4 Accounting for capital assets

4.1 The State holds a significant portfolio of capital assets.[1] Major classes of capital assets include land, buildings, ICT software and hardware, office equipment and furniture. Public sector bodies hold such capital assets in pursuit of policy objectives rather than for the creation of profit as is usually the case in the private sector. Bodies are encouraged to consider capital assets owned as part of an overall State asset portfolio, rather than viewing them solely from their own perspective.

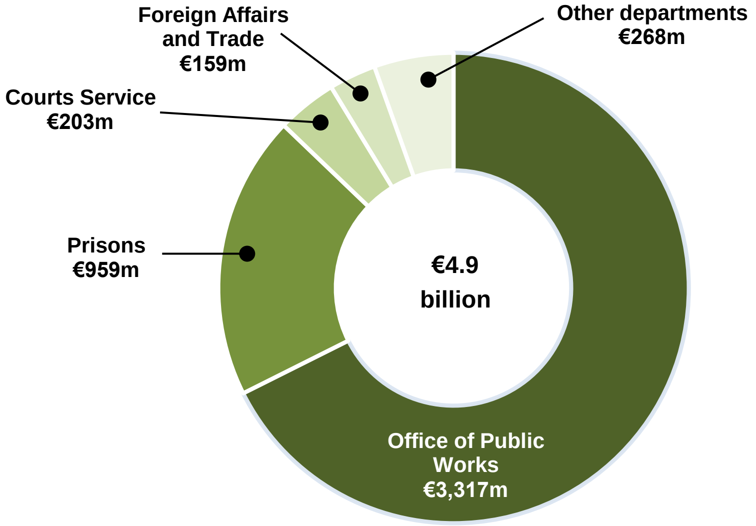
4.2 While the State does not generally hold capital assets for investment or resale purposes, accurate information in relation to the value of capital assets is important to guide decisions on acquisition, maintenance and disposal. In addition, robust control procedures are required to ensure assets are safeguarded and their value is protected.

4.3 This chapter

- reviews elements of the accounting framework in place for capital assets in government departments and considers the accounting policies in use in individual departments[2]
- sets out certain issues in relation to capital assets identified during audits of the appropriation accounts of government departments.

4.4 The 2018 appropriation accounts recognise capital assets with a net value of €6 billion in relation to government departments. Over 80% (€4.9 billion) of this value relates to property assets (i.e. land and buildings) in use (see Figure 4.1). €938 million relates to non-property capital assets in use (see Figure 4.2). The remaining €186 million relates to capital assets under development. A number of other departments do not report in their appropriation accounts the value of (some or all of the) land and buildings they hold and use, but provide physical details of those assets in an appendix to their accounts.

Figure 4.1 Land and buildings in use reported in appropriation accounts, 2018

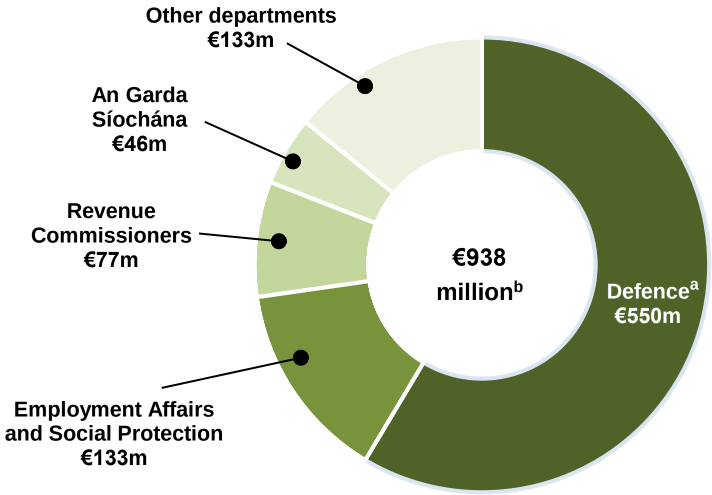


Source: 2018 Appropriation Accounts

1 Capital assets are tangible or intangible assets acquired by central government departments and offices for use on a continuing basis and having an expected or potential useful life of more than one financial year.

2 In this report, the term department is used to refer to all central government departments and offices funded by annual vote estimates.

Figure 4.2 Non-property capital assets in use in appropriation accounts, 2018



Source: 2018 Appropriation Accounts

Notes: a Military equipment accounts for 98% of the value of capital assets recognised by the Department of Defence.

b Any difference in the total is due to rounding.

Accounting framework

4.5 Most public sector bodies prepare financial statements in accordance with generally accepted accounting practice (GAAP).[1] For the majority of public sector entities in Ireland, this is Financial Reporting Standard (FRS) 102.[2]

4.6 Government departments are required by law to prepare annual financial statements referred to as appropriation accounts. The accounting framework for those accounts is laid down by the Minister for Public Expenditure and Reform.[3]

4.7 The framework requires departments to prepare the appropriation accounts on a cash basis,[4] but with certain accrual information (including information on capital assets) included in the notes to the accounts.

4.8 Information on capital assets was first introduced to appropriation accounts in 1995[5] and has been expanded over the years. In the current format, carrying values for capital assets are included in a statement of financial position (SOFP) at Note 2 to the appropriation accounts, with further information on capital assets (including asset classification and depreciation charged) provided in Note 2.2.

4.9 Annex 4A sets out relevant extracts relating to capital assets from the guidance issued to departments, by the Department of Public Expenditure and Reform, in respect of the 2018 appropriation accounts.

1 The exceptions are central government departments, education and training boards and some funds.

2 FRS 102 is a comprehensive financial reporting standard issued by the UK's Financial Reporting Council.

3 The most recent rules are set out in Circular 24/2018: *Requirements for Appropriation Accounts 2018*, Department of Public Expenditure and Reform, December 2018.

4 The cash basis of accounting involves recording transactions only when the corresponding cash is received or payments are made.

5 Department of Finance Circular 1/95, dealing with 1994 appropriation accounts.

4.10 Guidance issued by the Department requires

- Capital assets to be valued in the SOFP at either historical cost less accumulated depreciation since the date of acquisition; or current value, which is defined as the lower of replacement cost or recoverable amount.
- The basis of valuation of any land and buildings included in capital assets to be explained in the relevant accounting officer's introduction to the appropriation account.
- If valuations for land and buildings cannot be provided for technical reasons, departments should provide physical details of these assets in an appendix to their appropriation account.
- Individual departments should obtain prior approval from the Department of Public Expenditure and Reform for any departures, changes or additions to the standard accounting policies in the appropriation accounts. In 2018, the main area where departments deviated from the standard accounting policies on capital assets was in respect of depreciation rates.

Limitations of current accounting framework

4.11 The rules regarding the accrual information to be included in the notes to appropriation accounts are ambiguous and, in certain areas, are open to interpretation. In the absence of clear or definitive guidance, accounting officers have significant latitude in a number of areas with regard to accounting for capital assets, including

- whether or not to include certain assets in the SOFP
- how to value assets that are included, so long as they disclose the valuation basis
- when it is appropriate to change from a historical cost valuation basis to a revaluation model
- how frequently to conduct revaluations
- what rate of depreciation to apply
- whether/how to reflect impairments to the value of assets.

4.12 The guidance issued by the Department allows for a variety of valuation methods but additional guidance on how this should be implemented has not yet been developed. In contrast, the UK Treasury issues a guidance manual each year that sets out the appropriate valuation basis for certain categories of assets and also provides guidance on implementing each valuation methodology.

4.13 The opportunity for meaningful comparison between departments' holdings of fixed assets is limited due to the different valuation methodologies in use. In addition, where current value (or some approximation) is used, there are significant time gaps in updating the valuations.

4.14 Recommendations on fiscal management and reporting in Irish public bodies were made by the International Monetary Fund (IMF)[1] in 2013. By 2017, just four of thirteen IMF recommendations in the area of financial reporting had been implemented.[2] Recommendations not fully implemented included

- the establishment of a permanent government financial reporting unit headed by a professional chief financial officer
- the adoption of uniform financial reporting standards for all public sector entities based on European accounting and statistical standards
- the establishment and maintenance of professional standards for the government accounting profession.

4.15 In November 2017, my Office wrote to the Accounting Officer in the Department of Public Expenditure and Reform, outlining gaps in the accounting framework identified during the audits of the 2016 appropriation accounts. The letter made specific reference to gaps in the accounting rules for capital assets.

4.16 In its response in early 2018, the Department of Public Expenditure and Reform acknowledged limitations in the current accounting framework, including issues around accounting for capital assets, and proposed the establishment of a working group to review and enhance the financial reporting framework for central government departments and offices. The Department has recently established a working group to review the accounting policies in relation to capital assets.

4.17 In 2018, the Department commissioned the Organisation for Economic Cooperation and Development (OECD) to conduct an assessment of the central government financial reporting framework under the EU Commission Structural Reform Support Programme (SRSP). The report was published in July 2019. The Department has stated that it accepts the OECD's findings and recommendations for reforms as a very valuable input to the improvement of financial reporting for Government.

4.18 The Department has stated that it is currently considering the establishment of new structures, including the working group referred to above, to oversee implementation of the recommendations from the OECD report. The Department intends to avail of further financial support from the SRSP in 2019 for the implementation of the next phases of the financial reporting reforms proposed by the OECD.

1 The IMF team visited Ireland in March 2013, at the request of the Departments of Finance and Public Expenditure and Reform, to evaluate Ireland's fiscal management and reporting against the standards in the IMF's newly revised Fiscal Transparency Code.

2 See chapter 5, *Fiscal Transparency*, Report on the Accounts of the Public Services 2016.

Issues from audits of appropriation accounts

4.19 When government departments include capital assets in their financial statements, they implicitly make a number of key assertions, as outlined in Figure 4.3.

Figure 4.3 Implied assertions in relation to capital assets

Assertion	Considerations
Completeness	All appropriate assets in existence should be recognised and should be classified properly.
Valuation	Assets should be recognised at appropriate values. Depreciation charged should reflect the portion of the overall value of the assets which has effectively been consumed during an accounting period. This includes the recognition of any impairment which may have occurred e.g. due to damage, obsolescence or market changes.
Existence and rights/ownership	Assets recognised must exist. The department owns or has beneficial ownership of the assets recognised.

Source: Analysis by the Office of the Comptroller and Auditor General

Completeness

4.20 The completeness assertion is that all capital assets have been identified, classified and recorded appropriately in the notes to the appropriation accounts.

Excluded property assets

4.21 Under the accounting framework specified by the Department of Public Expenditure and Reform, if valuations for land and buildings cannot be provided for technical reasons, departments should provide physical details of these assets in an appendix to their appropriation account.

4.22 Figure 4.4 identifies the departments which appended schedules of assets owned (with no valuations) to their appropriation accounts in 2018. It is not evident in many cases why valuations could not be procured for the types of assets included.

Figure 4.4 Appropriation accounts with property asset schedules appended, 2018

Vote	Properties
13 Office of Public Works	727 national monuments.[a]
22 Courts Service	Eight court houses owned and managed by the Courts Service. Other court houses are included in the SOFP.
29 Communications, Climate Action and Environment	Two fisheries owned by the Minister and managed by Inland Fisheries Ireland.
30 Agriculture, Food and the Marine	82 land parcels or buildings controlled or managed by the Department, including 44 forest plots. Six fishery harbour centres vested in the Minister.[b]
33 Culture, Heritage and the Gaeltacht	Six national parks managed by the Department.
36 Defence	66 State-owned land parcels and buildings administered by the Department.

Source: 2018 Appropriation Accounts

Notes: a The 727 monuments are heritage assets. A list is not appended to the appropriation account, but summary details are disclosed in Note 2.2 to the account.

b Some information on the value of land and buildings at the fishery harbours is included in the accounts of the Fishery Harbours Centres Fund.

4.23 The accounting policies in the Defence appropriation account note that land and buildings are not valued and are not included in capital assets. Payments in respect of the development of buildings administered by the Department are reflected in the SOFP as capital assets under development. When such projects are complete, the cost is removed from capital assets under development without any transfer to capital assets.

4.24 In the case of the Education and Skills appropriation account, school buildings and sites are included in capital assets while they are 'work in progress'. While ownership is not transferred, the Department treats the transfer of control of a completed school to a school authority as a disposal in its appropriation account.

Asset registers

4.25 Robust procedures are required to safeguard assets effectively, including maintaining a complete and accurate register to record a description of each asset, the date of acquisition, its (current) physical location, its cost and a current valuation.

4.26 A comprehensive fixed asset register is a key control document underpinning the capital asset information included in the SOFP. A fixed asset register is intended to allow departments to track and verify assets. It is potentially a tool for safeguarding of assets that can mitigate against theft, loss and fraud, or at least ensure early detection.

4.27 Common issues noted on the audits of 2018 appropriation accounts (and prior years) related to the completeness or accuracy of information on asset registers e.g. inaccurate description, incorrect location recorded and asset identification 'tags' not deployed. Other issues encountered include asset registers continuing to list assets that are no longer in use or that can't be located, and some assets physically identified on site that are missing from the register.

4.28 Detected errors and omissions in fixed asset registers frequently result in a consequential requirement to adjust reported values in the SOFP and the corresponding capital asset note. Such adjustments indicate that controls over the management of assets are inadequate.

4.29 A number of departments are currently undertaking major projects to update and reconcile their holding of capital assets to their asset registers.

Valuation

4.30 The current financial reporting framework for appropriation accounts allows capital assets to be valued based on either historical cost or current value. In practice, a number of different methods can be used to establish a current value.

4.31 Audits of appropriation accounts have identified issues around the adequacy of back-up documentation with regard to the valuation amounts recognised for capital assets. In particular, there have been cases where departments have been unable to provide historic valuation documents still being relied upon for accounting purposes.

Property asset valuation

4.32 Figure 4.5 sets out the main methods used by departments to value property assets in 2018 appropriation accounts. Some departments used different valuation methods for different classes of assets.

4.33 Figure 4.6 sets out details of valuation methods for property assets applied by departments in 2018 appropriation accounts.

Figure 4.5 Valuation methods for property assets, 2018

Method	Description
Historical cost	This is the cost of the asset when acquired less the accumulated depreciation since the date of acquisition.
Market value	This is the price that could be obtained if the asset was sold in the current market place.
Replacement cost	This is the cost, at current market prices, that would be incurred to replace the existing asset with a similar asset. Depreciated replacement costs takes account of physical deterioration of the asset.
Building cost norms	This method is based on a standard unit construction cost for different types of building. An estimated cost per square foot is applied for different categories of assets.

Source: Analysis by the Office of the Comptroller and Auditor General

Figure 4.6 Valuation basis for property assets in 2018 appropriation accounts

Vote	Name	Net value of property assets € million	Historical cost	Market value / valuation	Replacement cost	Building cost norms
13	Office of Public Works	3,317	✓	✓	✓	✓
21	Prisons	959	✓	✓	✓	
22	Courts Service	203	✓	✓	✓	
24	Justice and Equality	5	✓			
26	Education and Skills	138	✓			
27	International Co-operation	10	✓	✓		
28	Foreign Affairs and Trade	159	✓	✓		
31	Transport, Tourism and Sport	1	✓			
33	Culture, Heritage and the Gaeltacht	56	✓			
34	Housing, Planning and Local Government	1	✓			
40	Children and Youth Affairs	56	✓			

Source: 2018 Appropriation Accounts

4.34 Where a valuation basis other than historical cost is used, it is important that valuations are updated periodically (e.g. every three to five years)[1] to ensure the amount recognised represents an accurate estimation of the value of an asset.

4.35 The Office of Public Works (OPW) employs a variety of different valuation methods for land and buildings (see Figure 4.7). The OPW has stated in this regard that it awaits the outcome of the review to be carried out by the working group recently established by the Department of Public Expenditure and Reform.

Figure 4.7 OPW property assets by valuation methods, 2018

Valuation method	Number of property assets	Value at 31 December 2018 € million
Historical cost[a]	135	839
Market value/valuation[b]	287	831
Replacement cost[c]	11	928
Building cost norms[d]	544	719
Total	**977**	**3,317**

Source: Vote 13 Appropriation Account 2018

Notes:
a Includes some government buildings, built or substantially refurbished (e.g. Collins Barracks Museum, OPW headquarters, Farmleigh Estate) and a number of garda stations.
b Includes certain government offices, certain garda stations and decentralised sites.
c Prestige properties, such as Dublin Castle, Leinster House, the National Gallery and the National Museum.
d Includes certain government buildings, certain garda stations and decentralised sites as well as the Four Courts, the National Library, the Phoenix Park and Áras an Uachtaráin.

1 FRS 102 does not specify a time interval for revaluations. In practice, three to five year cycles are typical, reflecting the period within which significant shifts in market value may occur.

4.36 In the introduction to the OPW appropriation account, the Accounting Officer notes that the valuations used for capital assets should not be regarded as a current estimate of realisable value. This examination noted that

- assets valued on the 'market value' and 'replacement cost' bases were last revalued in 2013 and 2014, despite significant acceleration in the property market since that time
- building cost norms applied to buildings were last updated in 2012, despite inflation in construction costs of nearly 40%[1] since then.

4.37 In response to the examination findings, the OPW noted that a large number of the property assets in its portfolio will never be considered for disposal, and that all properties that are considered for disposal are subject to a valuation process.

4.38 Varying methods are also employed for assigning values to prisons, properties and other sites recognised in Vote 21 Prison Service (see Figure 4.8).

Figure 4.8 Irish Prison Service property asset valuation methods, 2018[a]

Valuation method	Number of property assets	Value at 31 December 2018 € million
Historical cost	3	163
Market value	1	1
Existing use	9	28
Replacement cost	9	767
Total	**22**	**959**

Source: Vote 21 Appropriation Account 2018

Note: a The Irish Prison Service holds assets at 13 locations. The number of assets included in Figure 4.8 is higher, due to different valuation methods being used for the assets held at these locations. For example, land is valued at existing use, prison buildings are valued at replacement cost (2014) and work done on buildings since 2014 is valued at historical cost.

4.39 In relation to Vote 21

- Prison land and buildings are revalued every five years. The last revaluation was in 2014. This valuation will be updated in 2019.
- Land is valued on an existing use basis and prison buildings are valued on the basis of average replacement cost per cell.
- One land holding — Thornton Hall, in North County Dublin — continues to be valued at historical cost, including investment in infrastructure and services, on the basis that "it is a strategic State asset with potential future use value".

4.40 Figure 4.9 provides the breakdown by valuation method and the values assigned to land and buildings owned by the Courts Service.

1 Based on a comparison of the index for the second half of 2018 with that for the second half of 2012 in the Tender Price Index published by the Society of Chartered Surveyors Ireland in July 2019.

Figure 4.9 Courts Service property asset valuation methods, 2018

Valuation method	Number of property assets	Value at 31 December 2018 € million
Historical cost[a]	8	58
Market value	15	4
Depreciated replacement cost	29	141
Total	**52**	**203**

Source: Vote 22 Appropriation Account 2018

Note: a The Courts Service has stated that €41 million included at historical cost relates to refurbishment costs for buildings which are used by but are not owned by the Courts Service.

4.41 In relation to the Courts Service

- A policy of valuing buildings at depreciated replacement cost was adopted in 2016 — 29 buildings have been valued to date on that basis. Eight buildings in use, which have not yet been revalued, are stated at historic cost.
- Land and buildings not in use but acquired for potential future development are valued at market value/fair value.

4.42 Figure 4.10 gives a breakdown by valuation method and the values assigned to land and buildings recognised in the accounts of the Department of Foreign Affairs and Trade.

Figure 4.10 Foreign Affairs and Trade property asset valuation methods, 2018

Valuation method	Number of property assets	Value at 31 December 2018 € million
Cost (post-2005)	9	31
Valuation (2005)[a]	17	59
Valuation (2011)	3	69
Total	**29**	**159**

Source: Vote 28 Appropriation Account 2018

Note: a Additions since 2005 are valued at cost.

4.43 In relation to the Foreign Affairs and Trade vote

- Land and buildings acquired since 2005 are reflected at cost.
- The carrying values of 17 land holdings and buildings are based on valuations conducted in 2005, but augmented (where relevant) by subsequent additions which are reflected at cost. The Department is now unable to locate the majority of the 2005 valuations. However, it believes that they were carried out on a market value basis.

- Three mission properties (in Paris, Rome and New York) are included at valuations conducted in 2011. It appears that a different valuation approach was adopted in each case, with the experts consulted including an auction house, an architect and a firm of estate agents.

Non-property capital asset valuation

4.44 Non-property capital assets are generally valued at historical cost less accumulated depreciation.

4.45 In the case of software development projects, it was noted on audit that some departments only include the direct cost of procuring the software whereas others include indirect costs such as the staff costs of the project team.

Depreciation

4.46 The Department of Public Expenditure and Reform's guidance in relation to the application of depreciation is limited and there is no guidance at all in relation to impairment.

4.47 The Department's guidance specifies that land should not be depreciated.

4.48 While the accounting framework does not prescribe a specific rate for the depreciation of buildings,[1] the departments that do apply depreciation generally use a rate of 2% per year (i.e. an implicit useful life of 50 years). Certain departments don't apply any depreciation on the basis that annual maintenance is sufficient to maintain the condition of buildings. The Department of Housing, Planning and Local Government has a number of low value bespoke buildings that it depreciates at 5% a year.

4.49 The Department of Public Expenditure and Reform's guidance does provide specific depreciation rates for certain categories of non-property assets — 20% for IT equipment, software, scientific and laboratory equipment and other office machinery; and 10% for furniture and fittings, telecommunications equipment and major operational software systems.

4.50 There is no consistent depreciation rate specified for other common capital assets e.g. motor vehicles.

Existence and rights/ownership

4.51 The assertion is that all capital assets recognised actually exist and that the department has the rights to the assets it owns.

4.52 All departments should be able to provide proof of ownership of assets included in their SOFP and corresponding capital asset note, particularly high-value assets such as land, buildings, vehicles and machinery. Where proof of ownership/clear title is not available, problems can arise when an asset is to be sold or transferred.

1 Circular 1/1995: *Appropriation Accounts and Asset Registers* states that the depreciation for buildings, if any, should reflect their maintenance level — if buildings are being maintained to their original condition, no depreciation should arise.

4.53 Uncertainty around the ownership of high-value assets has led to a number of issues arising on audit, including

- the same assets being included in the appropriation accounts of two votes
- the transfer of assets (to another department) not being reflected in the asset register of the transferring department
- title deeds or other proof of ownership/title not available for audit to confirm ownership of the asset.

4.54 A number of bodies fall under the aegis of the Department of Justice and Equality. Some of those bodies have their own separate votes (e.g. the Irish Prison Service and An Garda Síochána), whereas others are funded through the Justice and Equality vote (e.g. the Insolvency Service of Ireland and the Data Protection Commission). In general, capital assets owned by the latter group of bodies are included in the SOFP of the appropriation account for Vote 24 Justice and Equality, while also being included in the individual accounts of the bodies in question.

Conclusions and recommendations

4.55 The current framework for the preparation of appropriation accounts requires the preparation of an account (on a cash basis) that compares a department’s expenditure with the voted amount. The audit opinion required by law is to the effect that the appropriation account properly presents the transactions in the year.

4.56 Extensive additional information is presented with the appropriation account by way of notes to the account.

4.57 Accurate and consistent treatment when accounting for capital assets is vital to ensure the overall transparency, comparability and reliability of information presented in the notes to the appropriation accounts. Current practice has resulted in gaps in assets recorded in the notes to the accounts, and major inconsistences in asset valuations and depreciation rates.

4.58 Problems in relation to accounting for capital assets have been evident for many years. Issues affecting individual departments are dealt with during the audits of the appropriation accounts in question. However, action is required at a central level to address the lack of coherence and of consistency caused by deficiencies in the accounting framework. The 2013 IMF Report and the recent OECD Report should be helpful in that regard.

4.59 The OECD report proposes a six-year timescale to implement a range of recommended reforms with the first phase aiming to bring the information already disclosed in appropriation accounts up to international financial reporting standards.

4.60 If accrual information is to be included within the cash-based appropriation accounts, it should be done in accordance with established accounting standards.

Recommendation 4.1

The Department of Public Expenditure and Reform should set the rules for accounting for capital assets in appropriation accounts, based on the relevant provisions within a set of internationally recognised financial reporting standards.

4.61 Regardless of the accounting framework in place, more specific guidance on accounting for capital assets would result in greater consistency and comparability in relation to a very significant figure in departments' SOFPs.

Recommendation 4.2

The Department of Public Expenditure and Reform should issue appropriate guidance annually detailing the appropriate valuation basis for different categories of assets and setting out how departments should implement the various methodologies.

4.62 The current financial reporting framework for appropriation accounts allows capital assets to be valued based on either historical cost or current value. In practice, a number of different methods can be used to establish a current value. Where a valuation basis other than historical cost is used, it is important that valuations are updated periodically (e.g. every three to five years) to ensure the amount recognised represents an accurate estimation of the current value of an asset.

Recommendation 4.3

The Department of Public Expenditure and Reform should specify the maximum interval at which valuations should be carried out on capital assets to ensure the amount included in the appropriation account is a proper reflection of the current value of the asset.

Recommendation 4.4

The Department of Public Expenditure and Reform should specify that where departments use a number of valuation methods, the note to the accounts should provide a breakdown of the values reported by valuation method; and where a valuation other than historical cost is used, the note should indicate when the relevant valuations were last updated and when the next valuation is planned.

Response of the Accounting Officer, Department of Public Expenditure and Reform

I agree with recommendations 4.1 to 4.4. These recommendations will be implemented in the context of the phased implementation of the financial reporting reforms recommended by the OECD.

Annex 4A Guidance on appropriation accounts issued by the Department of Public Expenditure and Reform

The Minister for Public Expenditure and Reform sets the rules for the preparation by departments of annual appropriation accounts. The Department of Public Expenditure and Reform issued two key documents providing guidance on the preparation of appropriation accounts for 2018

- Circular 24/2018 — setting out requirements for 2018 and superseding instructions in previous circulars — was issued in December 2018.
- A guidance manual — providing further clarification on certain practical issues and highlighting common errors from previous years — was issued in February 2019.

Relevant extracts relating to capital assets from Circular 24/2018 and the guidance manual are set out in Figures 4A.1 and 4A.2 respectively. The abbreviation SOFP refers to the statement of financial position.

Figure 4A.1 Extracts on capital assets from Circular 24/2018

Statement of Accounting Policies and Principles

Departments, Offices and Vote holders should obtain prior approval from the Department of Public Expenditure and Reform for any departures, changes or additions to the standard accounting policies in relation to accrual information in the notes to the appropriation accounts.

Departments are reminded that where relevant, the basis of valuation of land and buildings is explained in the Accounting Officer's introduction to the appropriation account and to provide a note highlighting any departure from the standard accounting policies.

Capital assets and capital assets under development

The opening and closing values of capital assets on a Department's asset register and details of depreciation are shown by way of a note to the SOFP (Note 2).

The following are not included in the statement of capital assets:

- assets that cost less than €1,000 and/or
- heritage assets, the value of which cannot be adequately expressed in financial terms. (Heritage assets which can be valued are included in the statement).

Capital assets under development should be included within capital assets in the SOFP, showing expenditure on assets being developed within the Department, e.g. software development or construction projects.

Valuation of assets

Land and buildings

All lands and buildings owned by the State and controlled or managed by a Department are included in the SOFP (and capital assets note). Where relevant, the basis of valuation of land and buildings is explained in the Accounting Officer's introduction to the appropriation account.

Where land and buildings are (a) vested in the Office of Public Works or (b) vested in a Minister but in fact controlled/managed by the Office of Public Works, they are included in the account for that Office.

Where lands or buildings are vested in a Minister but are, in fact, controlled/managed by an outside body, they are not included as assets of the Department, but the ownership of the asset is noted in the Department's account. Otherwise, they appear in the account for the relevant Department.

Government Departments/Offices that for technical reasons cannot provide valuations for State-owned lands and buildings controlled or managed by them should append to the appropriation account a schedule of these assets.

Equipment, furniture and fittings

Equipment, furniture and fittings are valued at cost.

Other assets

Where required, accounting policies in respect of valuation of other assets (e.g. specialised vehicles) are set out in the Accounting Officer's introduction to the appropriation account.

Depreciation policy

Land is not depreciated.

Where relevant, buildings are depreciated as indicated in the Accounting Officer's introduction to the appropriation account.

Equipment, furniture and fittings are depreciated on a straight-line basis at the following annual rates:

- furniture and fittings, and telecommunications equipment — 10%;
- IT equipment and software, scientific and laboratory equipment and other office machinery — 20%; and
- major operational software systems — 10%.

Where required, other capital items are depreciated as indicated in the Accounting Officer's introduction to the appropriation account.

Source: *Circular 24/2018: Requirements for Appropriation Accounts 2018*, Department of Public Expenditure and Reform, December 2018

Figure 4A.2 Extracts on capital assets from the February 2019 guidance manual

Deviations from standard accounting polices

Government Departments, Offices and Vote holders should obtain prior approval from the Department of Public Expenditure and Reform for any departures, changes or additions to the standard accounting policies in relation to accrual information in the notes to the appropriation accounts.

Departments are reminded that where relevant, the basis of valuation of land and buildings is explained in the Accounting Officer's introduction to the appropriation account and to provide a note highlighting any departure from the standard accounting policies.

Departments must also state their policies for valuing assets where the valuation method of the particular class of asset is not standard.

Accounting for fixed assets

Capital Fixed Assets are tangible assets which are permanent in nature with an economic useful life greater than one year, valued at a minimum of €1,000 and are held for purposes other than investment or resale. Heritage assets, the value of which cannot be adequately expressed in financial terms, are not included. Heritage assets which can be valued should be included in the statement of capital assets.

Organisations may choose to capitalise assets valued under €1,000 (for example if they are moveable and attractive such as mobile phones), or to aggregate items which are valued individually at less than €1,000, and to apply the criteria to the aggregate value (for example, PCs or laptops).

Assets should be included in the Asset Register as at the date of acquisition, and are stated at cost less accumulated depreciation. Cost comprises of all costs incurred in bringing the asset to its present location and condition. Money spent on fixed assets is referred to as capital expenditure.

Detailed requirements

Departments must compile an Assets Register recording the description, historical cost, present value (i.e. depreciated historical cost), date of acquisition and physical location of each material capital asset. Information on disposals and revaluations should be entered in the register as appropriate. The register should also record the depreciation rate being applied and the method being followed.

Departments may have to exercise judgement on the materiality of an item e.g. whether hand tools are a material item in terms of the Asset Register and as such should be capitalised or whether they are treated as consumables and are not capitalised.

The opening and closing values of capital assets on a Department's Asset Register and details of depreciation are shown by way of a Note to the 'Statement of Financial Position'.

Valuation

Valuation refers to the amount at which fixed assets are shown in the Statement of Financial Position. The fixed asset is valued either at:

- its historical cost less the accumulated depreciation from the date of acquisition, or
- its current value which is defined as the lower of replacement cost or recoverable amount.

Land and buildings

All lands and buildings owned by the State and controlled or managed by a Department are included in the Statement of Financial Position (and capital assets note). Where relevant, the basis of valuation of land and buildings is explained in the Accounting Officer’s introduction to the appropriation account.

Where land and buildings are (a) vested in the Office of Public Works or (b) vested in a Minister but in fact controlled/managed by the Office of Public Works, they are included in the account for that Office. Otherwise, they appear in the account for the relevant Department.

Where lands or buildings are vested in a Minister but are, in fact, controlled/managed by an outside body, they are not included as assets of the Department, but the ownership of the asset is noted in the Department's Account.

Furniture and fittings

Furniture and fittings are valued at cost.

IT equipment

In general IT assets, including peripherals and software, should be depreciated over 5 years. An exception is Major Operational Software systems which, because of its complexity, usually should have a life of 10 years.

- Operating software should be capitalised separately.
- Any peripheral item which has a discrete role independent of an overall system should be noted as a separate asset in the Assets Register**.**

Other assets

Where required, accounting policies in respect of valuation of other assets (e.g. specialised vehicles) are set out in the Accounting Officer’s introduction to the appropriation account.

Capital assets under development

Capital assets under development are now included in note 2.2 Capital Assets. Capital assets under development should not be subject to a depreciation charge. Depreciation of a capital asset begins when it is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Capital assets under development should be included within Capital Assets in the Statement of Financial Position showing expenditure on assets being developed within the Department, e.g. software development or construction projects. Cash payments in respect of capital assets under development in Note 1 ‘Operating Cost Statement’ should be included in the line 'purchases cash' in the 'Changes in Capital Assets' section.

Subsequent expenditure on assets

Subsequent expenditure undertaken to ensure that the asset maintains its previously assessed standard of performance, for example routine repairs and maintenance expenditure, should be recognised in the appropriation account (subject to the matured liability rule) and Operating Cost Statement as it is incurred.

Only expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value, e.g., an increase in capacity.

The cost of an addition or extension to an existing asset which is of a capital nature and which becomes an integral part of the existing asset is usually added to its gross book value. Any addition or extension, which has a separate identity and is capable of being used after the existing asset is disposed of, is accounted for separately.

Depreciation

Land is not depreciated.

Where relevant, buildings are depreciated as indicated in the Accounting Officer's introduction to the appropriation account.

Equipment, furniture and fittings are depreciated on a straight-line basis usually at the following annual rates over their estimated useful lives:

- furniture and fittings, and telecommunications equipment — 10%;
- IT equipment and software, scientific and laboratory equipment and other office machinery — 20%; and
- major operational software systems — 10%

Where required, other capital items are depreciated as indicated in the Accounting Officer's introduction to the appropriation account.

Purchases and additions

In addition to inclusion in the Assets Register, the cost of purchasing the asset should be reflected in the appropriation account for the period incurred (subject to the matured liability rule).

The depreciation charged should be reflected in the Operating Cost Statement and the Asset Note.

For purchases, the value should be in accordance with the above principles.

Retirements and disposals

The loss or gain from the disposal should be reflected in the Operating Cost Statement. The difference between the carrying amount of the asset being disposed of (i.e. the value shown in the Asset Register) and the cash proceeds received as appropriations-in-aid is included in the Operating Cash Statement.

'Windfall' receipts are treated as Exchequer Extra Receipts and details are provided in Note 4 to the appropriation account.

Transfers

Transfer of assets from one Department to another should be treated as a disposal by the originating Department and an addition by the receiving Department at date of transfer.

The item should be received at its net book value (cost less depreciation as per the originating Department) and from that point forward, depreciated in line with the receiving Department's depreciation policy. The cost price and the depreciation charged as per the originating Department should be shown in the receiving Department's Note on Capital (Note 2.2).

Source: *Guidance Manual for the Preparation of Appropriation Accounts 2018*, Department of Public Expenditure and Reform, February 2019