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# 2023 Asset Update

FinPro

28 Sept 2023





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# Agenda

- ◆ Audit Issues
- ◆ AASB Changes
- ◆ Implications
- ◆ Solutions



# Audit Issues

- ◆ Inconsistency and variability of valuations
- ◆ Asset registers
- ◆ Data not being used consistently (Val v AM)
- ◆ Methodology and assumptions issues
- ◆ Condition data not used
- ◆ Valuation timelines (including procurement)
- ◆ Quality review by councils



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# Key Message !!!

*“The most significant internal control areas that we continue to see issues in are:*

- *general IT controls*
- *asset management, particularly asset valuation.”*



# Valuations

- not conducting regular fair value assessments for all of their asset classes and documenting their assessments
- not accurately applying condition information to assets
- incorrectly calculating the revaluation increment or decrement stemming from the revaluation
- incorrectly accounting for the movement in value in line with Australian Accounting Standards.



# Asset Registers

- not capitalising new assets in a timely way, understating depreciation expenses
- not recognising developer-contributed assets in a timely way, understating income and assets
- not updating their fixed asset registers regularly, leading to inaccurate and/or invalid financial asset information.



# Asset management (including maintenance of asset data) and asset valuations continue to challenge the sector

## Section snapshot



**54 councils** have at least one deficiency in their asset management practices (2020–21: 60 councils).



**17 councils** reported a prior period error for fixed assets in this year's financial statements (2020–21: 9 councils). The **total value of these errors** resulted in movements totalling \$241 mil. (2020–21: 11 councils, \$410 mil.)



**8 councils** have either out-of-date or incomplete **asset management plans** (2020–21: 11 councils).



**12 councils** identified '**found**' assets that they had not previously recorded in their financial statements. The **total value** of these assets was \$180 mil. (2020–21: \$108 mil.)

**Asset valuations processes** – Determining the fair value of council assets is complex and highly subjective. Councils often rely on the expertise of external valuers to help value their assets. The common issues we find with councils' valuation processes are:

- councils not engaging early enough with external valuers, causing valuations to not be undertaken in a timely manner
- lack of or inadequate review of the valuer's work that results in errors being identified during our audits – councils are the owners of these assets and know their assets well. They need to make sure the assumptions and judgements the valuer uses are reasonable and appropriate to their circumstances.



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FINANCIAL AUDIT REPORT

22 June 2023

## Local government 2022

Report 15: 2022–23

## Chapter 3 – Gaps in asset management

We recommend all councils assess whether their:

1. governance structures and culture ensure a whole-of-council (finance, asset, and service teams) approach to asset management, including planning, operating and maintaining, disposing and monitoring performance of assets
2. asset management plans are current and cover all major asset classes, including if
  - the data is consistent with the data in the long-term financial forecast and is based on the same assumptions
  - the data needs to be updated because significant changes have reduced its accuracy
  - the key performance measures accurately measure whether the council's assets are effectively delivering services aligned with the goals in the corporate plan
3. data, if stored in separate asset management information systems, is recorded in a way that can be and is reconciled to the financial asset register
4. workforce plans and/or strategies identify the necessary asset management capabilities and the optional and mandatory training to be completed.

We recommend all councils:

5. provide their assessments and associated action plans to address any of the above recommendations, where relevant, to their audit and risk committees to allow for regular progress reporting.



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## Improving asset management in local government

Report 2: 2023–24



Of the 217 corrected errors identified in the 30 June 2022 financial statements, the common areas are summarised below.

Common areas of corrected errors	Number of errors
Poor record keeping of asset data, such as:	42
<ul style="list-style-type: none"><li>• unrecorded assets controlled by council (including found assets)</li><li>• assets recorded that are no longer controlled by council</li><li>• duplicate assets</li><li>• assets incorrectly classified.</li></ul>	
Asset revaluation errors, such as:	42
<ul style="list-style-type: none"><li>• incorrect data provided to the valuer</li><li>• inappropriate valuation assumptions applied (for example, inappropriate unit rates, valuations did not reflect the physical and legislative restrictions on these assets, or impairment indicators not assessed)</li><li>• inaccurate calculations derived from the revaluation work paper</li><li>• incorrect recording of revaluation or impairment adjustments.</li></ul>	
Incorrect accounting for liabilities and accruals.	48



FINANCIAL AUDIT

13 JUNE 2023

# Local Government 2022

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT



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## What we found

The frequency of valuations by some entities was not in accordance with Local Government (Financial Management) Regulations 1996 and a number of entities had not performed any fair value assessment of their assets for 30 June 2022. In one case, a building's revaluation was last performed in 2017. The elapsed time exceeds the five years required by section 17A(4)(b) of the Regulations.

In another instance, a local government entity had missed assets in its initial revaluation, requiring these assets to be revalued after the onsite final audit, contributing to delays.

A number of entities that performed revaluations in the 2021-22 year saw significant increases in the value of their infrastructure assets. This was primarily due to increases in unit rates and growth in the asset base. The City of Cockburn saw a 23% increase in its infrastructure assets from \$890 million to \$1.1 billion in 2021-22 for such reasons.

In contrast, the City of Rockingham reported a 51% decrease in the value of infrastructure assets for the year ended 30 June 2022. This was caused by the reduced Road Unit Rates from using recycled materials collected and disposed of from road renewals (in situ materials) and exclusion of tipping fees.

In another case, an appointed valuer was not able to verify that the valuation was performed in accordance with Australian Accounting Standards (AASB 13) and met financial reporting requirements. DLGSC has since issued an alert to provide guidance to local government entities when selecting a valuer.

The limited capacity of a relatively small number of valuation experts servicing this sector has affected the timeliness of valuations, with some entities finding it difficult to source expertise and perform valuations to meet their financial reporting requirements. Assumptions applied by valuers also affected valuations, creating variability in valuations and affecting comparability between them.



# Local Government 2021-22



# How do you rate?

- ▶ Inconsistency and variability of valuations
- ▶ Asset registers
- ▶ Data not being used consistently (Val v AM)
- ▶ Methodology and assumptions issues
- ▶ Condition data not used
- ▶ Valuation timelines (including procurement)
- ▶ Quality review by councils



# AASB Changes



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# AASB13 Update Dec 2022

- ▶ AASB Special Project for Fair Value in the Public Sector
- ▶ Clarifications and Australian Guidance
  - Restricted Land
  - Replacement Cost
  - Determining Current Replacement Cost
  - Depreciation – RUL not UL
  - Disaggregation of assets into ‘parts’



# Restricted Land

Big Change for  
Victoria

- ❖ Only take into account those restrictions that would pass from the hypothetical seller to the hypothetical buyer
- ❖ Do not take into account those restrictions that would not pass from the hypothetical seller to the hypothetical buyer



# Replacement Cost

Big Change for  
Victoria

- ◆ Identifying modern equivalent or reproduction
- ◆ Calculate the gross replacement cost ensuring –
  - Same location
  - Use its own assumptions as a starting point and adjust those assumptions to the extent that reasonably available information indicates that other market participants would use different data
  - The costs reflect normal course or operation
  - Include costs required to restore another entity's assets
  - Include other disruption costs
  - Include site preparation unless already reflected in land value
- ◆ Adjusting for the difference in utility between the existing asset and reference asset as well as for any permanent over-capacity or obsolescence



# Determining Current Replacement Cost

Big Change for  
Victoria

- ▶ DRC non-compliant – removed from AASBs in 2013 !!!!
- ▶ CRC is conceptually different
  - Market based not entity specific
  - Based on key characteristics relevant to market participants (condition, location, restrictions)
  - Adjustment from replacement cost to CRC is not to be an adjustment for depreciation but is an adjustment for obsolescence





# Depreciation – RUL not UL

- ❖ AASB116 – each ‘part’ to be depreciated separately
- ❖ AASB108 Example 3
- ❖ If using straight-line –

$$\text{(Carrying amount – Residual Value) / RUL}$$

- Therefore need ‘fair value’ calculated for each ‘part’ so that depreciation can be calculated correctly
- OK to use ‘blended approach’. ie. Weighted average RUL at component level



# Disaggregation of assets into 'parts'

Big Change for  
Victoria

- ❖ 'Parts' are not 'components' **AASB Residual Value decision 2015**
- ❖ Components –
  - Asset Management term.
  - Different element managed independently of other components
- ❖ If 'component' is subject to renewal and cost of renewal is less than overall component cost –
  - Short-life or renewal part
  - Long-life or recyclable part
- ❖ Each part to be depreciated separately
- ❖ Therefore need 'value' of each part



# Implications

- ◆ Revaluation and depreciation changes to satisfy AASB13, AASB116 and AASB108
- ◆ Revaluations more regular (annual?)
- ◆ Better integration asset accounting and asset management
- ◆ Improved quality reviews
- ◆ Ensuring 'right methodology, expertise and experience'



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# Revaluation and depreciation changes to satisfy AASB13, AASB116 and AASB108

- ◆ Review all existing valuations
- ◆ If DRC – replace with compliant CRC (based on condition and obsolescence not RUL and UL)
- ◆ Ensure assets and valuation have been correctly disaggregated
  - For valuation and determination of depreciation rates – ‘parts’ not ‘component’s
  - For asset registers – OK to calculate depreciation at ‘component level’
- ◆ Check system is calculating depreciation by RUL not UL





COLLENDINA FORESHORE TOILET

460

0460

Edit

General Valuation Location Components 7 Images Notes Insurance Replacement Costs 2



25/06/2020



25/06/2020



25/06/2020




25/06/2020



25/06/2020





Upload a file

PNG, JPG, GIF up to 10MB

Complete

Valued by Sbossie

Asset Custodian: CoGG

Acquisition Date: 31 Dec 2010

Decommission Date:

Indexed From Date: 30 Jun 2021

Controlled

Valuation Approach

Apportionment Cost





COLLENDINA FORESHORE TOILET  
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Edit

- DAVID EDGERTON  
City of Greater Geelong
- Framework
- Jobs
- Assets
- Projects
- Easy Sam

- General
- Valuation
- Location
- Components 7
- Images
- Notes
- Insurance
- Replacement Costs 2

Summary

Detail

Gross <b>\$156,000</b>	Current Value <b>\$129,058</b>	Depn Expense <b>\$1,971</b>	WA UL <b>79 yrs</b>	WA RUL <b>65 yrs</b>
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NAME	GROSS	CURRENT VALUE	DE	WA UL	WA RUL
01 Sub-Structure	\$10,920	\$9,972	\$75	146.2 yrs	133.5 yrs
02 Structure	\$40,560	\$36,452	\$337	120.2 yrs	108 yrs
03 Floor Coverings	\$4,680	\$4,151	\$55	84.7 yrs	75.1 yrs
04 Fit-Out	\$6,240	\$4,812	\$120	52.1 yrs	40.1 yrs
05 Roof	\$28,080	\$23,731	\$266	105.6 yrs	89.3 yrs
63 Serv - Elect	\$6,240	\$5,231	\$69	90.5 yrs	75.8 yrs
64 Serv - Hydr	\$59,280	\$44,709	\$1,049	56.5 yrs	42.6 yrs

**Complete**


- Valued by Sbossie
- Asset Custodian: CoGG
- Acquisition Date: 31 Dec 2010
- Decommission Date:
- Indexed From Date: 30 Jun 2021

**Controlled**

Valuation Approach

- Apportionment Cost**

Help


Asset Valuer Pro

460  

## 02 Structure

391006  
 Metal Cladding Typical Life  
 Dec 31, 2010 → ?

Edit

Consumption Score  

### 1

Depreciation Policy  

### Apply UL

Valuation Policy  

### Apportionment Cost

TYPE	GROSS	CURRENT VALUE	REMAINING SERVICE POTENTIAL	DEPRECIATION EXPENSE	USEFUL LIFE	REMAINING USEFUL LIFE	RESIDUAL VALUE	PROFILE
Short Life <span style="background-color: #eee; padding: 2px;">20%</span>	\$8,112	\$6,817	84.03%	\$121	67 yrs	56.3 yrs	\$0	COGG_Buildings
Long Life <span style="background-color: #eee; padding: 2px;">80%</span>	\$32,448	\$29,636	91.33%	\$216	150 yrs	137 yrs	\$0	AVP Default SL
	\$40,560	\$36,452		\$337	120.22 yrs	108.04 yrs	\$0	

# Revaluations more regular (annual?)

- ❖ AASB136 has not applied since 2016 for specialized assets valued using cost approach
- ❖ Need to keep revaluations up-to-date
- ❖ Strongly recommend –
  - Comprehensive every three years
  - Desktop in intervening years (very easy and quick to do)





# Better integration asset accounting and asset management

- ❖ Need to reconcile Asset Management data, GIS and Asset Valuation data to the GL to ensure completeness, accuracy and consistency
- ❖ Use same underlying assumptions for valuation, depreciation and asset management planning
- ❖ AASBs (if fully compliant) enables full integration with asset management



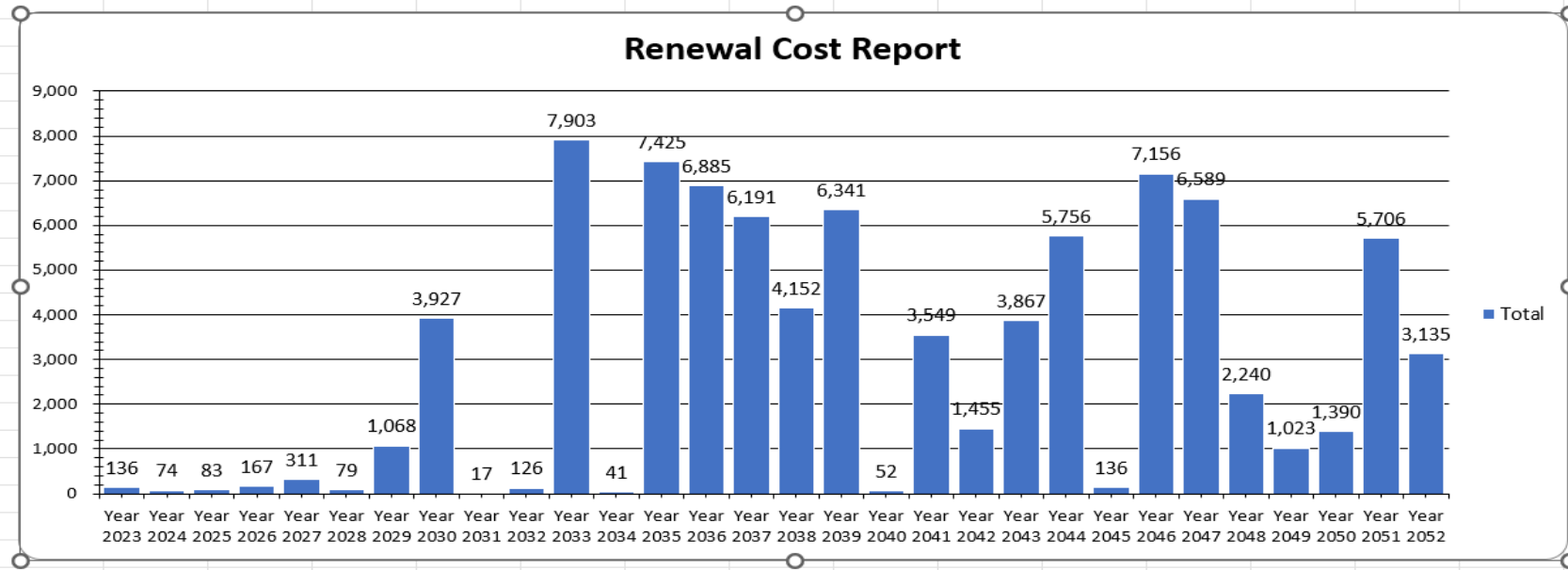
File Home Insert Draw Page Layout Formulas Data Review View Automate Help PivotChart Analyze Design Format

Clipboard Font Alignment Number Styles Cells Editing Analysis Sensitivity Add-ins

Chart Rene... : X ✓ fx

A B C D E F G H I J K L M N O P Q R S T U V W

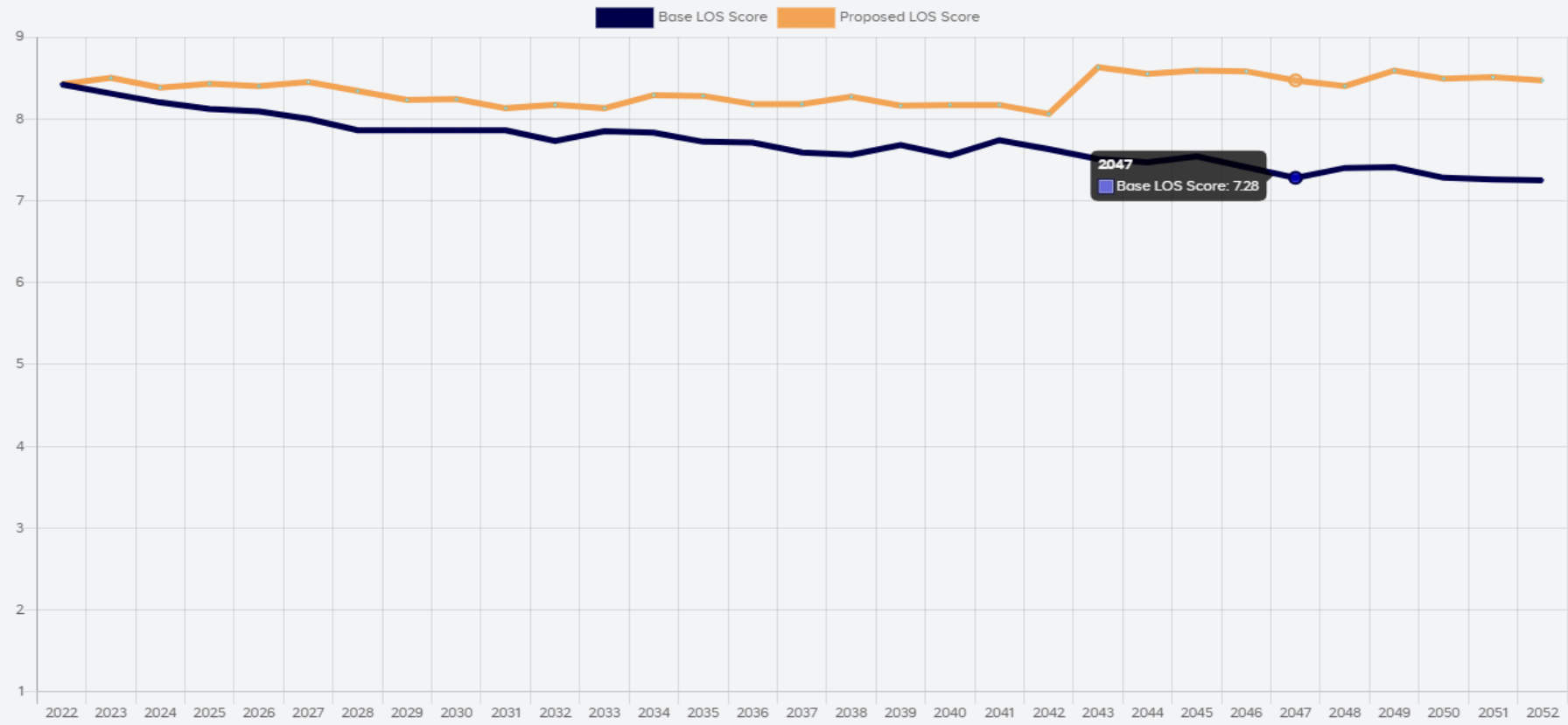
1	Asset Class	(All)
2	Asset Type	(All)
3		
4	<b>Data</b>	<b>Total</b>
5	Year 2023	136,370
6	Year 2024	74,324
7	Year 2025	82,914
8	Year 2026	166,944
9	Year 2027	311,200
10	Year 2028	78,649
11	Year 2029	1,068,483
12	Year 2030	3,926,510
13	Year 2031	17,199
14	Year 2032	126,270
15	Year 2033	7,903,212
16	Year 2034	41,094
17	Year 2035	7,424,969
18	Year 2036	6,884,505
19	Year 2037	6,191,070
20	Year 2038	4,151,914
21	Year 2039	6,341,442
22	Year 2040	52,185
23	Year 2041	3,548,567
24	Year 2042	1,455,089
25	Year 2043	3,866,784
26	Year 2044	5,755,819
27	Year 2045	135,600



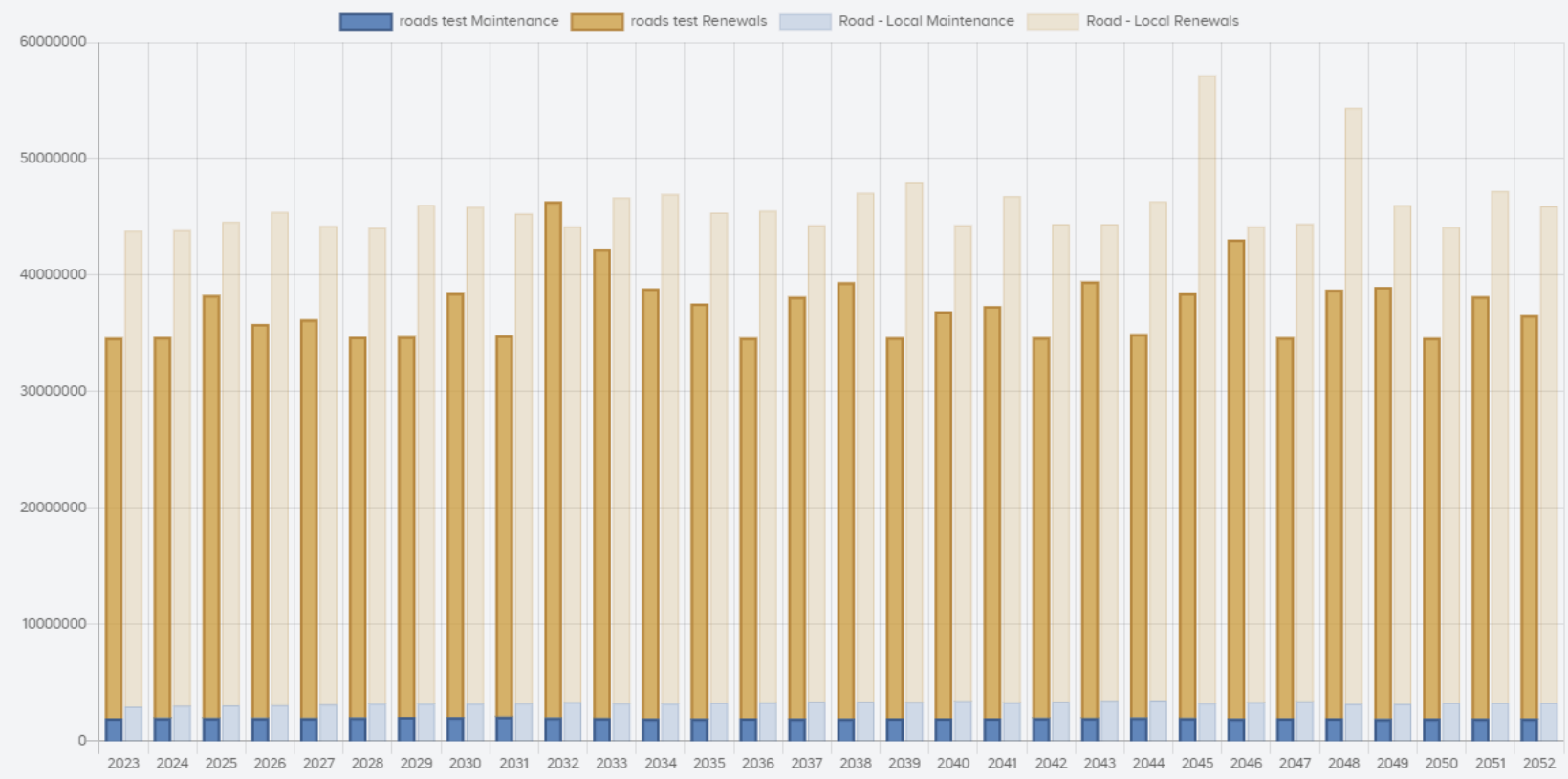
Asset Class	Road - Local	Component	Asset ID
Asset Type		Component Type	Asset Name
Asset Sub-Type		Component Sub-Type	



### LOS Condition



### Maintenance and Renewals Chart



### Summary of Results

TOTAL PROJECTED COSTS	BASED ON CURRENT BUDGET	BASED ON PROPOSED BUDGET	IMPACT (%)	IMPACT (AMOUNT)
Total Maintenance	\$98,092,060	\$59,224,266	-39.62%	-\$38,867,794
Total Renewals	\$1,282,892,258	\$1,061,739,957	-17.24%	-\$221,152,301

# Improved quality reviews

- ❖ Cannot abrogate your responsibility
- ❖ Council still needs to ensure –
  - Compliance with standards
  - Compliance with contract
  - Completeness
  - Accuracy
  - Reasonableness
  - Assumptions are reasonable
  - Work of expert is not fundamentally flawed
  - All necessary outputs have been produced
  - Results will pass audit

**Important to document  
your quality reviews as  
audit evidence**



### Asset Register

Asset Name/ID/Asset Custodian  Asset Class: Buildings Asset Type: All Asset Sub Type: All

Job: All Inspector:  Presentation last saved: Just now Suburb/Town:  Facility:  Sub-Facility:

Valuation Policy: All Valuation Type: All History: All Investment: All Controlled: All Inspection: All **Status: All** Valuer:

<input type="checkbox"/>	ASSET	CLASS	TYPE	SUB TYPE	SUBURB	FACILITY		Map
<input type="checkbox"/>	61 YOORINGA 2344	Buildings	Civic - Clubs/Community Groups	Standard	NORLANE	COMMCNTR	✓	<a href="#">edit</a>
<input type="checkbox"/>	AB WOOD RESERVE TOILET BLOCK 1	Buildings	Civic - Amenities	Basic	Lovely Banks	TLBLK	✓	<a href="#">edit</a>
<input type="checkbox"/>	ABE WOOD RESERVE HALL 30	Buildings	Recreation - Hall/Sports Centre	Standard	LOVELY BANKS	HALL	⚠	<a href="#">edit</a>
<input type="checkbox"/>	ABE WOOD RESERVE HALL (NEW) 82	Buildings	Recreation - Hall/Sports Centre	Standard	LOVELY BANKS	HALL	✓	<a href="#">edit</a>
<input type="checkbox"/>	ACCESSIBLE PORTALOO 2355	Buildings	Civic - Amenities	Basic	BELMONT	TLBLK	⚠	<a href="#">edit</a>
<input type="checkbox"/>	ALFRESCO DINING STRUCTURE 2238	Buildings	Recreation - Kiosk	Basic	GEE LONG	SHLTR	✓	<a href="#">edit</a>
<input type="checkbox"/>	ALLAMBIE STREET UNIT NO. 2 2117	Buildings	Residential - Units Single Storey	Basic	LEOPOLD	UNIT	✓	<a href="#">edit</a>
<input type="checkbox"/>	ALLAMBIE STREET UNIT NO.1 1544	Buildings	Residential - Units Single Storey	Basic	LEOPOLD	UNIT	✓	<a href="#">edit</a>

# Ensuring 'right methodology, expertise and experience'

- ❖ Internals are OK .... If.....
- ❖ Externals are OK... if .....
- ❖ Procurement needs improvement
  - Timing is critical ... too late means limited pool !!!
  - Checklist to assess methodology
  - Lowest price is not necessarily value-for-money
  - Experience and expertise (with accounting standards)
  - Proven track record is critical

Just because they are a valuer or engineer does not mean they have the right knowledge or expertise or deliver quality



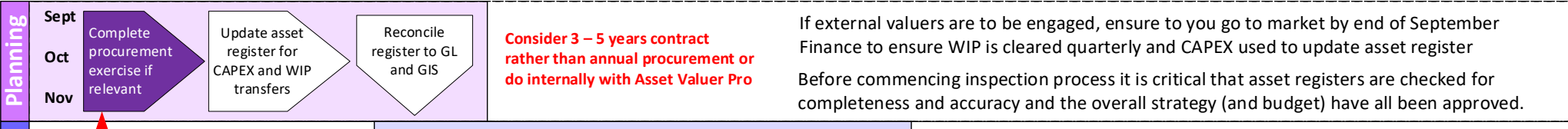
# Timelines

- ❖ Annual Process
- ❖ Plan ahead
- ❖ Think strategic
- ❖ Proactive not reactive
- ❖ Make process 'operational'
- ❖ Look for efficiencies, consistency and reduced audit risk





# Steps in the Annual Valuation Program (to be repeated annually for 30 June year end)

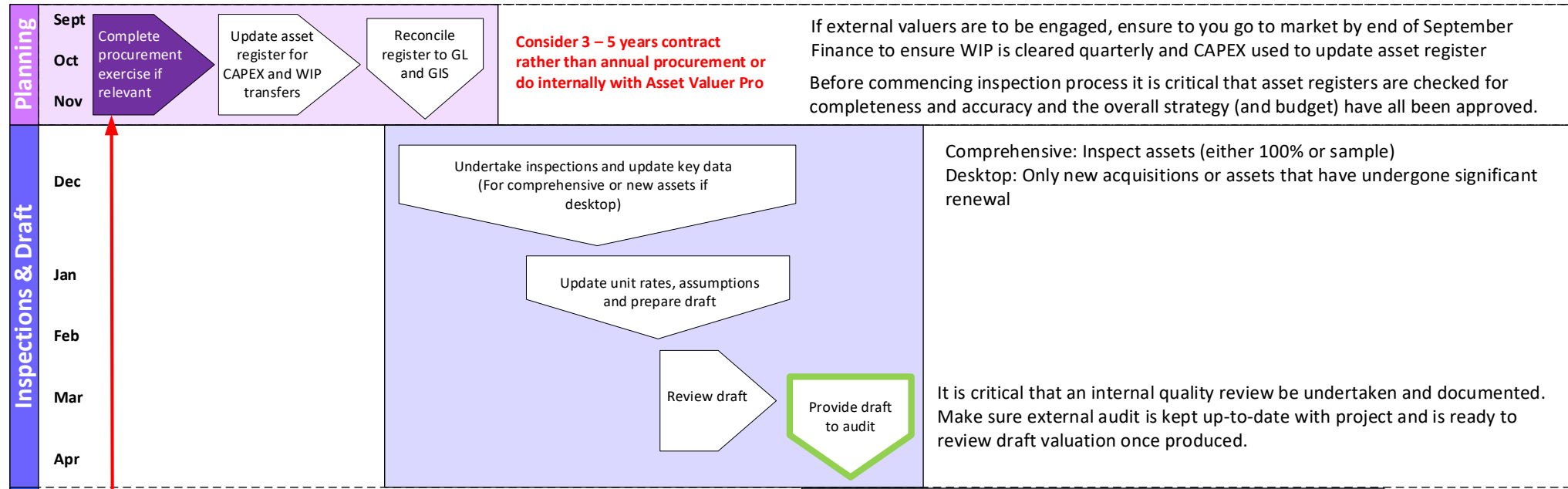


# Steps in the Annual Valuation Program (to be repeated annually for 30 June year end)



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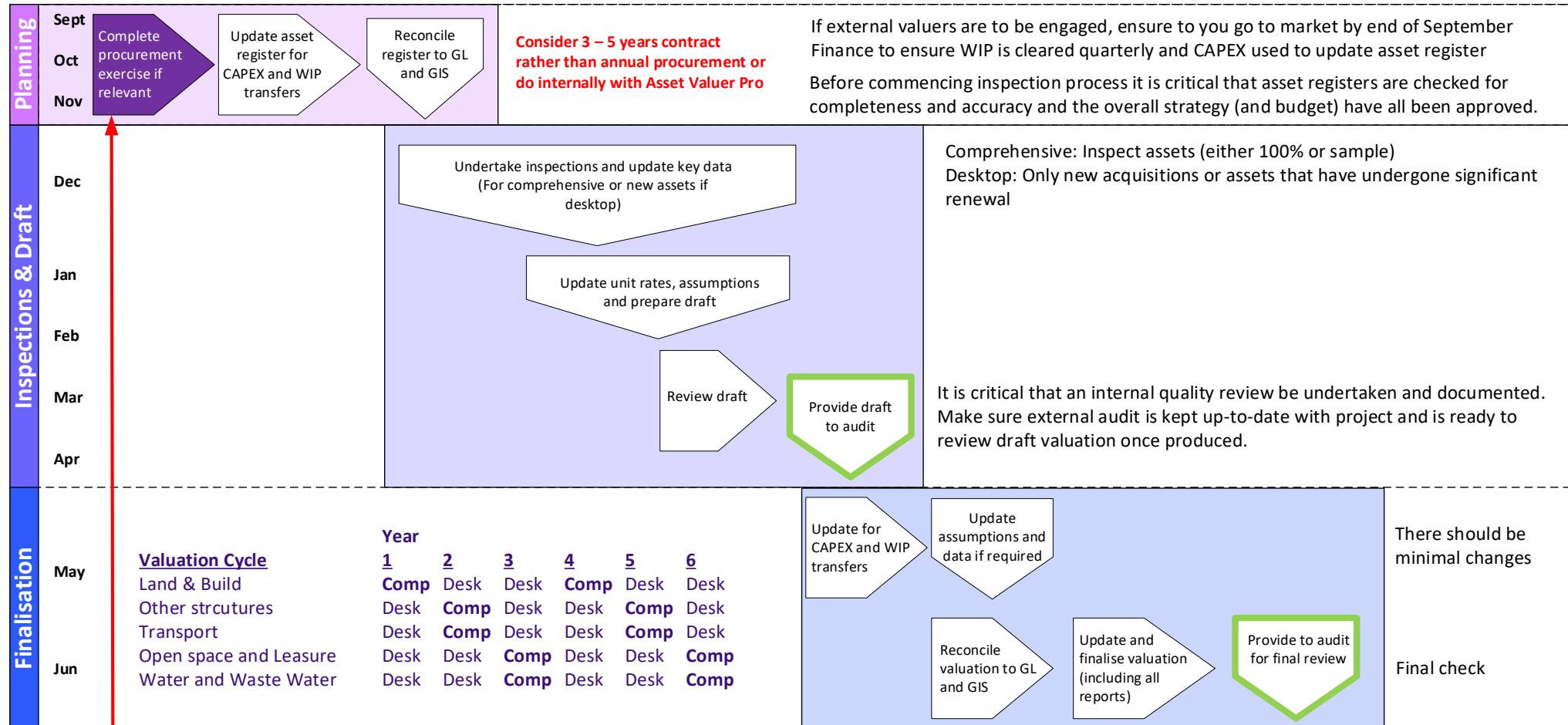


# Steps in the Annual Valuation Program (to be repeated annually for 30 June year end)



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**Valuation Cycle**

Land & Build  
Other structures  
Transport  
Open space and Leisure  
Water and Waste Water

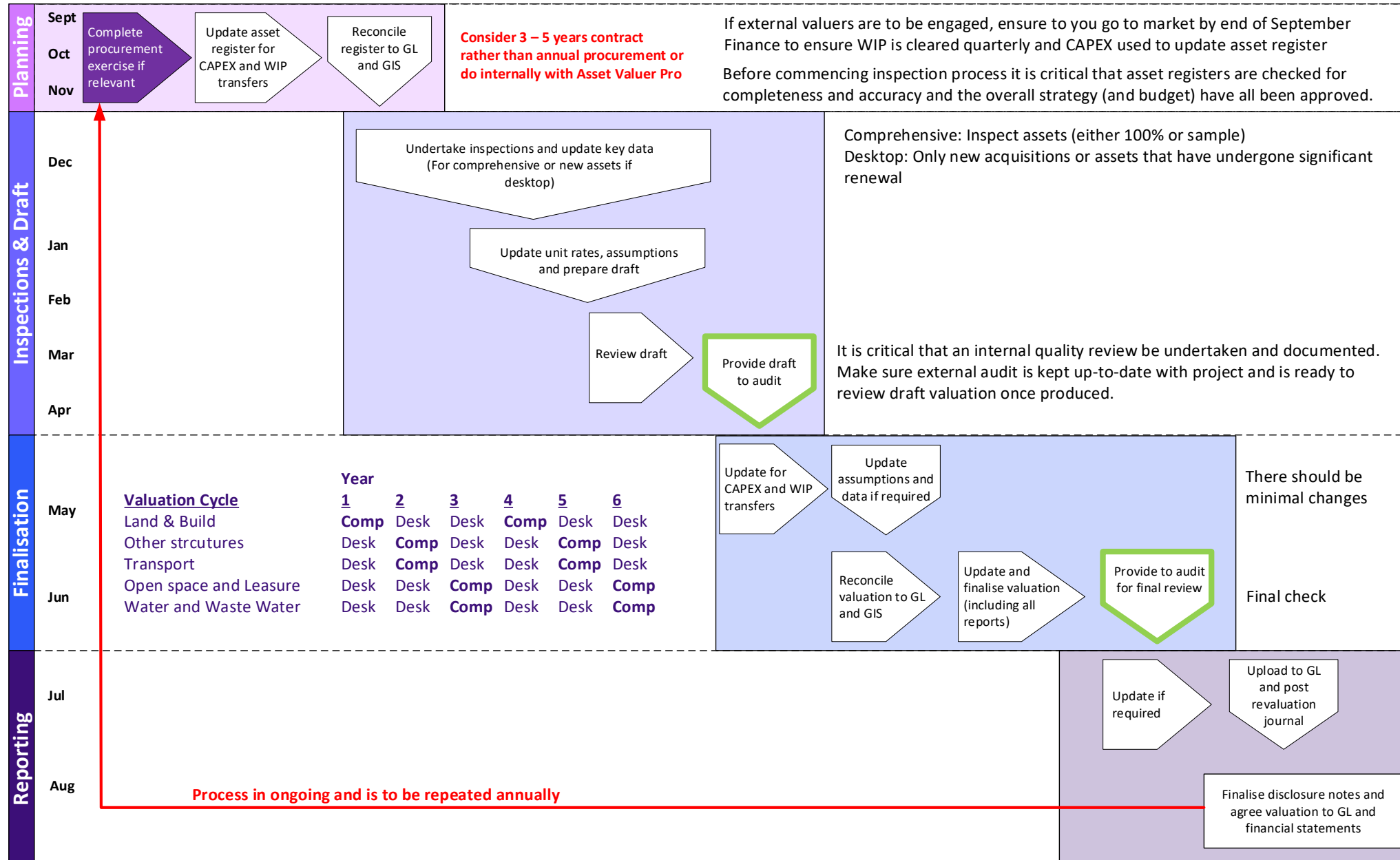
Year	1	2	3	4	5	6
Land & Build	Comp	Desk	Desk	Comp	Desk	Desk
Other structures	Desk	Comp	Desk	Desk	Comp	Desk
Transport	Desk	Comp	Desk	Desk	Comp	Desk
Open space and Leisure	Desk	Desk	Comp	Desk	Desk	Comp
Water and Waste Water	Desk	Desk	Comp	Desk	Desk	Comp

# Steps in the Annual Valuation Program (to be repeated annually for 30 June year end)



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# Solutions

- ◊ Update Non Current Asset Policies
- ◊ Review methodologies with [checklist](#)
- ◊ Undertake revaluations –
  - Comprehensive revaluations or
  - Desktop revaluation with compliant methodology
- ◊ Options –
  - External v Internal v Collaborative
  - Spreadsheet v Asset Valuer Pro
  - Procurement
    - Annual one-off or Multi-year
    - Review of qualitative factors
- ◊ Processes
  - Quality review
  - Reconciliations
  - Review of assumptions
  - Asset Registers



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# Questions



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