The Chartered Institute of
Public Finance & Accountancy

cipfa.org

Audit Delays – Reporting of Infrastructure Assets in the Local Authority Accounts

You may be aware of an issue relating to the reporting of infrastructure assets which has led to delays in local authority audits, principally for highways authorities.

The issue is a technical accounting one and arises principally because of information availability relating to these assets.

Accounting for infrastructure in local government has not historically been considered to be an area of significant audit risk, due to the inalienable nature of the assets and the use of a historical cost basis of accounting. However, concerns raised by a local government auditor that some authorities are not applying component accounting requirements appropriately have recently come to light via audit network discussions convened by the National Audit Office. The underlying issues appear to be more prevalent than anticipated and we understand this is now an area of focus for all local audit firms.

The issue raised by auditors is in relation to the derecognition (removal of the carrying amount) of parts of infrastructure assets when replacement expenditure is undertaken. There are also related issues for the reporting of gross historical cost and accumulated depreciation.

Infrastructure assets are one of the few categories of property, plant and equipment assets measured at historical cost rather than at an asset measurement described as ‘current value’. The valuation process for these assets was deemed to be too costly, and therefore infrastructure assets are held in local authority balance sheets at depreciated historical cost.

Normal custom and practice for (highways) infrastructure assets is that derecognition does not affect asset balances because the assets are expected to have been fully used up before the replacement expenditure takes place; this does require that assets are properly depreciated in line with the requirements of the Accounting Code.

This issue arises in part because of limitations on historical information relating to when the assets were first recorded on balance sheets in the early 1990s, and where there have been transfers of assets because of local authority reorganisations. It is also extremely difficult to clearly identify the parts of the assets which are being replaced.

CIPFA has offered to assist resolution by providing additional guidance and by pursuing whether any augmentations to the Accounting Code would assist with the situation. The CIPFA LASAAC Local Authority Accounting Code Board (CIPFA LASAAC) has agreed to consider such proposals.

Further information on the issue may be found here.