

# ANNEX C

## Note of issues raised by auditors in relation to derecognition of (Highways) Infrastructure Assets

### Purpose

This note provides information on an emerging issue in the audits of some 2020/21 financial statements in connection with (highways) infrastructure assets. It may be necessary to issue Code-adjacent guidance or a Code update in an accelerated timescale.

### 1. Issue as reported by preparers

- 1.1 The main 'technical issue' relates to subsequent expenditure on highways infrastructure assets and specifically on whether local authorities should be assessing if there is any residual value remaining in replaced components that needs to be de-recognised when the subsequent expenditure is added.
- 1.2 While this is standard practice for many fixed assets, it may not generally be being implemented for (highways) infrastructure assets because there are a variety of significant practical difficulties in applying the standard approach to such assets. This is, particularly in relation to roads, where the engineering records used to maintain, replace and add to the (highways) infrastructure assets have not been created to map against identifiable components. It was recognised during the consultation on the Highways Network Asset work looking at the possibility of applying current values to highways network asset in 2015 that it was not possible to typically identify components as the network was one asset and information on previous historical repairs is not available in a meaningful or identifiable way particularly for the roads. There are also information deficits in relation to historical expenditure on assets created before 1994/95. These roads provide a significant contribution to the capacity of the roads networks and to their value. We understand these assets were brought onto the balance sheet at 'capital undischarged' amounts rather than at historical cost.
- 1.3 The requirement to measure the Highways Network Asset at current value was not in practice implemented due to issues around the funding of the valuation process, and the accounting for transport infrastructure therefore remained on a depreciated historical cost basis, in contrast to other material property, plant and equipment on local authority balance sheets. Following the process to explore the use of current values no changes were made to the accounting requirements for infrastructure assets.
- 1.4 In the 2015 consultation process around the valuation of the Highways Network Asset the consultation paper included a rebuttable presumption that when parts of the Highways Network Asset were being replaced, this was because the part of the asset being replaced had been fully consumed. The local authority accounts preparers have explained this approach to their auditors, while noting that the accounting requirements for Highways Network Assets which were developed and subsequently consulted on by CIPFA/LASAAC did address some of the current issues.
- 1.5 The preparers have suggested that the approach being taken represents the most practical approach to providing meaningful figures in the financial statements. They also noted that these matters have not been raised in previous years audits.

## **2. Discussions by and with auditors**

2.1 Having been made aware of the issues, CIPFA arranged to follow the discussion of this matter at the LGTN. CIPFA was keen to provide constructive support on this issue and to alleviate concerns that the reporting is problematic, given that it probably represents the best reporting achievable under the circumstances.

2.2 The LGTN was keen to explore CIPFA offers to provide explanatory material in guidance, and to raise awareness of Code issues with CIPFA/LASAAC. However, after some discussion the group determined that while guidance could explain the reasonableness of the preparer position, it might not resolve the fact that this did not comply with the apparent requirements of the Code.

## **3. Matters under consideration**

3.1 CIPFA LASAAC are considering whether:

- there is a need for any clarification in the Code
- there is a need for additional application guidance
- there are issues to be considered retrospectively given that this may affect open accounts going back a number of years