two

### The Museum Visit

#### *Introduction*

The visit of the Museum took place on Tuesday 10 September 2002. Present on the visit were:

- Mr Joseph Tripodi MP (Chairman PAC);
- Mr Ian Glachan MP (PAC member);
- Mr John Viljoen (PAC Advisor);
- Ms Vicki Buchbach (PAC Project Officer); and
- Ms Jacqui Isles (PAC Committee Officer).

The visit was facilitated by:

- Mr Patrick Filmer-Sankey (Deputy Director Australian Museum) and
- Mr Ken Pope (Head Corporate & Commercial Services, Australian Museum).

During the visit the following questions were asked of Museum management:

#### ***How is the current valuation progressing?***

The valuation is still in progress, but the Museum hopes to finalise the exercise, to the Audit Office's satisfaction, for inclusion in the 2001-2002 financial statements. To achieve this, the valuation must be completed and audited before the Independent Audit Report is signed on 18 October 2002. The Museum may seek an extension from Treasury if this is not possible.

If the Audit Office is not satisfied with the valuation it may have to be refined further and completed for inclusion in next year's financial statements.

**Update:** The Museum did not complete the valuation exercise in time for inclusion in its or the Total State Sector Accounts. On 25 September 2002 the Museum received the following direction from NSW Treasury:

I understand that the Australian Museum has been undertaking an exercise to recognise and value its collection assets. I wrote to you on 18 March 2002 asking that the matter be completed before August 2002 for inclusion in the 2001-02 financial statements. The Museum's draft financial statements for 2001-02 (as submitted to audit) excluded the Museum's collections, as the valuation exercise was unfortunately incomplete.





The Treasurer is about to finalise the Total State Sector Accounts for 2001-02. The accounts will be qualified for non-recognition of the Museum's collection assets consistent with previous years.<sup>2</sup>

I understand the valuation exercise may not be finalised until October 2002 (or later). As the valuations of the collection will materially impact the financial statements, it is appropriate to recognise the value in both the Australian Museum and the Total State Sector Accounts in the same year. Accordingly it is appropriate that the collections be recognised in the 2002-03 financial year.

**You are directed pursuant to s9(2) of the Public Finance and Audit Act, 1983 to not recognise and value the Museum's collection assets in the Australian Museum's financial statements for the 2001-02 financial year. The notes to the financial statements should disclose:**

- that the collection assets have not been recognised, and
- the status of the valuation exercise.

Because both the Australian Museum and the Total State Sector Accounts will be qualified for 2001-02, it is important to finalise this matter as early as possible for inclusion in the 2002-03 financial year.<sup>3</sup>

On 27 September 2002, the Auditor-General issued his Independent Audit Report on the NSW Total State Sector Accounts, which includes the following qualification:

#### **Qualifications**

The following assets have not been recognised in the statement of financial position:

*Collection assets of the Australian Museum.*

This is a departure from Australian Accounting Standards AAS31 "Financial Reporting by Governments" which requires that all assets must be recognised when it is probable that future economic benefits will eventuate and they possess a value that can be reliably measured. In my opinion, these assets meet the recognition criteria in AAS 31. I have been unable to conduct audit procedures to quantify the effects on the Total State Sector Accounts.<sup>4</sup>

#### ***What difficulties are being experienced in completing the valuation?***

Difficulties to date include:

---

<sup>2</sup> Australian Accounting Standards require that all assets must be recognised in financial reporting by governments when it is probable that future economic benefits will eventuate. The Auditor-General can give only qualified approval of the Museum's accounts until the valuation of the museum collection is completed. The full effect on the Total State Sector Accounts can then be ascertained.

<sup>3</sup> Treasury, 25 September, 2002, *Treasurer's Direction pursuant to s9(2) of the Public Finance and Audit Act, 1983*, Sydney, NSW.

<sup>4</sup> Treasury, 2002, *Report on State Finances 2001-2002*, Sydney, NSW, section 3, page 4.



- the size and diversity of the collections – between 11 and 13 million objects;
- complexities in the valuation methodology;
- the number and size of statistical samples needed for collections not valued on an item by item basis;
- determining the market value or recollection cost for different objects; and
- incomplete digitisation/databases for some collections.

***When will the valuation exercise be completed?***

The Museum hopes to complete the exercise before 18 October 2002.

**Update:** As at 7 November 2002, the Committee understands that the valuation is almost complete.

***Does the methodology comply with Treasury's valuation guidelines?***

Yes. The valuation is being performed in accordance with the Australian and NSW Treasury's valuation guidelines.

***Who is doing the current valuation?***

The Museum is using the services of statisticians from the Australian Bureau of Statistics, as well as external and internal experts.

***What valuation methodologies are being used for the collections?***

The Museum has developed valuation methodologies that comply with the valuation guidelines. These are based on the deprival value concept. Deprival value is not a method of valuation but a guide to the bases of valuation and applies where:

- the economic benefits embodied in a collection asset would be replaced if the agency were deprived of the asset. In this case the value of the asset is the written down current cost (ie current market buying price, current reproduction cost or current replacement cost).
- the economic benefits of the asset would not or could not be replaced if the agency was deprived of the asset. In this case the value of the asset is the higher of the market selling value or present value of future net cash inflows.
- collection assets no longer meet an agency's objectives and are therefore surplus to requirements. In this case the asset's value is the market value (ie the selling price).<sup>5</sup>

---

<sup>5</sup> Treasury, 2000, *Guidelines on Recognition and Valuation of Cultural Collection Assets*, Sydney, NSW.

The Museum believes that most objects in its collection would be replaced if it were deprived of them. Markets do exist for many objects and where a market does not exist, replacement costs can be determined with reasonable accuracy.

In accordance with the valuation rules, the Museum is using either current market buying price or current recollection cost to value its collections, depending on the most appropriate value for a particular object. For the anthropology and archaeology collections the valuation is being performed using a statistical sampling basis because of:

- the large number of items involved; and
- the wide range of values of individual items.

Copies of documentation recording and supporting the valuation methodology adopted by the Museum have been received and reviewed by the Committee.

***Has the Audit Office endorsed the methodology?***

Audit Office endorsement is required by the Treasury evaluation guidelines. The Museum has worked in close consultation with the Audit Office in developing the valuation methodology. Museum representatives confirm that the Audit Office has endorsed the valuation methodology being used.

The Audit Office has confirmed, informally, that it is satisfied with the methodology adopted and progress made to date with the valuation process.

***Are any collections not recorded on a database?***

The Museum is in the process of rolling out an electronic/digital recording system (EMU version 7). The software, produced in Australia, is considered to have superior functionality to other software packages and is user friendly. This process has been under way for just over a year and is scheduled for completion within the next two years (three years in total). Once complete, all major collections will be recorded on the EMU database. There may be a few minor collections that will only be transferred to EMU after the three-year period has elapsed.

***Are there any collections/objects that won't be valued? If so, why?***

Only a very limited number of collections/objects will not be valued because they are either considered "invaluable" due to their unique nature or cannot be reliably valued, eg the tissue collection used for research purposes. These items will not be significant in dollar terms to the overall valuation.

***Will all collections be digitally recorded on the database?***

All major collections will be recorded on EMU within the next two years.

***What is the anticipated cost of the valuation exercise?***

The Museum is collecting the costs of the valuation exercise separately, but the



total cost is not yet available.

An estimate of this cost has been provided by the Museum.

Outgoings associated with the current work being done to finalise a valuation for the collection are \$85,000. This may increase if additional professional expertise is required to finalise the process. This amount does not include the costs of staff time, either within the Australian Museum or other organisations, including the Audit Office and Ministry for the Arts.

Outgoings associated with previous work done on behalf of the Museum were paid by the Ministry for the Arts, who coordinated the valuation exercise. Again, costs of Museum staff in attempts to value the collection were not quantified.<sup>6</sup>

***Is it feasible for any collections to be sold to fund the valuation?***

The costs of setting up the digital database are not considered prohibitive. The Museum received funding to procure and implement the EMU database. This funding was not sufficient to cover the costs of photo imaging individual objects. This is being done progressively on a project by project basis. However, the Museum has submitted a bid for “digitised enhancement” funding to enable it to complete the imaging process over the next few years. This process will not be completed within the next two years. Photo imaging will only be done for certain objects such as artefacts, not biological objects or the like.

Despite being put under increasing pressure to become more commercially focused, Museum representatives do not believe the Museum would ever sell any objects or dilute any collections to fund enhancements, increase revenues or decrease costs. This is due to a number of reasons such as:

- legislative constraints;
- uncertainty as to legal title – the Museum acts as a repository for aboriginal artefacts;
- donors’ expectations;
- the public’s expectations;
- the need to retain collections intact for research purposes;
- the Museum is regarded as off-site storage by a number of countries where the collections originated;
- the Museum’s reputation as an agent of positive relationships with other countries, indigenous and ethnic groups; and
- the NSW State bio-diversity strategy considers the Museum’s collections extremely important.

---

<sup>6</sup> Mr Patrick Filmer-Sankey, Deputy Director, Australian Museum, 4 October, 2002, written response to PAC questions arising from its tour of the Australian Museum.



A submission detailing the reasons/impediments that prevent the Museum selling or disposing of any collections or individual objects was requested from the Museum. The submission states:

Museum collections from the point of view of realisable assets fall into two major categories; those with a market value and those without. The former are, as a generalisation, human cultural artefacts while the latter are held for zoological or geological scientific reasons in that they may, for example, assist identification of particular animals or allow some sort of comparative work to be done.

Scientific collections at the Australian Museum are held in perpetuity since they encode information not only about the particular object itself, but also about changes that may occur over time in the class of object or its distribution. Material collected for scientific purposes does not usually serve a single purpose and therefore has no "use-by date". Changes in analytical techniques made during the last 10 years, for example, now mean that material collected 200 years ago can be subject to genetic analysis. Where material is disposed of, which is rare, it is usually exchanged for similar material otherwise unavailable to us, from sister institutions.

Material Culture collections at the Australian Museum consist largely of Aboriginal artefacts and material collected from the neighbouring Pacific states. These collections are the ones with the highest realisable market values. Two considerations other than those associated with research impede our capacity to sell or otherwise dispose of such material. We hold Aboriginal material on behalf of the Indigenous communities of Australia, much of it as part of our statutory function as a safe repository. Given recognition of new rights and obligations concerning Indigenous ownership, the Australian Museum does not consider that it "owns" the material and would not therefore consider disposing of it except possibly to the appropriate communities.

In the case of the extensive Pacific collections, the Australian Museum holds material from colonial times which again raises the issue of true "ownership". The Australian Museum considers itself more a custodian of say, Vanuatu artefacts than their owner. In many cases our role as custodian is clearer. In the case of Papua New Guinea, the Australian Museum is the defacto national repository of much PNG material culture. We can hold it in conditions and under levels of curatorial expertise far superior to those available in the local national institutions with which we work closely. In either case the sale or disposal of such material would be extremely problematic politically as well as undesirable from a research or museological perspective.

In summary zoological and geological collections have continuing scientific merit which outweigh the financial benefit of disposal; further, most of the collections have no market value and have been allocated a deprivial value. Material culture collections, which do have a very significant market value, must be largely considered to be in our care rather than in our possession which equally obstructs disposal.<sup>7</sup>

---

<sup>7</sup> Mr Patrick Filmer-Sankey, Deputy Director, Australian Museum, 4 October, 2002, written response to PAC questions arising from its tour of the Australian Museum.



The Committee notes the unpredictable impact of technological improvements may significantly increase interest in collections and their future value. This makes it more difficult to justify the disposal of items for monetary reasons.

***Is the expected value of the collection in line with previous estimates?***

The Museum's 2000-2001 Annual Report reported the valuation of the collection at \$4 billion. The results of the valuation process so far indicate that the total value of the collections will be significantly less than this sum.

The Museum has advised the Committee:

The anticipated total value of the collection is expected to be in the order of \$500-550 million.<sup>8</sup>

This is some \$3.5 billion less than the result of the previous valuation attempt.

***Does the Museum see benefits in this recording and valuation?***

The Museum does see significant benefits from digitally recording its collections. Eventually its databases will be linked to others in NSW and those in other states. This will result in reciprocal benefits to users of the information and add significant value to that information through a National database.

The benefits of the valuation are discussed below. The Museum is totally committed to determining a fair and reasonable valuation of its collections so that it complies with the disclosure requirements of accounting standards and government policy.

***Will the valuation provide risk management benefits?***

The Museum was asked to comment on any possible benefits from valuing the collections from a risk management perspective, such as assisting in arranging insurance cover.

**Update:** In its subsequent submission to the Committee, the Museum sees the following potential benefits arising from the valuation exercise:

Valuation of the collection will provide potential benefits in allowing determination of an appropriate level of insurance cover, in guiding decisions relating to the appropriate level and priority of funding from government to support the asset and in helping to guide internal management practices and procedures relating to the collection.<sup>9</sup>

---

<sup>8</sup> *ibid*

<sup>9</sup> Mr Patrick Filmer-Sankey, Deputy Director, Australian Museum, 4 October, 2002, written response to PAC questions arising from its tour of the Australian Museum.



## Chapter Three

### Conclusions

There are several conclusions from this inquiry:

- The management of the Museum is committed to completing the valuation. This was apparent to the Committee during the visit of inspection and it appears that the work will be finalised well in time for the 2002-03 accounts. The Committee would like to congratulate the Museum on its work so far in a challenging task.
- If brought to account, the previous estimate of \$4 billion would have significantly over-stated the value of the Museum's collection. The collection instead appears to be worth \$500-\$550 million.
- The cost of the valuation does not appear excessive. Outgoings associated with the current work being done to finalise the valuation are \$85,000. Note that this does not include staff time or payments by the Ministry for the Arts for previous work done on behalf of the Museum.
- The valuation will assist the Museum and the Government in managing the collection in relation to insurance and in applying other resources to support the asset. Use of the previous estimate of \$4 billion may have distorted these decisions.

The Committee notes that significant benefits are likely to result from the valuation.



## Appendix

### Submissions and Documents Received by the Committee

No.	Submitted or Tabled by:	Subject
1.	Mr Patrick <b>Filmer-Sankey</b> Deputy Director, Australian Museum	Written response to PAC questions arising from its tour of the Australian Museum, dated 4 October, 2002.
2.	Mr Patrick <b>Filmer-Sankey</b> Deputy Director, Australian Museum	“Guidelines on Recognition and Valuation of Cultural Collection Assets” issued by NSW Treasury, March 2000.
3.	Mr Patrick <b>Filmer-Sankey</b> Deputy Director, Australian Museum	Initial valuation report prepared by Edward Rushton Australia Pty Limited, on behalf of the Museum, dated 30 June 1999.
4.	Mr Patrick <b>Filmer-Sankey</b> Deputy Director, Australian Museum	Draft document titled “Valuation of Heritage, Scientific and Cultural Collections for Financial Reporting Purposes by NSW Ministry for the Arts”, dated August 1999.
5.	Mr Ken <b>Pope</b> , Head, Corporate & Commercial Services, Australian Museum	Treasurer’s Direction pursuant to s9(2) of the Public Finance and Audit Act, 1983, dated 25 September 2002.

---