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**EPSAS WG 19/09.2**

**Luxembourg, 08 November 2019**

## **EPSAS Working Group meeting**

To be held in Luxembourg  
on 18-19 November 2019, starting at 09:30

### **Item 4 of the Agenda**

#### **Pilot EPSAS Screening Report**

#### **IPSAS 17 – Property, plant and equipment**

*Paper by PwC on behalf of Eurostat  
- for discussion -*

*This document pilots an approach to screening the consistency of individual IPSAS standards with the draft EPSAS Conceptual Framework, with a view to informing future EPSAS standard setting. The WG is invited to discuss the approach taken, and to comment on the analysis provided and on the conclusions reached.*

# Pilot EPSAS screening report

IPSAS 17 - Property, plant and  
equipment

Draft

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# Background

## Objectives

We refer to the general introduction to the pilot EPSAS screening reports that covers the following elements:

- Key objectives of EPSAS.
- Standard setting process in the public sector.
- Purpose and scope of the screening reports.
- Approach of the screening reports.
- European public good.
- Common elements considered when preparing the reports.

## General introduction to IPSAS 17

IPSAS 17 is based on International Accounting Standard (IAS) IAS 16 'Property, plant and equipment', issued by the International Accounting Standards Committee, the predecessor of the International Accounting Standards Board (IASB). In developing IPSAS 17, the International Public Sector Accounting Standards Board (IPSASB) applied its 'Process for Reviewing and Modifying IASB Documents' that identifies public sector modifications where appropriate. This approach enables the IPSASB to build on best practices in private sector financial reporting, while ensuring that the unique features of the public sector are addressed.

The objective of the IPSAS 17 standard is to prescribe the accounting treatment for property, plant, and equipment (PPE). The standard defines items of PPE as tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purpose, and are expected to be used during more than one reporting period.

PPE typically represent a significant amount in government balance sheets, as these items are necessary in the pursuit of government policies and delivery of services to the population over the long term. These assets include land and buildings, infrastructure assets, heritage assets, military and other equipment, fixtures and fittings, motor vehicles, hardware, furniture and office equipment, etc.

Classes of PPE are carried either at historical cost less accumulated depreciation and any accumulated impairment losses (the cost model), or at a revalued amount less any accumulated depreciation and subsequent accumulated impairment losses (the revaluation model).

## Reference to EFRAG assessment

No specific individual technical assessment of IAS 16, the IFRS equivalent of IPSAS 17, was carried out by the EFRAG, and therefore no specific individual endorsement report was produced.

The EFRAG however provided on 19 June 2002 a positive assessment of all IAS standards existing at 1 March 2002, including IAS 16, as part of the overall introduction of IAS within the EU.

## Reference to EPSAS issue papers<sup>1</sup>

The PwC study of 2014<sup>2</sup> analysed the suitability of the IPSAS standards as a basis for developing EPSAS. This included the analysis of IPSAS 17. Following this analysis, IPSAS 17 was classified among the category 'Standards that could be implemented with minor or no adaptations'. The study indeed revealed no major conceptual issues with IPSAS 17, the only comments received related to the cost and complexity upon first-time implementation.

During the course of developing the technical proposal on EPSAS, Eurostat commissioned a series of twenty technical issues papers (IPs), which analyse in particular key public sector specific accounting issues. The papers were discussed at the EPSAS Working Group during 2016-2018. The papers are all publically available on Eurostat's website.

Three EPSAS IPs addressing items of PPE topics were produced in 2018. The topics covered were the accounting treatment of respectively, infrastructure assets, heritage assets and military assets. Two additional issues papers address topics that may also have an impact on the EPSAS standard-setting: the narrowing down of options within IPSAS and the relief for smaller and less risky entities.

Each of the IPs seek to identify conclusions and key issues for further discussion. Taking into consideration the analyses provided in the IPs and the initial views exchanged with Member States' public sector accounting experts during the Working Group meetings, Eurostat drew tentative conclusions that may serve, together with the IPs themselves, as considerations for future standard setting.

Eurostat tentatively concluded the following in respect of the above papers:

### *Infrastructure assets*

- The component approach should probably only be considered for new assets, on the basis of a common guidance to be provided for EPSAS and subject to significant differences in the useful lives of the components comprising an asset in question.
- Specific guidance for infrastructure assets will be needed.

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<sup>1</sup> EPSAS Issues papers are available on <https://ec.europa.eu/eurostat/web/epsas/key-documents/technical-developments>

<sup>2</sup> Collection of information related to the potential impact, including costs, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards (Ref. 2013/S 107-182395)

- Pre-financing aspects and the treatment of infrastructure assets in the context of PPPs called for particular attention and would need further discussion.

#### *Heritage assets*

- National lists of heritage items seemed useful as an appropriate means for supporting the implementation of a principles-based approach.
- Heritage assets under the control of the reporting entity should be recognised while heritage liabilities should be recognised only to the extent they were resulting from present obligations.

#### *Military assets*

- Also for military assets, the component method should probably only be considered for new assets, on the basis of a common guidance to be provided for EPSAS and subject to significant differences in the useful lives of the components comprising an asset in question.

# Screening of IPSAS 17 Property, plant and equipment against EPSAS endorsement criteria

## Introduction

The EPSAS criteria listed in the EPSAS CF have been used to perform an assessment of IPSAS 17 'Property, plant and equipment', published in 2001 by the IPSASB.

In order to develop recommendations, one should first consider whether IPSAS 17 would meet the qualitative characteristics of the EPSAS CF, i.e. whether it would provide relevant, reliable, complete, prudent, neutral, verifiable, economically substantive, understandable, timely and comparable information and would not be contrary to the true and fair view principle.

This report considers recognition, classification and measurement as well as presentation and disclosure requirements applicable to PPE for each of the qualitative characteristics of the EPSAS CF.

Further, this paper includes a high-level comparison between the requirements of IPSAS 17 and other international accounting and financial reporting frameworks applied by the public sector entities in various jurisdictions, such as IFRS, ESA 2010 and EU Accounting Rules, bearing in mind the objective of alignment, reduction of cost of implementation and compliance cost.

The findings are presented below and the conclusion is included in the next section of this report.

## Scope of the report

The present screening report does not anticipate the conclusions of the discussions that are taking place in the context of the following projects that are currently undertaken by the IPSASB and that might have an impact on the accounting of items of PPE: Measurement, Heritage, Infrastructure assets and Natural resources.

IPSASB developments in these areas will need to be monitored as part of the EPSAS standard-setting. These topics are however not addressed in this report. Similarly, practical guidelines upon first-time implementation of EPSAS are outside the scope of the present pilot EPSAS Screening report too.

## Relevance

The objective of IPSAS 17 is to prescribe 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 and the changes in such investment.

The principal issues in accounting for property, plant, and equipment are:

- the recognition of the assets,
- the determination of their carrying amounts, and
- the depreciation charges and impairment losses to be recognized in relation to them.

The recognition principles in the standard are consistent with the definition of an asset in the EPSAS framework. As a reminder, an asset is a resource presently controlled by the entity as a result of past events or transactions. A resource is an item with service potential or the ability to generate economic benefits. Service potential is the capacity to provide services that contribute to achieving the entity's objectives. Economic benefits are cash inflows or a reduction in cash outflows.

Under IPSAS 17, the cost of an item of PPE is recognised as an asset if and only if:

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

Under IPSAS 17, no asset is recognised with regards to the capital commitments of an entity because no resource presently controlled by the entity as a result of past events or transactions can be demonstrated.

Some heritage assets have future economic benefits or service potential other than their heritage value. As an exception to the general recognition principles, IPSAS 17 does not require an entity to recognise heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant, and equipment. Heritage assets are further discussed under QC 'Completeness'.

The information about PPE as required by IPSAS 17 is relevant because it helps the users estimate the future economic benefits or service potential of PPE that are owned or used for the long term by a public sector entity. In addition, it has a confirmatory value because it shows the level of investment made in the past in the long-term assets that are being used in the production or supply of goods or services in the public sector.

Items of PPE are measured subsequent to initial recognition at either cost less accumulated depreciation and any accumulated impairment losses, or at a revaluation amount.

Looking at the components of the cost of an item of PPE, the purchase price and the direct costs attributable to the acquisition have a confirmatory value about the service potential of an asset, while the cost of dismantling has a predictive value, as it reflects the present obligation of an entity to dismantle the asset at the end of its useful economic life.

The revaluation model has both confirmatory and predictive values, with some potential constraints. For instance, the reliability of the assumptions used in the fair value measurement (such as internal assumptions not confirmed by the observable market data) could affect the reliability of the information.

For assets acquired through non-exchange transactions or at a revalued amount, the benefits of the forward-looking fair value information (used to determine the revalued amount) however outweigh the complexity of the valuation techniques and uncertainty of the underlying assumptions.

### **Faithful representation / Reliability**

The notion of faithful representation and reliability in the EPSAS CF is linked to the qualitative characteristics of completeness, prudence, neutrality, verifiability and substance over form. These are separately discussed below.

As stated above, under QC 'Relevance', the reliability of the assumptions used in the fair value measurement (such as internal assumptions not confirmed by the observable market data) could affect the reliability of the information. Therefore, for some items of PPE with no history of observable market transactions, the revaluation method may not provide reliable information.

The empiric evidence from the public sector indicates that most entities use historical cost as the measurement method for their items of PPE, even though it has obvious constraints: for example, it does not reflect changes in the price level since the initial acquisition date. On the other hand, current value could provide relevant and reliable information for some classes of assets upon initial application of EPSAS (as a "deemed cost" basis), if historical acquisition cost is not available. The discussion about deemed cost approach upon initial application of EPSAS should not be mixed with the subsequent valuation of PPE and as such is not covered in this pilot EPSAS screening report.

### **Completeness**

All assets that meet the definition of PPE are recognised, except for heritage assets whose recognition is optional under IPSAS 17. Completeness of the financial statements is affected by this exception and the IPSASB project on heritage assets will address this issue. Pending final IPSASB literature on the topic, Eurostat tentatively concluded that heritage assets under the control of the reporting entity should be recognised in the financial statements.

The standard requires disclosure and treatment of information for each class of PPE. A class is a grouping of assets of a similar nature or function in an entity's operations. The cost model or the revaluation model is an accounting policy choice applied to an entire class of PPE. Consistent application of a particular measurement model to similar (groups of) assets is important in achieving both complete and neutral presentation of PPE in the financial statements.

The standard requires a reconciliation of the opening to closing balance of the period showing additions and disposals, acquisitions through public sector acquisitions,

depreciation, revaluations, exchange rate differences and other movements for each class of PPE. Reconciliation of the opening to closing balances provides users with a complete overview of the transactions relating to PPE and of the changes in the carrying amount of the assets at each reporting date.

## **Prudence**

When an asset is acquired or created as a result of an event that is not a transaction on market terms (see IPSAS 17.27 - assets acquired through a non-exchange transaction), it may not be possible to identify a cost. In such cases, a current value of the asset is used as a deemed cost on initial recognition and that deemed cost is then used as a starting point for subsequent measurement at historical cost. In these circumstances, the historical cost (of nil) may not provide relevant information to the users and therefore the use of the fair value as deemed cost approach does not result in the material deviation from the prudence QC of the EPSAS CF.

Under the cost model, IPSAS 17 requires entities to add subsequent expenditure to the carrying amount of an item of property, plant and equipment when it is probable that future economic benefits of service potential over the total life of the asset will flow to the entity. This capitalisation threshold is consistent with the criteria applied when an item of property, plant and equipment is initially recognised and is not in contradiction to the definition of an asset under the EPSAS CF.

Information provided by measuring an item of PPE at historical cost is prudent, because historical cost uses information derived from the price of the transaction that gave rise to the asset. Normally, if an entity acquired an asset in a recent transaction on market terms, the entity expects that the asset will provide sufficient economic benefits so that the entity will at least recover the cost of the asset. Because historical cost is reduced to reflect consumption of an asset and its impairment, the amount expected to be recovered from an asset measured at historical cost is at least as great as its carrying amount. This approach (under the condition of using an appropriate depreciation method) normally provides a relevant and prudent ongoing measurement basis for an item of PPE.

In addition, IPSAS 17 stipulates that an entity should apply the procedures described in IPSAS 21 'Impairment of non-cash-generating assets' and IPSAS 26 'Impairment of cash-generating assets' when an asset is impaired in order to make sure that the carrying amount of an asset is not overstated versus its economic value or service potential respectively.

The revaluation model provides monetary value of an item of PPE using information updated to reflect conditions at the measurement date. Because of the updating, current values reflect changes, since the previous measurement date, in estimates of cash flows and other factors reflected in those current values. Unlike historical cost, the current value of an asset is not derived, even in part, from the price of the transaction that gave rise to the asset or liability. Updating the current values with sufficient regularity (IPSAS 17.44) will inevitably create additional volatility in the statement of financial position compared to the historical cost method. It should be noted that the revalued amounts reflect the perspective of market participants and

may not exceed the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. However, if no active market exists for an asset, the current value is determined indirectly using measurement techniques and the degree of prudence may be difficult to assess, when it comes to the non-observable assumptions. We refer to further assessment under QC 'Verifiability'. Under the revaluation model, if the carrying amount of a class of assets is increased as a result of a revaluation, the increase is credited to revaluation surplus (or in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognised in surplus or deficit). If the carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit (unless it reverses a previous revaluation surplus). The asymmetrical presentation of increase of the carrying amount (as a result of a revaluation) outside surplus or deficit is both prudent and neutral, since it does not create the incentive for the entities to overstate the amount of PPE. Accordingly, performance indicators calculated on the basis of the statement of financial performance are not affected by increases in the carrying amount of PPE as a result of a revaluation.

The revaluation increases and decreases are offset on a class of assets (portfolio) basis, as opposed to the requirement in IAS 16 to match revaluation increases and decreases on an individual item basis. As a reminder, IPSAS 17 defines a class of PPE as a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements. IPSAS 17 (in paragraph 52) provides examples of separate classes of PPE, however the standard contains no detailed (dis)aggregation criteria.

Prudent and careful application of general disaggregation principles (identification of classes of assets with similar nature of function) is essential under the IPSAS 17 approach (i.e. accounting for the revaluation increases and decreases on a portfolio basis). Aggregating items with different nature and functions could lead to significant compensations of revaluation increases and decreases within the same class of assets and reduce the quality of the financial statements (fair representation and prudence).

### **Neutrality**

Information is neutral if it is free from bias. GPFs are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

The principles included in IPSAS 17 have been tested for many years in the private sector. Users perceived no negative impact of IAS 16 on the neutrality of the IFRS financial statements. The requirements to apply accounting policies consistently year on year and to disclose such policies in the notes to the accounts reinforce the neutrality QC.

## **Verifiability**

The standard applies to tangible assets. The nature of PPE makes it possible to visually inspect and, in the vast majority of the cases, trace the items back to the supporting evidence of ownership and control.

An item of PPE that qualifies for recognition as an asset is subsequently measured at cost or at a revalued amount.

Cost information is easily verifiable with supporting documents. When the cost of an item of PPE includes the cost of site dismantlement, removal and restoration, this element is calculated based on the assumptions such as the timing of the removal and the future level of prices. This uncertainty (and the lack of verifiable information to support the judgmental elements) is however mitigated by disclosure of changes in estimates in accordance with IPSAS 3. IPSAS 17 paragraph 91 explicitly requires an entity to disclose the nature and effect of any change in an accounting estimate that may arise with respect to the estimated cost of dismantling, removing or restoring items of PPE.

Fair value information is less verifiable compared to cost, and involves certain assumptions that are not always observable on the market. Although it would have an impact on the assessment of verifiability, it can improve relevance of the information provided in view of the accountability and decision-making objectives of financial statements. IPSAS 17 requires public sector entities using the revaluation model to disclose information about the methods and significant assumptions applied in estimating the fair value. The objective of the disclosure is to make the fair value information verifiable against other sources of observable evidence available to the market participants.

Users can reconcile the PPE movements to other parts of the financial statements (cash flows from investing activities, non-cash transactions, movements in equity, etc.). The information on significant changes in the PPE is usually reflected in other parts of the financial statements. Examples include PPE acquired through public sector combinations, significant acquisitions through finance leases and other non-cash transactions disclosed separately following the requirements of IPSAS 2 'Cash flow statements'.

A cohesiveness between various disclosure notes provides evidence of verifiable and reliable information.

## **Substance over form**

Accounting policies are determined by classes of assets having similar economic characteristics. This allows the substance of transactions to be reflected in the accounting treatment for each class.

Measurement of items of PPE using the IPSAS 17 requirements reflects the economic substance of assets that are held in the activities of a government for the long term, either by showing the depreciated historical cost of these assets (under the cost model) or the current value of the assets (under the revaluation model).

Both may be of relevance with regards to the accountability and decision-making objectives of financial statements.

Major components of some items of PPE that require replacement at regular intervals and that have useful lives different from those of the items of PPE to which they relate should be accounted for as separate assets and depreciated over their own useful life. This requirement has a particular relevance for those items of PPE that represent a significant amount in the balance sheet and include such major components (e.g. certain infrastructure assets). This approach, generally called the components' approach, faithfully represents the consumption of the items of PPE. Where the impact on the financial statements is material, the benefits of the components' approach for individually significant items of PPE can outweigh the cost of implementing the requirements. Pragmatism should be considered in making this cost-benefit assessment.

Guidance could be developed for classes of assets with significant differences in the useful lives of components.

The question of the legal versus economic ownership of the assets is important too and will be addressed in other EPSAS screening reports (when addressing the topics of leases and service concession arrangements).

### **Understandability**

The accounting treatment of PPE under IPSAS 17 provides understandable information to the users of the financial statements, especially under the cost model.

The requirement to disclose the methods and significant assumptions applied in estimating the fair values of PPE give the users sufficient information for an independent assessment of the level of prudence in applying the accounting policies. The same applies to the requirement to disclose the depreciation methods used and the useful lives / depreciation rates used for all classes of PPE recognised in the financial statements.

### **Comparability**

A key objective of EPSAS is to achieve the necessary level of financial transparency and comparability of financial reporting, between and within EU Member States.

There is an accounting policy choice for the subsequent measurements of PPE assets, i.e. using either the cost model or the revaluation model. This creates the potential for a lack of comparability between governments that may use different models for similar types of assets.

Application of the cost model normally results in asset carrying amounts and amounts of income and expenses that are more understandable than those generated by current market selling prices. Cost-based measurements are simpler and often less expensive to implement than current measurements. However, similar assets bought at different dates (e.g. a piece of land acquired recently versus one

acquired many years ago) will result in different amounts recognised in the financial statements based on the cost at the date of acquisition of the asset.

Application of the revaluation model provides information on asset measurement that is current at the reporting date. It may also be aligned with ESA 2010 measurement of PPE in the statement of financial position. The revaluation model is however generally more costly and difficult to implement.

A single measurement basis for all PPE assets may not necessarily provide the most relevant or comparable information for users of financial statements. When selecting which measurement to use for a particular class of items, one should consider what information that measurement model will produce and whether this information will be relevant, reliable and comply with other QCs of the EPSAS CF and the needs of various stakeholders.

Overall, cost-benefit considerations should guide the choice of a particular accounting policy versus another. In addition, different users of financial statements may have different views of what these costs or benefits are. Allowing an accounting policy choice increases the relevance of information for governments that have a strong preference in using one of the two methods for accountability and decision-making purposes.

Except for this accounting policy choice, application of the requirements of IPSAS 17 combined with appropriate disclosures provided in the notes about the accounting estimates used are likely to result in comparable application of the standard across the EU and by entities over time.

### **Alignment with the requirements of ESA reporting**

In terms of subsequent measurement, assets are measured at current prices as if they were acquired at the balance sheet date under ESA 2010. The measurement approach under ESA 2010 closely agrees with the revaluation method under IPSAS. Under IPSAS, any revaluation should be done at the individual asset level while more global evaluations can be used for the ESA 2010 reporting.

Indeed, a major difference between ESA 2010 and IPSAS stems from the calculation of their respective surplus/deficit calculations. Under ESA rules, acquisitions of items of PPE are recorded as capital expenditures within surplus/deficit in the period of acquisition. The full impact is taken in the year of acquisition. In contrast, under IPSAS, the impact on the statement of financial performance is taken over time through yearly depreciation expenses and/or impairments. Under ESA 2010 rules, the concept of impairment is not applied.

## **Alignment with IFRS<sup>3</sup>**

IPSAS 17 is largely similar to IAS 16, its IFRS equivalent. Differences exist in:

- the terminology used,
- using the concept of service potential (in addition to the one of economic benefits) to assess the carrying amount of an asset under IPSAS,
- the treatment of the offsetting of revaluation surpluses (by class under IPSAS versus on an individual asset basis under IFRS),
- specifically addressing the issue of the accounting of heritage assets in IPSAS 17 (see also scope of the report above).

## **Alignment with EU accounting rules**

EU Accounting Rule 7 'Property, Plant, and Equipment' is based on IPSAS 17. However, EU AR 7 does not address the issue of heritage assets (not relevant to the EC). Furthermore, EU AR 7 uses the cost model for the subsequent measurement of items of PPE.

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<sup>3</sup> Refer to the IPSAS-IFRS Alignment Dashboard regularly updated by the IPSASB available on [https://www.ifac.org/system/files/uploads/IPSASB/Agenda%20Item%201.5%20IPSAS%20IFRS%20Alignment%20Dashboard\\_June%202019.pdf](https://www.ifac.org/system/files/uploads/IPSASB/Agenda%20Item%201.5%20IPSAS%20IFRS%20Alignment%20Dashboard_June%202019.pdf)

# Conclusion

## Assessing IPSAS 17 against the criteria formulated in the EPSAS CF

The analysis has not revealed major conceptual issues with IPSAS 17 'Property, plant and equipment' and has not identified any inconsistency between IPSAS 2 and the EPSAS CF.

Following the screening analysis summarised in the present report, it can be concluded that:

- IPSAS 17 provides relevant, reliable, complete, prudent, neutral, verifiable, economically substantive, understandable, timely and comparable information needed for making economic decisions and achieving the necessary level of financial transparency and comparability of financial reporting in the European Union;
- the information resulting from the application of IPSAS 17 would not be contrary to the true and fair view principle.

However, in order to achieve consistent application of the new standard within the EU context and therefore better address the comparability objective of EPSAS financial statements, additional guidance and improvements in certain areas might be desirable.

- *Cost model versus revaluation model.* The accounting policy choice that has the most significant impact on the carrying amount of PPE presented in the financial statements is the selection of either the cost model or the revaluation model for the subsequent measurement of items of PPE. The accounting policy choice for the subsequent measurements of PPE assets (i.e. using either the cost model or the revaluation model) creates a potential risk of a lack of comparability between governments that may use different models for similar types of assets.

The following table summarises and compares the advantages and limitations of each of the measurement model, against each of the EPSAS QCs.

	<b>Cost model</b>	<b>Revaluation model</b>
Relevance	Objective met. However historical cost information that is out of date might not provide relevant information because of the changing price levels.	Objective met, especially when cost information is out of date. .
Faithful representation/ reliability	High level of reliability. Cost model results in more objective measurement and requires less judgment.	The information is less reliable mainly because calculation of fair value involves judgement.
Completeness	Objective met.	Objective met.
Prudence	High level of prudence, could be at the expense of relevance in some cases.	Less prudent than the cost model. Note that revaluation gains are recognised in net assets/equity.
Neutrality	Objective met.	Objective met
Verifiability	Objective met.	More disclosures are required to meet the objective of verifiability. The use of non-observable inputs may lead to some lack of verifiability.
Substance over form	Objective met.	Objective met.
Understandability	Objective met.	Objective met. However, more disclosures are required to meet the objective of understandability.
Comparability	Objective met. However, the cost of similar assets may be different due to changes in prices between different acquisition dates.	Objective met. However, comparability may be less given the higher degree of judgment involved with fair value measurement.

In addition application of the revaluation model is more costly than application of the cost model. Overall, cost-benefit considerations should guide the choice of a particular accounting policy versus another. In addition, different users of financial statements may have different views of what these costs or benefits are, Allowing an accounting policy choice increases the relevance of information for governments that have a strong preference in using one of the two methods for accountability and decision-making purposes.

- *Heritage assets.* Heritage assets that meet the definition of items of PPE should be recognised in the financial statements. As a reminder, the specific issues relating to the accounting of heritage assets (except for the recognition of such assets as discussed above), infrastructure assets and natural resources are not addressed in the present report.

## **Assessing whether IPSAS 17 is conducive to the European public good**

The assessment of whether IPSAS 17 would be conducive to the European public good addresses the following items:

- a) Whether the standard will improve financial reporting;
- b) The costs and benefits associated with the standard; and
- c) Whether the standard could have an adverse effect to the European economy, including financial stability and economic growth.

These assessments will allow the EU authorities to draw a conclusion as to whether the standard is likely to be conducive to the European public good. If the assessment concludes there is a net benefit, the standard will be conducive to the objectives of the European public good.

The analysis revealed no reasons why IPSAS 17 would not be conducive to the European public good:

- Recognition, classification, measurement, presentation and disclosure requirements of IPSAS 17 will provide useful information to the users of the GPFs and will improve the overall quality of financial reporting in the public sector. However, the question of whether an accounting policy choice should be imposed or permitted, or not, between the cost model and revaluation model, in general or for some classes of PPE in particular, should be answered bearing in mind the arguments developed earlier in the present report. In addition, heritage assets should be recognised in the statement of financial position.
- Implementation of the standard may result in a significant one-off cost and should be relatively cost-neutral on an ongoing basis for preparers. It will require a significant effort for some public entities to move from a cash-based accounting environment given the number of assets managed by governments and the data required to report these in accordance with accrual-based principles. The acquisition and management of PPE represent material flows, which occur across the entire government entity and involve interactions with many of both non-finance (procurement, asset managers) and finance functions to account for the entire asset cycle appropriately.
- Considering its conceptual merits, the standard will bring improved financial reporting when compared to heterogeneous reporting requirements currently applied in the EU. As such, its endorsement is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship. The analysis has not identified any adverse effect of the standard to the European economy, including financial stability and economic growth, or any other factors that would mean the standard is not conducive to the European public good.

The assessment concludes that there will be a net benefit of using the requirements of IPSAS 17 as a starting point in implementing the equivalent EPSAS (considering the need for additional guidance in certain areas and resolution of the matters identified in the present pilot EPSAS screening report). The standard will be conducive to the objectives of the European public good.