

2015

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BE HEARD.
BE RECOGNISED.

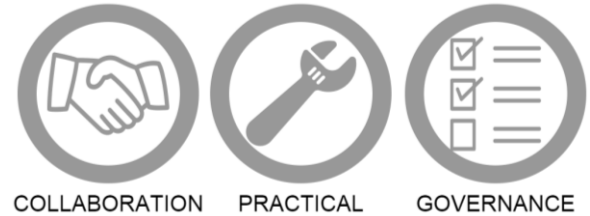


VALUING INFRASTRUCTURE ASSETS – AN AUDITOR’S PERSPECTIVE



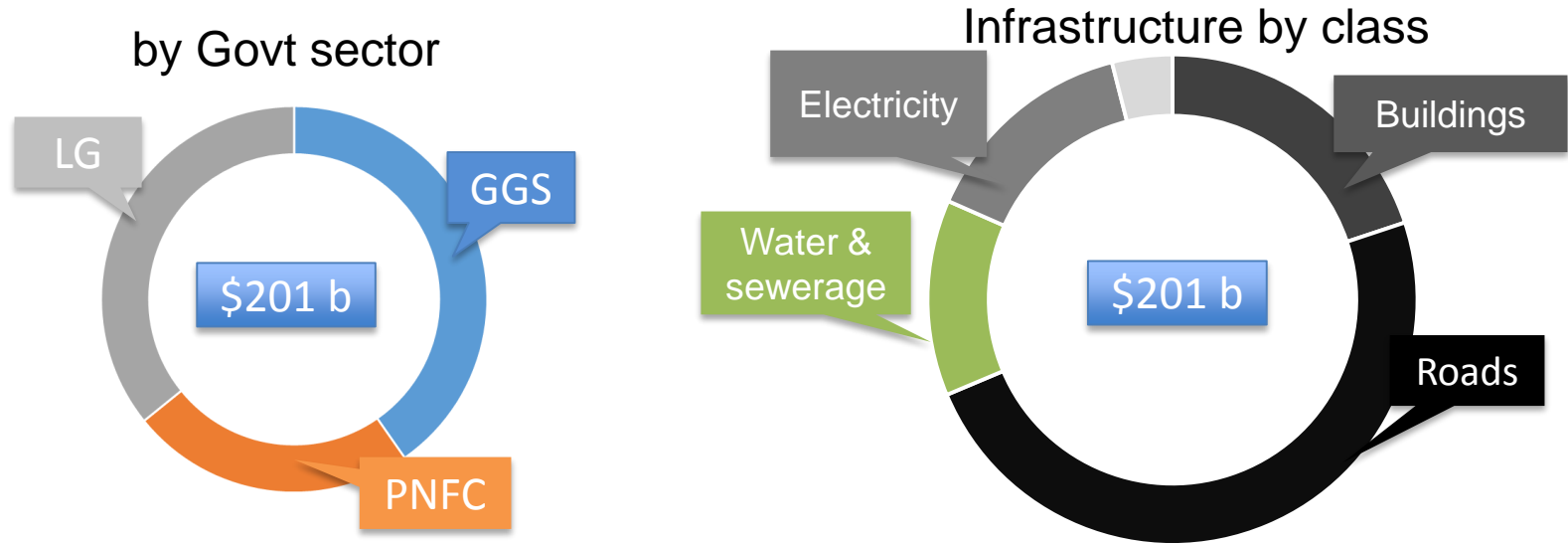
David Adams and Patrick Flemming

PRESENTATION OUTLINE



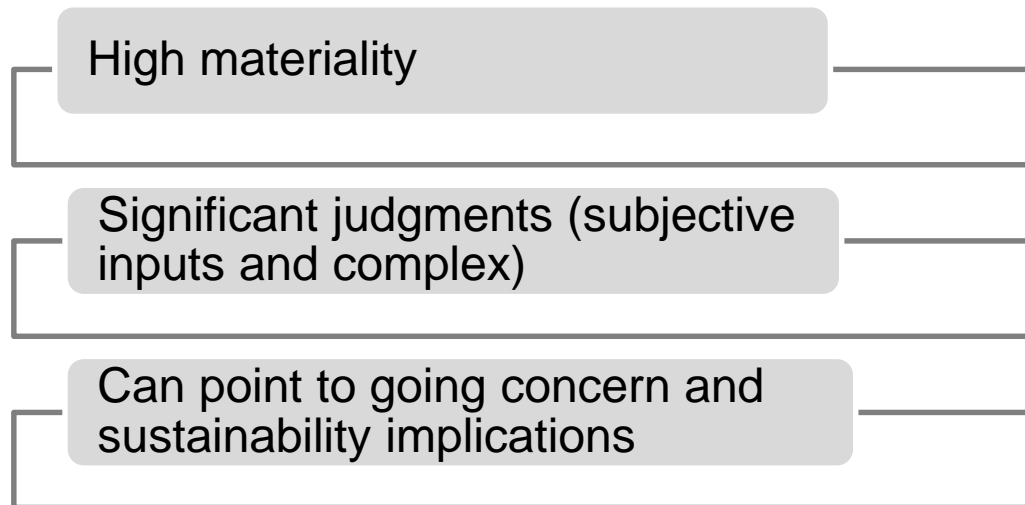
1. PUBLIC INFRASTRUCTURE – VALUE BY SECTOR
2. WHY DO WE ALL CARE?
3. USE OF EXPERTS
4. VALUATION APPROACHES
5. THE COST APPROACH
6. MAJOR ESTIMATES AND JUDGEMENTS
7. WHO IS RESPONSIBLE FOR WHAT?

PUBLIC INFRASTRUCTURE – VALUE BY SECTOR





WHY DO WE ALL CARE?





WHAT ARE OUR OBLIGATIONS?

- Obtain evidence - quantity and quality
- Evaluate valuation inputs and estimates
- Are valuations fairly stated and disclosed?



USE OF EXPERTS– ROOM FOR IMPROVEMENT

- Methodologies - not well understood or challenged
- Internal experts - not always used
- External experts - scope of work is not clearly defined
- Build consensus – early engagement with all stakeholders

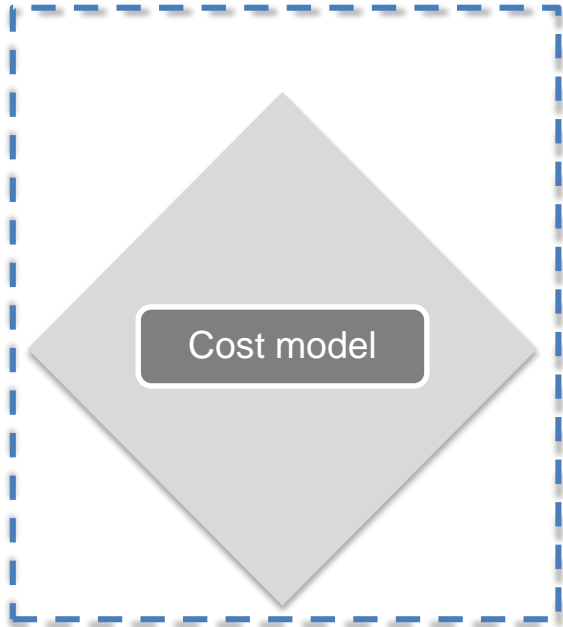
Poor instruction = poor report = poor outcome

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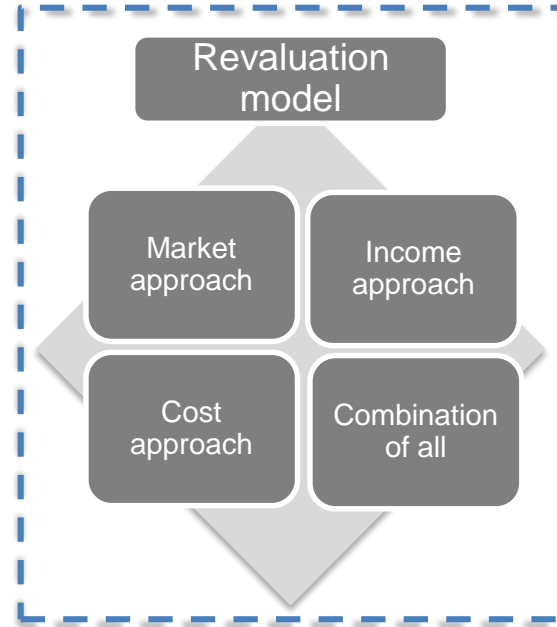
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VALUATION APPROACHES

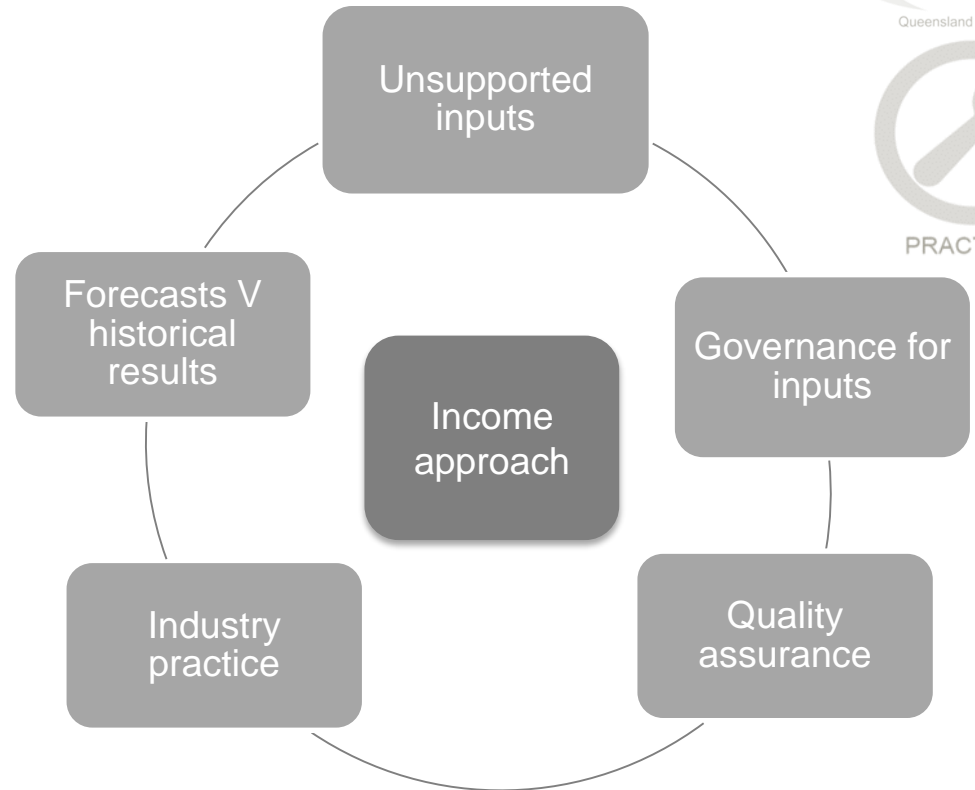


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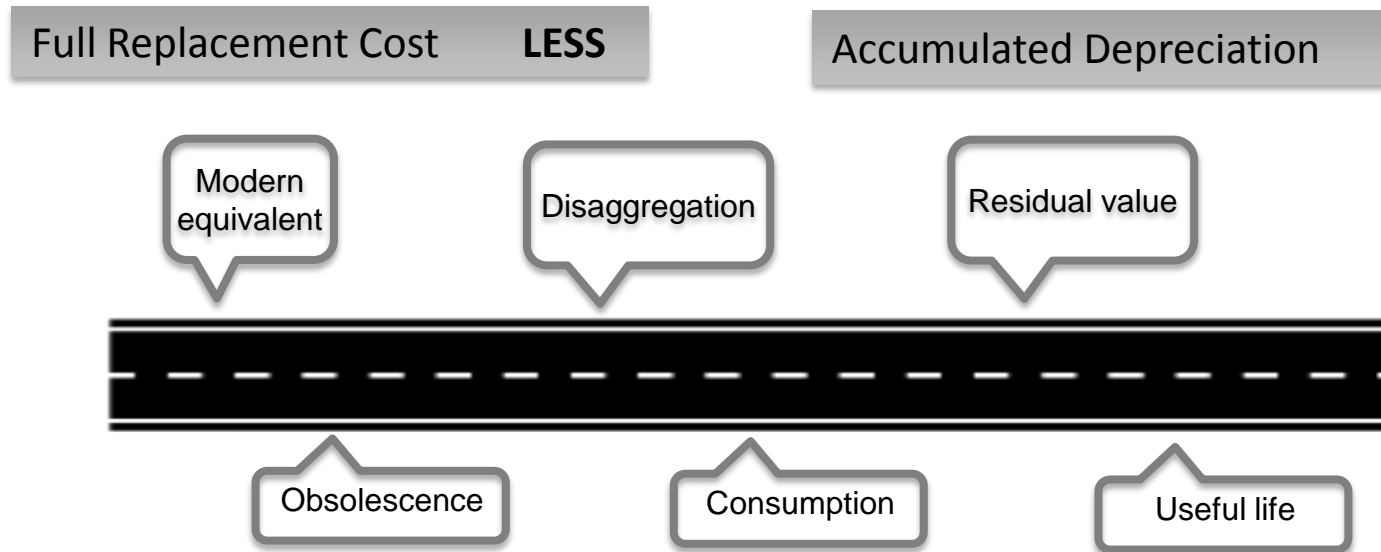


PRACTICAL

COMMON PROBLEMS



COST APPROACH TO FAIR VALUE



MAJOR ESTIMATES AND JUDGEMENTS — OBSOLESCENCE

1. Physical

2. Functional (technological)

3. Economic (external)

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MAJOR ESTIMATES AND JUDGEMENTS — MODERN EQUIVALENT ASSETS



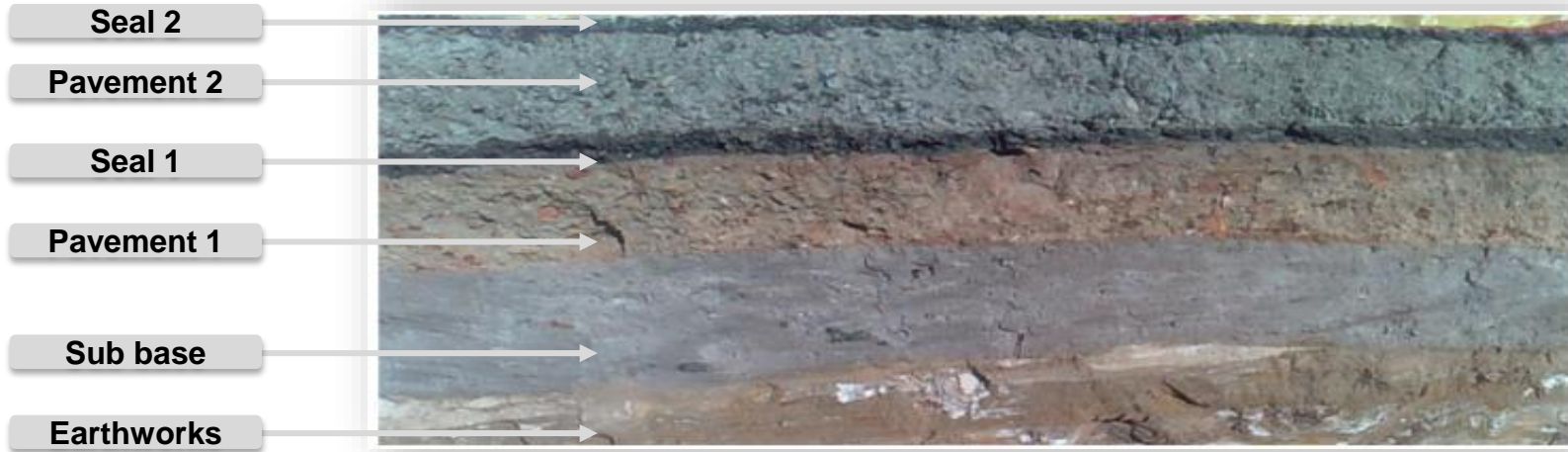
Source: <http://www.rms.nsw.gov.au/projects/key-build-program/maintenance/timber-bridges.html>

MAJOR ESTIMATES AND JUDGEMENTS — DISAGGREGATION OF ASSETS

Advantages:

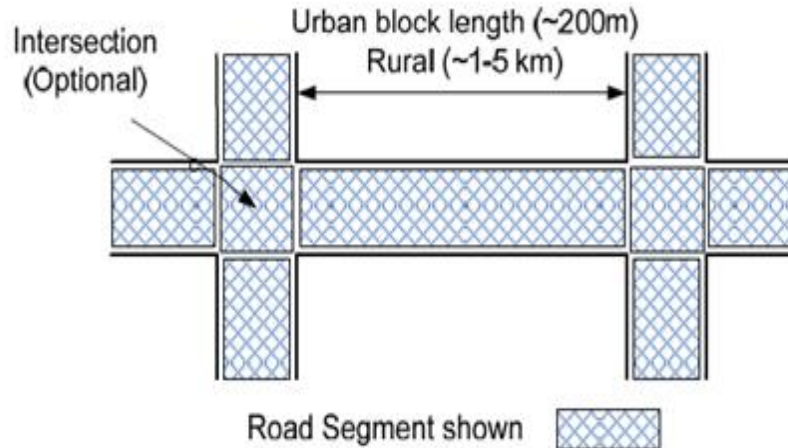
1. More precise estimates of fair value and depreciation
2. Better understanding of revaluation movements
3. Simpler and more accurate accounting for additions and disposals
4. Enhanced asset management data

MAJOR ESTIMATES AND JUDGEMENTS — COMPONENTS



Cross section view of road components

MAJOR ESTIMATES AND JUDGEMENTS — SEGMENTS



Source: Australian Infrastructure Financial Management Guidelines

MAJOR ESTIMATES AND JUDGEMENTS — DISAGGREGATION OF ASSETS — OTHER

Components and segments can be sub-classified by shared characteristics:

Urban / Level



Coastal / Mountainous



Rural / Rolling



MAJOR ESTIMATES AND JUDGEMENTS — UNIT RATES — GREENFIELD OR BROWNFIELD

Greenfield



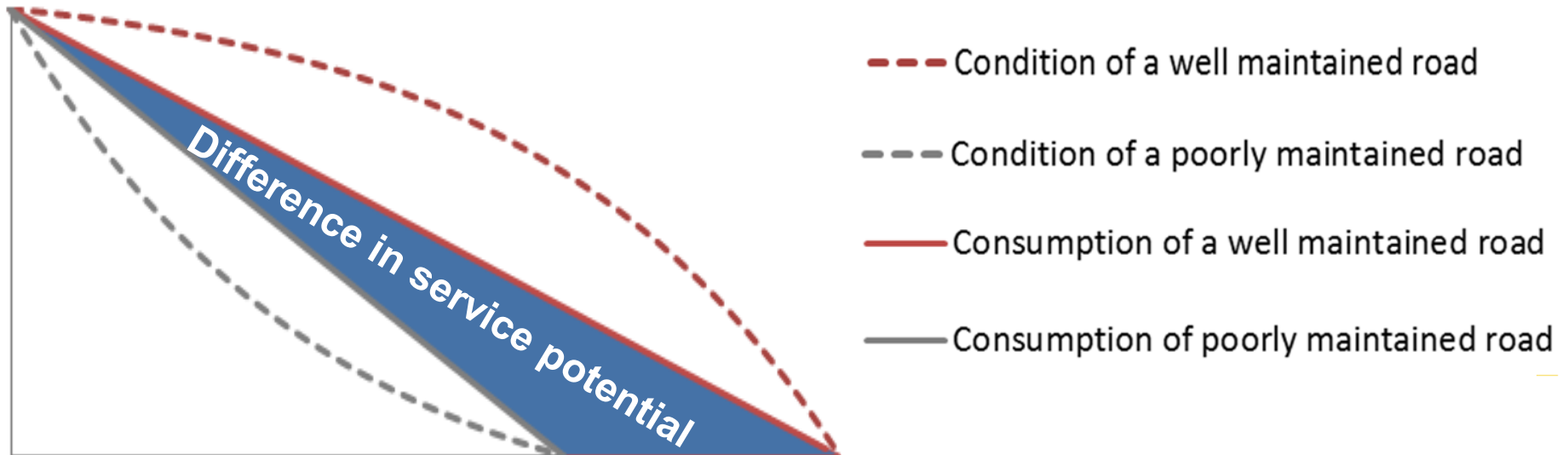
Brownfield



MAJOR ESTIMATES AND JUDGEMENTS — UNIT RATES

- Actual labour and materials costs for recent projects
- Schedules of rates supplied by developers / tenderers
- Advice from a panel of industry experts
- Unit rates by external experts such as RTA for roads, Cordell's or Rawlinson's
- Other benchmark data

MAJOR ESTIMATES AND JUDGEMENTS — PATTERN OF SERVICE POTENTIAL CONSUMED



MAJOR ESTIMATES AND JUDGEMENTS — USEFUL LIFE

- Useful life is an estimate of:
 - number of years the entity will use the asset
 - number of units expected to be obtained from the asset
- Useful lives must be reviewed by management at least every year-end

MAJOR ESTIMATES AND JUDGEMENTS — RESIDUAL VALUE

- The estimated disposal proceeds able to be obtained
- AASB decision:
 - residual value excludes savings available from recycling
 - the useful life of recyclable assets is their full life to the entity
- Residual values must be reviewed at least every year-end

ROLE OF MANAGEMENT

- Develop a revaluation plan
- Monitor internal and external experts
- Understand key judgements and estimates
- Prepare an informative summary report

ROLE OF THE AUDIT COMMITTEE

- Build revaluation into the meeting schedule
- Review and approve the revaluation plan
- Monitor progress
- Review reasonableness of judgements, estimates and outcomes

TAKEAWAY THEMES



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QUESTIONS



Presentation will be available at:

Linked in

“Queensland Audit Office”

Or contact:

David.Adams@gao.qld.gov.au

Patrick.Flemming@gao.qld.gov.au

Tel: 07 3149 6000