

Recognising energy efficiency in value properties: impact on financial accounting and auditing

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Vanhier is participating in a project which is co-funded by the EU. This project, called REVALUE, aims to lead the development of appraisal norms and standards that recognise Energy Efficiency (EE) value in social and private residential real estate.

The role of Vanhier in the project was to consult with the other team members (Bax & Company, Luwoge Consult, Maastricht University, RICS, Savills UK), to provide feedback and input and more specifically to investigate the possible impact in the future on financial accounting and auditing standards in regard to the valuation of residential properties.

In this article the aspects of financial accounting and auditing in regard to the valuation of properties are discussed. The accountant will have to rely, to a large extent, on valuation reports from the valuers in regard to the value of the properties. If investments in EE lead to a higher value of the properties in the valuation reports of the valuers, the following matters are important for the accountant:

- does the higher value in the reports of the valuers also lead to a higher value in the annual accounts according to the current accounting standards?
- what (additional) audit activities should the accountant perform in regard to the (higher) value of the properties?

Especially in the future, investments in EE can potentially have an (positive) impact on the value of properties or a lack of investments can have a negative effect on the value (brown discount). Accountants must be aware of this development.

In our opinion, there is no problem, on the basis of the current accounting standards, to include a potentially higher value of the properties due to investments in EE in the annual accounts. Changes in the value of the properties as a result of investments in EE can be included in the annual accounts if it meets the definition of an element and satisfies the following criteria for recognition: "it is probable that any future economic benefit associated with the item will flow to or from the entity and the item's cost or value can be measured with reliability". If the valuation reports of the valuers show that these conditions are met, the higher value can be included in the annual accounts. Hence, there is no need to adjust the current accounting standards regarding this topic.

In principle, the accountant does not have to perform additional or other audit procedures in regard to the potential higher value of the buildings as a result of investments in EE. However, the accountant must be aware that valuers could deal with this topic differently, which may depend on their expertise in this area. The accountant will have to pay special attention to the experience and knowledge of



the valuer in this area (in accordance with ISA 500 paragraph 8a) and the terms of the assignment for valuation.

It is especially important that the accountant understands the outcomes of the valuations. In order to be able to assess this properly (in accordance with ISA 500 paragraph 8b), they could decide to include a property specialist (valuer) in the audit team more often.

It is essential that the audit team (preferably supported by a property specialist) should discuss with the valuer the approach, terms of engagement and the results of the valuations. This prevents the valuation process from becoming a black box for the accountant.

For more information, please read our extensive report regarding this topic: [Report recognition EE in value properties, impact on financial accounting and auditing](#)

