



**INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF UGANDA**

**INFORMATION PAPER ON
VALUATION OF PUBLIC SECTOR ASSETS**

JUNE 2022

INFORMATION PAPER ON VALUATION OF PUBLIC SECTOR ASSETS

Purpose

This publication has been prepared to guide members of the public sector. The focus is on the valuation and depreciation of public sector assets under the international accrual-based accounting standards, to facilitate a consistent and cost-effective approach across the public sector.

Disclaimer

The paper should be utilized in light of the facts and circumstances involved in the public sector entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is published.

ICPAU disclaims any responsibility or liability that may occur, directly or indirectly, as a consequence of the use and application of this paper.

Contents

Purpose.....	2
Disclaimer.....	2
Contents.....	3
1.0 INTRODUCTION.....	4
2.0 THE FINANCIAL REPORTING FRAMEWORK.....	4
2.1 Overview	4
2.2 Preparation of financial statements	5
3.0 VALUATION	5
3.1 Valuation Requirements.....	5
3.2 Inconsistency with International Valuation Standards (IVS)	20
4.0 PREPARING FOR VALUATION	20
4.1 Preliminary Planning and Timeframes.....	20
4.2 Establishing Appropriate Accounting Policies	21
4.3 The Asset Register	21
4.4 Setting, Validation, and Re-assessment of Assumptions and Methodology	23
4.5 Choosing the best Valuation Strategy.....	24
4.6 Qualifications, Expertise, and Experience of the Valuation Team.....	25
5.0 POST-VALUATION CONSIDERATIONS	26
5.1 Post-delivery Evaluation	26
5.2 Uploading Valuation Data	27
6.0 VALUATION AND ASSET MANAGEMENT	27
7.0 VALUATION AND DEPRECIATION	28
8.0 AUDIT CONSIDERATIONS.....	30

1.0 INTRODUCTION

Valuation for purposes of financial reporting is the process of valuing a company's assets and liabilities under Generally Accepted Accounting Principles (GAAP), which for the sake of the public sector are the International Public Sector Accounting Standards. Financial Reporting Standards often introduce significant changes to the way that accounts must be prepared and presented, requiring a wider range of assets to be valued on an annual basis.

This paper has been specifically developed to provide guidance with respect to the valuation and depreciation of public sector assets under the requirements of the international accrual-based accounting standards. The focus is directed towards asset-intensive entities rather than commercialised business units that are operated as for-profit entities. These entities are responsible for a large range and volume of assets representing a highly significant investment of public or partly public-funded resources.

Over the years, there has been recognition of the need to improve asset management practices in the public sector. This recognition has come about as a result of the combination of increased pressures to provide broader and improved services to the public, focus on sustainability of services, aging infrastructure, and restrictions on the availability of funds at the disposal of these entities.

In many respects, the adoption of accrual accounting and the subsequent need to value the assets has proven to be a key catalyst in the drive for enhanced asset management practices. In its basic form, the financial reporting valuation process will provide the mechanism to identify and validate the location and condition of assets, resulting in key data to be used within the asset management framework and providing a quick understanding by the public of the assets controlled by the public sector.

2.0 THE FINANCIAL REPORTING FRAMEWORK

2.1 Overview

The public provides the funds (taxes, rates, fees and charges, donations) to enable public sector entities to provide services. To provide a level of transparency and accountability regarding how these funds have been utilised by the entity, they are required to produce annually a set of financial statements based on prescribed requirements (including specified accounting standards), and for these financial statements to be independently audited by an external auditor.

The objective of financial statements is to provide information about the financial position, performance, and changes in the financial position of an entity that is useful to a wide range of users in making economic decisions. Financial statements prepared for this purpose meet the common needs of most users.

Financial statements also show the results of the stewardship/ accountability of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they may make economic decisions, which decisions may include for example whether to hold or sell their investment in the entity or whether to re-appoint or replace the management.

2.2 Preparation of financial statements

The financial statements are prepared in accordance with a financial reporting framework including a range of accounting policies that are formed by accounting standards together with any specific prescribed requirements.

In the case of Uganda's public sector, there are specific instructions/ guidelines issued by the Treasury - given responsibility to develop and issue accounting policy direction. These instructions are often consistent with the accounting standards, but also provide for some specific treatments or additional disclosures. The scope of application of the Treasury Instructions is the General Government Sector, which comprises all votes and constitutional institutions. The Instructions also apply to public corporations and state-owned enterprises where this has been expressly stated.

The role of standards and jurisdictional prescribed requirements is to set the rules over the form and content of the financial statements and in particular to set rules regarding the accounting treatment and disclosure for particular types of transactions. From time to time, the accounting standards are reviewed and enhanced to reflect treatments for emerging issues. This may include the development of new standards, changes to existing standards, or the issue of guidance.

3.0 VALUATION

3.1 Valuation Requirements

Under the accounting standards, the valuation of assets can be provided by either of two methods:

i) Cost/ Historical Cost Model

Under a historical cost model, the financial statements record movements in the value of the assets as a consequence of:

- initial and subsequent costs;
- interest on borrowings used to acquire the asset (where this is a policy/requirement);
- depreciation expense; and
- impairment.

ii) Revaluation Model/ Fair Value

Under the revaluation model, the asset is initially recorded at historical cost and after allowing for depreciation expense, the asset's value is later reassessed to the fair value. Any adjustment to the carrying amount is then adjusted to the new fair value. Increments in value are typically recorded as adjustments to equity (asset revaluation reserve) in the balance sheet and reductions are posted as an expense in the profit and loss (except to the extent that they reverse a prior period increment).

In the public sector, most jurisdictions mandate the use of the revaluation model for material assets (land, buildings, roads, water, sewerage, public and miscellaneous infrastructure). However, some entities and jurisdictions continue to use historical cost. In practice, even where the accounting policy only requires the use of the historical cost method, many entities still undertake an assessment of the fair value of their assets to assist with internal decisions.

The guidance provided in this publication assumes that the assets are to be valued using the revaluation model (also known as fair valuation). The fair value method provides significant advantages over historical cost accounting for public sector assets because the information provided in the financial statements affords the users of the financial statements a greater understanding of the value of assets controlled by the entity and the performance of the entity.

The background to fair valuation was in many respects a consequence of the Global Financial Crisis. At that time, many companies held investments on their Balance Sheets (which had also been audited) and were purportedly valued at market or fair value. With the collapse of the share market and sub-prime mortgage market, the values of many of these assets were in retrospect extremely over-valued.

The accounting standard setters then decided that there needed to be a better system to allow readers of the financial statements to be able to make their assessments about how much reliance they could place on valuations. They recognised that some values were indisputable as they were evidenced by open share market trading. They also recognised that some assets required professional judgment but could be supported by observable evidence, and the balances were then essentially based on a range of assumptions and as such constituted increased risk.

The response from the standards-setters was to introduce the fair value accounting standard - IFRS 13 for the private sector. The International Public Sector Accounting Standards Board as part of the April 2019 Measurement Consultation Paper, had a preliminary view that the fair value guidance in the proposed measurement standard should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The views of the Board were strongly supported by respondents around the world.

Fair value accounting requires a range of detailed disclosures, including:

- Identification of ‘asset classes’, based on highlighting those assets that were valued based on different methodologies, approaches, assumptions, characteristics, or risk. Each asset class is then classified by the approach used and the level of the valuation hierarchy.
- The valuation hierarchy to be based on the associated risk-
 - Level 1 - quoted price (zero risk)
 - Level 2 - Observable evidence (low to moderate risk)
 - Level 3 - Non-observable evidence (high to extreme risk)
- Each asset class to be reconciled back to the Balance Sheet so that the reader could be sure the statements provided sufficient information on all assets subject to valuation
- For level 2 and 3 asset classes all significant inputs be identified and classified as level 1, 2, or 3, and details provided of the valuation techniques and underlying methodology.
- For all significant level 3 inputs (assumptions), details are provided about where it came from (how it was developed?), how it was evaluated for reasonableness, and quantitative information about the assumptions (e.g. min and max range)

3.1.1 Segmentation

Some assets are identifiable as completely separate (for example buildings), whereas others form part of a larger network or facility. This is especially so for lateral assets such as roads and pipes. For both asset management and valuation purposes, the overall assets must be separated into segments, with each segment recognised as a separate asset within the asset register. This allows the asset to be managed at a level that takes into account different dimensions, materials, conditions, and treatments.

3.1.2 Componentisation

Assets comprised of several significant parts, which have different values and exhibit different useful lives or depreciation methods, are to be depreciated separately. This is commonly referred to as componentisation and is a critical aspect of ensuring the valuation is meaningful and accurate and can be used as a key input to the asset management planning process.

3.1.3 Valuation Approaches

Where assets are valued on a fair value basis, there are three distinct valuation methods. Depending on the circumstances, the valuer will need to select the appropriate approach or potentially use a combination of approaches. These include:

1. The Cost Approach

The bulk of assets controlled by public sector entities would typically be valued using the cost approach. This approach is commonly referred to as the Current Replacement

Cost (CRC). For specialised assets that are not commonly traded in the open market (such as public sector infrastructure, hospitals, schools, and associated specialised buildings), as well as assets such as land where there is no active and liquid market (for example parks), the valuation is typically done using the cost approach.

The valuer needs to determine the replacement cost and then based on consideration of the pattern of consumption, residual value, and other relevant indicators, determine the value of the level of remaining service potential. As determining the level of depreciation consumed to date is a critical aspect of this approach, the correct application of depreciation concepts embodied within IPSAS 17 is paramount.

Componentisation of assets valued using the cost approach

For these assets, the components should be selected based on the realities of the asset management planning process. In particular, consideration should be given to which components of the overall asset are managed separately from other parts and what types of treatments are used to maintain and renew the asset through cyclical maintenance and renewal.

This provides clear evidence of the parts that have different useful life and depreciation methods as well as significant costs. The information gained from this analysis will guide how the asset should be disaggregated down to its component parts. For example, based on typical lifecycles and asset management treatment regimes, a road is typically broken into the following components: formation or earthwork (sometimes these are further separated); pavements; and surface. This may then be supported by additional assets linked to the road such as kerbs and guttering; footpaths; traffic signals; traffic management devices; retainer walls; e.t.c.

This split is logical and enables the data (such as conditions and specifications) to be collected as part of the valuation exercise to feed directly into the asset management planning process. To identify components, consider how the asset is managed from an asset management perspective and what parts comprise a significant cost but have a different useful life, give consideration to the following:

- Is cost significant (as a proportion of the whole asset) and does it exceed the capitalisation threshold?
- Has it a different useful life or pattern of consumption of future economic benefit (all parts within the component should have the same life and pattern)?
- Is the component separately identifiable, measurable, and able to be separated from the complex asset?
- Is it replaced or renewed at regular intervals or is it a sunk cost?
- Is it managed with specific capex treatments relatively independent of other components; and

- Due to risk or criticality does it need to be separated for asset management planning?

The first step when using the cost approach is to calculate the replacement cost (RC). This is the cost of replacement before allowing for adjustments for accumulated depreciation and accumulated impairment. The calculation for this will differ depending upon: the nature of the asset; components; construction techniques; whether the entity would reproduce the asset or replace it with a modern equivalent; whether any sunk costs need to be taken into consideration; and allowance for any decommissioning or reinstatement costs.

Data to determine the gross replacement cost will be obtained from a range of sources, including recent actual construction contracts and prices; similar or reference projects in other locations; industry construction guides; and theoretical first principles designs.

A critical part of the calculation will be its format and how the various variable costs are incorporated into the overall gross replacement cost for each component. For example, is the calculation based on: a dimension by unit rate, a combination of various costs, apportionment across various components, or how much allowance is made for different levels of quality or design specification?

Determining the assumed gross replacement cost (GRC) will require extensive professional judgment and may include the engagement of an appropriate external expert (such as a valuer or engineer). It is important that sufficient and appropriate audit evidence to support the gross replacement cost is properly documented. As a consequence, consideration needs to be given to whether the evidence is based on the total asset level and apportioned over the components, or developed at the component level and, if so, can it be based on data at a summary component level or does it need to be a complex calculation based on the subset of pieces that make up the component? Similarly, consideration needs to be given to adjusting the difference in service potential between the existing asset and the potential replacing modern equivalent.

2. Valuation using Market Approach

The market approach to fair value should be used only where there is an active and open market (such as for residential property) or there is existing market evidence for the sale of similar assets. Sometimes the market inputs will be based on a quotation system (such as for shares) where a quoted price is provided for homogenous assets and the purchaser either agrees to purchase at the quoted price or is unsuccessful in acquiring the asset. This is an example of a Level 1 (Quoted Price) market input.

However, for most public sector assets valued using the market approach the price is based on a comparison to other, similar assets for which the market inputs are then adjusted to take account of condition and other comparability factors. This might

include, for example, the market price for properties and evidence of construction costs. These are examples of Level 2 (Observable) market inputs.

The market approach is normally determined by comparison to actual sales data for the same or similar assets. The valuer would normally identify a range of similar assets, adjust for differences in the assets, location, market, and the timing of the sales, and provide a professional judgment of the expected value. Reference may also be made to appropriate cost guides that provide industry or sector data on sales prices achieved for specific asset types. Examples include used motor vehicle price guides.

Componentisation of assets valued using the market approach

The determination of appropriate components for assets valued using the market approach is a process that requires considerable professional judgment. This is because the underlying value of the asset may bear no relation to the physical condition of the significant parts that comprise the cost to construct the asset. As a consequence, there may be no identifiable connection between the remaining useful life of the various parts and the assets' level of remaining service potential (fair value).

Nevertheless, due consideration needs to be given to componentisation. Some entities choose to adopt the same components for buildings valued using the market approach as they would use for buildings valued using the cost approach and allocate the market value across the various components using an arbitrary allocation. However, some treat the asset as having only one component on the basis that they are not significant parts that (if they were depreciated separately) would result in a materially different estimate of depreciation expense. Typically, however, there would be a separate component for each part that can be bought and sold independently of the other parts. A good example would be a commercial building comprising several separate strata titles. Each strata title could be bought and sold independently of the others and has its own cost (value).

The evidence to support the valuation needs to be documented and made available to the auditor to enable the auditor to obtain sufficient and appropriate audit evidence. The approach taken (valuation techniques and inputs) also needs to be disclosed in accordance with the fair value accounting standard.

3. Valuation using Income Approach

The income approach is usually used only for specific income-generating assets such as commercial buildings and business operations (cash-generating units). The value of the assets is dependent on the asset's cash-generating capability. The process to determine fair value is based on the Net Present Value or Discounted Cash Flow approach.

Componentisation of assets valued using the income approach

Fair value is based on the overall income-generating capability. However, the value needs to be allocated against the individual assets to enable depreciation calculations. For these types of assets, the total value is then allocated proportionally across the individual assets. The various depreciation assumptions are applied against each asset to then determine the amount of depreciation expense.

3.1.4 Guidance for Specific Asset Types

Many public sector entities control vast portfolios of physical and intangible assets, which they use to deliver services to the public. These may include land and buildings, plant and equipment, infrastructure such as roads, footpaths, drainage, bridges, water infrastructure, sewerage infrastructure, marine assets and airports, hospitals and health care, educational facilities such as schools, and universities, heritage assets, and software systems.

The following guidance is provided for a selection of these different asset types. It is important to note that the following guidance is provided based on typical or common approaches. Ultimately it is the responsibility of the entity to adopt an appropriate approach given the entity's particular circumstances and requirements.

a. Land

i) Land that can be traded in an open market

Land that would require what is known as freehold title can be openly traded. It may also exhibit indicators of some form of impairment, such as being flood-prone or contaminated. This type of land would normally be valued at market value by a valuer. In doing so the valuer will take into account restrictions in its use, the underlying characteristics of the land, and potential alternative uses that other market participants might see as a higher and better use (after taking into account issues of legal feasibility, financial costs and likely returns, etc).

For example, a site may have been traditionally used as a church and child care facility. In undertaking the valuation, the valuer will consider whether that site could also be used as a residential or commercial development (notwithstanding that this might require a range of legal, planning costs, and construction costs).

ii) Land that cannot be traded in an open market

In the public sector, a significant amount of land is designated as crown land or reserve or has specific restrictions placed upon it that preclude it from being traded in the market. Because the asset cannot be traded in an open market it would be inappropriate to use a 'market' approach. Accordingly, the valuation will be based on either the income approach or the cost approach.

The income approach should be used only if the value of the land is primarily dependent on its income-generating capability. The use of discounted lease streams to provide access to sections of the community that could not afford to pay the lease at a full market rate would indicate that the value of the asset will not depend on its cash-generating capability, nor is it an orderly transaction.

Otherwise, the bulk of this type of land needs to be valued using the cost approach. This requires gaining an understanding of the characteristics of the land and determining how much it would cost to acquire it if it were owned by a third party and you had to purchase it from them. The cost should be the same as the market value of the site assuming it was available for sale (therefore it must be held in freehold title) and not subject to any restrictions. A good example that demonstrates this is a piece of land owned by a council being used as a community park and has been classified as 'community land' meaning that it cannot be sold and as it has a range of restrictions in place regarding its use.

b. Buildings

In the public sector, buildings are classified as being either general purpose or special purpose.

i) General purpose buildings

These are buildings that are normally available for purchase in the open market. Examples include Residential houses and units traded in an open market, Office blocks (on freehold title), Commercial buildings (on freehold title), Warehouses or industrial buildings (on freehold title), and Commercial child care (on freehold title), and Investment properties.

The market approach will need to be determined for the entire site (including all structures, land, and improvements) as the market evidence of sale includes the entire site. Having determined the overall market value of the site (either by direct market comparison or using the income approach), the valuer needs to determine the value of the land component. This is typically done using the vacant land rate. Once determined the total site value needs to be allocated against the land and buildings. The difference between the overall market value and the land component is the building part.

The determination of components can be quite problematic for buildings valued using the market approach. This is because there may be no direct link between the condition of the various components and the overall value of the property. In other words, there may be no nexus between the level of remaining service potential (market value) and the rate of consumption of that service potential (depreciation) at the component level. For this reason, some practitioners prefer to componentise the asset at the level where a component has its own market value (often referred to as being separable). For example, if the property was a block of units or terrace houses, as each unit could be

independently bought and sold, each unit would be classified as a separate component. The same would apply for strata title units in a commercial building. In some circumstances (such as when the units will not be made available for individual sale), it may be appropriate to value and depreciate the entire building as one asset.

ii) Special-purpose buildings

On the other hand, special-purpose buildings include those constructed for a specific purpose that are not normally available for purchase in the open market. These typically comprise buildings and structures that are constructed with special properties or designs, built-in specific locations, or on non-freehold land, which means these assets cannot be bought and sold in an open and liquid market. These assets may comprise an overall facility that delivers a particular service to the community, in which case they need to be valued using the cost approach. Examples include hospitals, prisons, council administration buildings, courthouses, aquatic centers, and works depots.

These types of assets can become quite complex. There may be several different buildings or other structures on the same site; one building may sit on several different land titles, or multiple assets may sit across a range of separate land titles. The types of assets on the site may include a range of buildings as well as a range of other structures such as carports and pergolas; footpaths; fences; retainer walls; swimming pools; sport or recreational facilities; and water features; hardstands and parking areas; landscaping and gardens; and security lighting. The valuer must identify the assets within the facility, and each of these should be valued as a separate asset with its own features, characteristics, condition, costs, and depreciation. Together these comprise the total cost of the facility.

It should be noted that there is no clear definition of the difference between a building and a structure. It is up to the entity to determine this as part of the asset hierarchy. However, in the valuation industry, it is standard practice to differentiate buildings from other structures by the existence of a roof.

c. Infrastructure Assets

i) Road Infrastructure

Road infrastructure typically comprises a range of different asset types, which due to their different nature, characteristics, and asset management regimes, should be classified as different asset classes. These include roads; bridges; culverts; channels; traffic signals; traffic management devices; road signs; street lighting; footpaths and cycleways; and drainages.

The bulk of these types of assets is commonly referred to as lateral assets because they stretch for some distance. As such these assets need to be segmented. Each segment should be homogeneous in that it should comprise the same characteristics (such as

width and material) and have the same condition across the entire segment. Once the overall portfolio is segmented into these different sub-populations, the valuation can then be performed efficiently using a range of assumptions.

In an urban environment, it is usual to break the segments of a lateral asset, e.g., a road, into intersections. However, in a rural environment, the distance between intersections may be long, with the road experiencing significant changes in the underlying characteristics and conditions. In this situation, it is advisable to set a maximum segment length and to set in places smaller segments where that part of the road network is expected to have a different consumption pattern from other parts.

The gross replacement cost will be determined by one or a combination of:

- recent construction costs by the entity or a similar entity;
- details provided from an industry construction guide;
- benchmarks against similar entities; and
- valuer's in-house cost databases.

The source of data and process used to arrive at the final cost needs to be well documented. Due consideration also needs to be given to the:

- factors that drive the economic consumption of the asset and each component;
- likely pattern of consumption of future economic benefit for each component; and
- likely asset management treatments and the subsequent impact on useful life and residual value for each component.

The drivers of consumption are usually holistic (such as functionality, capacity, utilisation, obsolescence, safety, and traffic congestion) and component-specific (such as physical condition and maintenance history). Typically, as roads age, the impact of the holistic factors becomes more important. Similarly, over the past 100 years, the volume, size, and weight of vehicles has also increased, leading to the need to design bigger and better new roads or undertake significant renewal work on existing roads. Often this may also lead to the construction of new infrastructure to relieve the stress on the existing network or solve specific traffic congestion issues.

Once assessed, the above factors and the assessed pattern of consumption of future economic benefit need to be documented and used within an appropriate valuation and depreciation methodology to determine the level of consumed future economic benefit (accumulated depreciation) and depreciation expense.

For some asset types (such as bridges and road pavements), there is a range of sophisticated engineering modelling tools which are used on a day-to-day basis to model, assess, and manage the respective assets. Some are based on degradation profiles which are correlated to an estimated remaining useful life, whereas others adopt more sophisticated valuation and depreciation models. These in turn can be used

to value and depreciate the asset ensuring that the engineering asset managers and asset accountants use the same source data.

ii) Other infrastructure assets

The process for all other infrastructure (such as water and sewerage infrastructure, marine assets, major civil assets, major fences, barrier walls, etc) is the same as for roads. It includes the identification of the appropriate:

- segments;
- components;
- costs;
- factors that drive the consumption;
- asset lifecycle and treatments, and the subsequent impact on useful life and residual value; and
- valuation and depreciation methodology.

d. Networked Assets

There is a range of different definitions for what comprises networked assets. For the purpose of this guide, they are defined as *Interconnected assets that rely on each other to provide a service and if a network asset is removed the system may not function to full capacity*. Common examples include:

- Electricity distribution network
- Sewerage and wastewater network
- Bulk water supply network
- Information Communication Technology network
- Traffic signals and live camera control systems

Depending on the nature of the entity and purpose for operating the assets, the approach to valuation may be different.

i. Income generating

Some public sector entities are fundamentally not-for-profit but may operate a network of assets as an independent business unit to generate income. These would include commercialized water business units. Likewise, some public sector entities operate in the commercial world as for-profit entities and sometimes in competition with private sector entities. Examples include electricity generators, distributors, and retailers. These types of assets are operated to generate profits and as a result to return dividends to the owning entity. As the primary objective is the generation of profits these types of networked assets would normally be valued using the 'income' approach.

ii. Service Delivery

Many public sector entities operate assets where the principle objective is not the generation of profit, for example, a local government may provide water and sewerage services to their community as part of general council business. While they may recover

fees through a general service charge, there is an expectation that the service will continue to be provided even if the revenue received is lower than the cost to provide the service. Likewise, an entity may provide services over a wide geographical area and as a consequence of its remote and dispersed locations operate via an extensive information and data technology network. Such a system may be connected wirelessly, via designated cable, or even via private or public cloud facilities. It may include a range of servers, communication equipment, routers, and personal computers.

As the primary purpose of these networks is not the generation of profit it is unlikely that either the 'market' or 'income' approaches would be appropriate to value the network. These are normally valued using the 'cost' approach. While the assets would normally be valued at the individual asset/component level (for example - pipes and pits, routers, servers, etc), consideration needs to be given to the nature of the service being delivered and whether there is a less costly alternative delivery mechanism. In determining the gross replacement cost, due consideration needs to be given to the cost of the modern equivalent and consideration of technical and functional obsolescence.

e. Plant and Equipment

Entities will have a range of assets, which are typically grouped together as plant and equipment. Examples include Motor vehicles, Trucks (including specialised attached equipment), Earthmoving and large equipment (graders, dozers, bobcats, front end loaders, etc), General plant (tractors and implements, large generators, forklifts, dingos, pumps, quad bikes, etc), Minor plant (brush cutters, mowers, tools, drills, grinders, lathes, etc), Furniture and fittings (tables, desks, chairs, shelving, compactus, etc), Office equipment (photocopiers, kitchen appliances, window-mounted air-conditioning, etc).

Because this is a 'catch-all' asset class, it contains a range of different types of assets and may result in the need to apply different approaches to the valuation. For example, some items (such as motor vehicles and some trucks) are traded in an open and liquid market and therefore it would be most appropriate to value these assets using the market approach. In contrast - a truck that has been heavily customised for a specific purpose (such as a fire appliance) may be more appropriately valued using the cost approach.

Given that for many asset-intensive public sector entities the total value of plant and equipment is often very low when compared to the other assets (land, buildings, and infrastructure), due consideration must be given first to setting an appropriate accounting policy. For example, it may not be cost-effective to value all of these assets at the fair value given the large number of assets required to be inspected and the relatively low value of many of these assets. Although not directly addressed by

accounting standards, this issue is typically managed via the creation of a policy that specifies different valuation and depreciation approaches for sub-classes of assets, depending upon the relative materiality levels and risk of material misstatement. This approach is acceptable provided the information included in the financial statements is not significantly different as a result.

These assets are defined as being an either minor or major plant:

- i. Minor: these are items of plant and equipment that do not satisfy the definition of a major item of plant and equipment. Typically, these are recorded at historical cost and depreciated on a straight-line basis; and
- ii. Major: are items above a high-value threshold that also exhibit a useful life of greater than five years. These are valued at fair value and depreciated on an appropriate basis.

Care needs to be taken to ensure the approach adopted is consistent with the approved non-current assets policy and other prescribed requirements.

f. Art, Museum and Library Collections

The valuation of collections such as libraries and museums has traditionally posed a significant challenge when arriving at fair value. The nature of these collections is that:

- they comprise a very large variety of items, ranging from some of very small value to some with extremely high values;
- the service potential embodied within each individual item and how it is consumed can vary significantly depending upon the item's nature, the community's changing levels of appreciation of the item and aesthetics, or even the discovery or acquisition of new items.

The valuation approach can vary from item to item with individual items (or sub-collections) based on the market, income, or cost approach; and the cost of valuing each individual item often significantly outweighs the benefit achieved from the valuation exercise.

g. Heritage and Cultural Assets

The valuation of heritage and cultural assets has also traditionally presented many challenges. These include assets like historic buildings or structures, artworks, documents, and objects of historical significance. There is no dispute that these types of assets hold immense intrinsic value for the community. However, by their nature, these assets tend to be unique and irreplaceable.

As a consequence, there is often no (or a very limited) market in which to apply the market approach, and while some assets can be reproduced or repaired using original construction techniques and materials, this arguably tends to diminish their historical

or cultural significance. Some assets may also be used for operational purposes, whereas others are preserved only for their heritage or cultural value.

The approach for valuation should be no different from that for non-heritage or non-cultural assets. Where an item is unique and cannot be replaced or restored, this may suggest that it cannot be reliably measured. In this case, the asset does not satisfy the recognition criteria and should not be brought to account as an asset. However, appropriate disclosure should be provided in the notes to the accounts. Additionally, the value of the asset to the community may not depend on its physical condition. It might be argued that as long as it is protected from future deterioration, it does not have a limited life and therefore will not require depreciation.

h. Licences

Uganda, just like many other jurisdictions has tradeable airwaves, communication, water access licenses, e.t.c. Generally, given the lack of transaction data, the establishment of a market value for the licenses can be problematic. These are intangible assets and are covered by IPSAS 31.

i. Service Concession Arrangements: Grantor

A service concession arrangement generally involves an operator (a private sector entity) constructing a public infrastructure asset (a service concession asset) and providing public services, such as operating and maintaining the infrastructure on behalf of the grantor (the public sector entity) for an agreed period. Examples of service concession assets include roads, utility distribution, prisons, and hospitals. The common terms used to describe these arrangements include Public-Private Partnerships, Build-Own-Operate arrangements, and Build-Own-Operate-Transfer arrangements. In exchange for the asset and services, the grantor makes payments to the operator or grants the operator a right to charge users of the service concession asset.

IPSAS 32, prescribes the accounting for service concession arrangements by the grantor (public sector entity). Public sector entities (grantors) are required to recognise an asset provided by an operator that is used in a service concession arrangement and a corresponding liability in the statement of financial position. To the extent that such arrangements meet the recognition and measurement criteria of IPSAS 32, they would need to be recognised. Initially, service concession assets provided by the operator are measured at fair value. Subsequently, the service concession asset is accounted for under IPSAS 17 Property, Plant and Equipment or IPSAS 31 Intangible Assets, as appropriate.

The entity is also required to recognise a corresponding liability measured at the fair value of the service concession asset, adjusted for any other consideration between the grantor and the operator.

j. Grouped Assets

Grouped assets are portfolios of homogenous-type assets that individually fall below the recognition threshold but when considered in combination are material in value and should therefore be recorded on the balance sheet. This principle should not be used for assets that have fundamentally different characteristics, as this will result in incorrect assumptions about useful life and depreciation. Examples of such assets include road signs, waste disposal bins, and water meters.

To determine what constitutes a grouped asset, consideration should be given to the following:

- Items being considered are below the recognition threshold level on an individual basis yet when considered as a whole are material;
- Individual items are homogenous in nature and typically purchased rather than constructed; and
- Useful lives and consumption patterns of individual items are approximately the same.

In some cases, entities may choose to record grouped assets as one asset in the asset register with all new purchases capitalised as a new addition. In this scenario, the accounting policy often specifies for the asset class to be valued at historical cost with depreciation based on an average useful life using the straight-line method. The account balance will still require support by way of an asset register. However, it may be necessary to monitor the condition of each grouped asset for asset management or risk purposes. The assets will need to be individually identified and their condition assessed to provide the opportunity to value on either historical cost or fair value.

k. Work-In-Progress (WIP)

The value of WIP is calculated by estimating the net present value of the future Cash Flows associated with a project. This estimate is based on the expected revenue from the project and the costs incurred to date. The value of WIP may be positive or negative, depending on whether the estimated Cash Flows are greater or less than the costs incurred to date.

Several factors should be considered when valuing WIP, including the expected revenue from the project; the costs incurred to date; the expected duration of the project; and the discount rate used to calculate the present value of the future Cash Flows.

It is important to value WIP because it provides a measure of the financial performance of a project. The value of WIP can be used to make decisions about whether to continue with a project, how to allocate resources, and how to price products or services. WIP should be valued at least once a month, and more frequently if there are significant changes in the project or the entity's financial situation.

3.2 Inconsistency with International Valuation Standards (IVS)

It should be noted that the valuations undertaken for financial reporting purposes are to be developed in accordance with the International Accounting Standards. Valuations undertaken for purposes other than under the accounting standards for financial reporting (such as market valuations) are often performed by Registered Valuers under the International Valuation Standards (IVS).

Consequently, entities that use external valuation specialists to assist in estimating fair values need to ensure that the bases and methods used comply with the fair value accounting standard.

4.0 PREPARING FOR VALUATION

4.1 Preliminary Planning and Timeframes

Having regard to the budgetary constraints and other competing priorities, an entity must plan the valuation process to ensure that it:

- meets the strategic objectives and priorities of the entity in terms of the management of its assets;
- places minimal demand on the finances and other resources of the entity; and
- is acceptable to the auditor for financial reporting purposes.

For asset-intensive entities, the valuation and associated depreciation expense are highly material figures within the financial statements. Given the relative subjectivity of the process and associated audit risk sufficient time must be given to the process to ensure it is well planned, conducted and a quality review process is undertaken well before the year-end financial statement process begins.

There are many steps in the valuation process and sufficient time needs to be allocated to each step. The timeframes and associated milestones to ensure a smooth valuation process are:

1. Valuation firms prepare proposals
2. Entity assesses proposals and awards contract
3. Valuation firm appointed and work scheduled
4. Entity provides asset listing and other data
5. Entity confirms assumptions for the valuer
6. Inspections and valuation preparation
7. Draft valuation report issued
8. Entity undertakes quality assurance review
9. Final Valuation Report issued (after any changes)
10. Audit review of valuation
11. Finalise accounts

While the timeframe can be compressed and some steps will vary depending on the size and complexity of the portfolio as well as the efficiency of internal processes, sufficient time must be given to the overall project. The amount of time taken by internal processes to gather initial data, go to market, assess tenders, approve the appointment (especially if it requires board or council approval), provide data and answers to valuers, confirm assumptions, review preliminary results and undertake a final quality review should not be underestimated.

Many entities have successfully reduced the timeframe by appointing valuation firms for a three-to-five-year contract involving a rotational approach covering all asset classes over the contract period. These typically also include the need to provide annual desktop updates on the asset classes not subject to comprehensive valuation in the relevant years.

4.2 Establishing Appropriate Accounting Policies

Before commencing the valuation process, it is recommended that due consideration be given to reviewing the existing accounting policies. This includes:

- reviewing the asset register (asset types, segmentation, componentization, component types) to ensure data collected will support both asset accounting and asset management needs
- reviewing materiality thresholds (capitalization and revaluation thresholds)
- reviewing the appropriateness of using 'Fair Value' for asset classes comprised of large numbers of small value or short-life assets
- updating existing non-current asset policies (or establishing a new policy) to ensure they have been updated for recent changes to the accounting standards and conceptual framework, and
- reviewing policies around the frequency of revaluations.

For some entities, the cost of undertaking valuations can be expensive. However, the cost can often be significantly reduced by establishing appropriate policies that balance out the cost by reducing the number of assets to be physically inspected and valued. It is advisable to undertake an analysis of alternative policies and to discuss them with an external audit early within the valuation process.

4.3 The Asset Register

Establishing the asset register will include consideration of aspects such as asset class; facility; segments; components; and other attributes. In the public sector, it is common for several different assets to be linked together as a common facility that when combined provides the overall service. This may include several assets from within the same asset class as well as other assets spread across a range of vastly different asset classes. An example is a community facility including:

- land;
- buildings;
- parks and garden assets;
- roads;
- car parks;
- transport infrastructure;
- drainage;
- miscellaneous infrastructure such as water and electrical services; and
- flood lights.

From both an asset management and a governance perspective, it is necessary to be able to identify the assets in relation to the overall facility. This may include gaining an understanding of the overall condition and functionality of the assets to enable the development of a facility asset management plan. In the case of emergencies or natural disasters it also provides the capability to quickly understand the entirety of the assets affected.

Care needs to be taken when establishing the asset register or asset listing that proper consideration is given to defining the asset hierarchy, how various assumptions will be applied across the portfolio and how the final figures are to be reported and used for other purposes (such as asset management planning). One of the greatest concerns for auditors when auditing a valuation is obtaining sufficient and appropriate evidence over the completeness of the asset register. This is also a challenge for those undertaking the valuation.

Public sector entities control a large variety of assets and some, especially local governments, regularly acquire assets via contribution. As a result, there may be no record of an acquisition in the general ledger as there has been no cash flow. This issue is particularly difficult for entities undertaking a valuation for the first time and especially so if the valuation is a consequence of moving to accrual accounting for the first time. This is because cash accounting provides only a limited range of controls to ensure the asset register is kept up to date.

The experience from other jurisdictions suggests that the initial valuation will identify a significant number of assets not previously recorded in the asset register. Additionally, as valuations are undertaken in the remaining years there will be a range of assets identified that were previously missed or for which the issue of control remains unresolved.

From a practical perspective, entities valuing assets for the first time should expect that the accuracy of the asset register will not be guaranteed following the initial valuation. In these situations, the valuation itself will often provide the best method to

identify and classify assets. Hence the valuation process serves as an important part of the overall asset management framework.

Whether undertaking the valuation for the first time or not, there are a few processes to ensure the asset register is as accurate and complete as possible. These include:

- cross-checking with other operational registers such as land title registers, property rental registers, maintenance registers or asset management systems, e.t.c.
- verifying from the general ledger that all acquisitions and disposals have been correctly recorded in the asset register;
- undertaking an inspection of specific sites and ensuring all assets in the geographic location have been recorded in the register; and
- preparing the initial asset register and having operational staff confirm the completeness and accuracy of the register before distribution to the valuation team.

Having been provided with an asset register, the valuation team should also implement controls to ensure the register is as complete and accurate as possible. This includes:

- querying the ownership or control of assets that are sighted in the field but are not recorded in the asset register;
- selecting a range of sample sites and ensuring all assets in that location have been recorded in the asset register;
- obtaining an understanding of what processes the entity has undertaken to ensure the completeness and accuracy of the asset register before supplying it to the valuers; and
- undertaking property searches for land against land title systems.

4.4 Setting, Validation, and Re-assessment of Assumptions and Methodology

Appropriate consideration must be given to the analysis of the valuation methodology to ensure it fully complies with all aspects of the standards and also reflects the asset management reality. If the approach is overly simplistic, fails to address key aspects of the standards, or does not link to data held within the asset management system, there is a risk that the end results will not be fairly presented. Also, overly complex approaches can increase the risk of errors.

The determination of fair value and the associated depreciation expense is an accounting exercise requiring extensive knowledge of accounting standards and associated interpretations. It requires a multi-disciplinary approach that uses engineering expertise to gather detail about the location, specifications, and condition of assets and valuation expertise regarding the conduct of valuations and delivery of appropriate evidence. However, without the necessary accounting standard expertise, there is a high risk that the resulting methodology will not fully comply with the accounting standards or will result in a material misstatement.

Sampling Methodology

The objective of the valuation exercise is to obtain a materially accurate valuation but at a reasonable cost. This may be achieved by selecting only high-value items for individual valuation, with the remainder of the assets being subject to a sampling methodology. Thresholds will need to be developed for this purpose. Assets above the thresholds would be valued individually, whilst assets below the thresholds would be sampled on a random or another basis for valuation.

The sampling exercise requires technical expertise and involves several steps including determining the sample size, selecting the sample, drawing the sample, valuing the sample, and calculating the total extrapolated asset value. Sampling will have regard to location and manner of storage, the homogeneity of the items, and the expected range of values within the population to be sampled.

To ensure a high level of statistical accuracy, the sample needs to be representative of the whole population. Therefore, if the assets are not completely homogenous, it will be necessary to stratify the population for sampling purposes to ensure that the sample chosen is truly representative of the whole population. This is commonly known as “stratified sampling”. It requires the subdivision of the assets into several groups and sub-groups. A separate sample is then taken from each sub-group. Within each sub-group, items should be approximately similar in nature, value, and the way they are stored. There should be as little variation in characteristics as possible within each sub-group.

Once the samples have been valued, it will be possible to extrapolate the values applied to the samples to the whole population and calculate the degree of accuracy that has been achieved. The degree of accuracy will need to be considered carefully as it is important to ensure that the valuation is acceptable for financial reporting purposes. If doubt exists over the acceptability of the valuation because of the degree of accuracy, the entity should consult its auditor. In these circumstances, entities would need to weigh up the cost of increasing the sample size against the extra degree of accuracy obtained. Detailed information should be kept on the selection and valuation of samples.

4.5 Choosing the best Valuation Strategy

By design, the valuation exercise includes:

- developing an appropriate non-current assets policy;
- developing an appropriate valuation and depreciation methodology that fully complies with all key aspects of relevant accounting standards;
- ensuring the entity’s asset register is complete and accurate and the assets recorded therein exist in good order;

- creating an asset hierarchy and table of assumptions that can be applied against the asset and components of each asset and that take into account the asset management reality for each individual asset;
- determining the method and templates to undertake the actual calculations;
- gathering and documenting sufficient and appropriate evidence to support the underlying assumptions;
- implementing internal quality assurance;
- producing and signing off final reports and methodologies;
- being able to respond quickly to any audit queries; and
- implementing an annual process to assess and adjust for any changes in condition, unit rates, the pattern of consumption of future economic benefit, useful life, and residual value.

Ultimately it is up to the organisation how they will implement and deliver the fair value process. Consideration needs to be given to the associated risks, best use of resources, and associated costs.

It should be noted that the primary purpose of undertaking the valuation exercise is to provide values to be reported in the entity's financial statements. IPSAS 17 requires that valuation should be conducted either by:

- an independent valuer; or
- where an entity has in its employ a person sufficiently experienced to conduct a valuation, by that person, so long as the basis of valuation has been subject to review by an independent valuer.

Whatever approach is taken, because those charged with the governance are responsible for the financial statements, they are similarly responsible for the valuation outcomes, and therefore they need to fully understand the approach taken, including the assumptions used.

4.6 Office of the Chief Government Valuer

The Office of the Chief Government Valuer plays an important role, particularly it aids the government in valuing land that Government holds interests in and providing a fair market value for compensation purposes. The Department is also responsible for developing and implementing sound policy and legal framework for valuation services; valuation standards and guidelines; and providing timely and reliable valuation services to Government.

4.7 Qualifications, Expertise, and Experience of the Valuation Team

Irrespective of whether the entity uses in-house or external resources to undertake the valuation, it is essential that the person providing the valuation has the appropriate

qualifications, expertise, and experience. The capability and experience of the valuation team will be a prime area of interest to the auditor.

The scope of work requires extensive expertise in a range of accounting standards (which are forever evolving) as well as expertise in valuation. Depending on the nature of the asset subject to valuation, this may also require some engineering, valuer, or other technical expertise. As a consequence, the valuation process typically requires a multi-disciplinary approach where the team members provide input relevant to their area of expertise. This may involve a collaborative approach between external experts and in-house technical officers. For example, the in-house staff may provide the asset register and key data (such as location, specifications, condition, future plans, etc) while the experts will use that information to produce fully compliant valuations as well as associated valuation reports and documentation.

As a requirement, all team members must be members of their respective professional bodies. Include the qualifications of the valuation team and the requirement that valuers are members of their respective professional bodies.

Whether an entity chooses to use in-house resources or engage an independent valuer, consideration needs to be given to a range of issues, including assessing the capability to undertake the project, the role of entity management and staff, and issues to include in the proposal.

5.0 POST-VALUATION CONSIDERATIONS

5.1 Structure and Content of the Valuation Report

The valuation is required to be supported by appropriate documentation setting out the underlying methodology, process and evidence used to produce the valuation. This needs to make reference back to the underlying accounting standards and demonstrate full compliance with all aspects of the prescribed requirements.

The valuation report incorporates a valuation certificate, a detailed description of the methodology employed, and all relevant information required to enable the entity to comply with the Fair Value Measurement disclosure requirements. Entities need to ensure that the bases and methods used comply with the fair value accounting standard.

The report provides a listing of each asset and component, underlying assumptions, and sensitivity analysis of those assumptions. The signed report sets out the process, results, limitations, qualification of the valuer, valuation certificate, and summary data.

5.2 Post-delivery Evaluation

The post-delivery evaluation may include a quality assurance check over the valuation. The main aim is to understand whether the exercise was performed on time and to a high quality and ultimately that the entity received value for money. The information

gathered from this exercise should then be used to make improvements to future projects.

This might include the design and evaluation of future tenders and specification of the scope of work.

5.3 Uploading Valuation Data

Once the valuation is completed, the entity needs to upload the new valuation into the asset register so that depreciation calculations can be made in future years. This will involve uploading each component as an individual record with a field indicating the details of the master asset to which it belongs. This enables the depreciation to be calculated for each component but an overall value to be reported for each asset.

The process involves identifying key fields (such as Replacement Cost, fair value, useful life, residual value, and depreciation rate), which are then uploaded to the system via a data file (such as a CSV file or spreadsheet). Controls should be established to ensure that the register “post upload” agrees in total with the valuation results.

In addition to changes for new assets and assets disposed of, there may be:

- changes in the asset hierarchy (different components or asset classes);
- removal of multiple entries that relate to individual assets (this often occurs as a result of capital expenditure being recorded as a new item rather than as a direct adjustment against the relevant component); and
- changes in the designation of or transfers between asset classes.

Owing to the complexity that can sometimes occur and the volume of transactions, the time taken to undertake this process and complete reconciliations can be significant. It is recommended that the process and data requirements (including format) be discussed well in advance with the various stakeholders involved. The process should also be well documented to facilitate improvements to the process in future years.

6.0 VALUATION AND ASSET MANAGEMENT

Asset management is a systematic approach to the governance and realization of value from the assets that an entity is responsible for, over their whole life cycles. It may apply both to tangible assets (such as buildings or equipment) and intangible assets (such as human capital, intellectual property, goodwill, or financial assets). It is a systematic process of developing, operating, maintaining, upgrading, and disposing of assets in the most cost-effective manner¹.

The objective of asset management is to ensure a coordinated approach to the optimization of the service/ performance delivery potential of assets; minimize

¹ https://en.wikipedia.org/wiki/Asset_management the Valuation of Public Sector Assets Page 27 | 30

related risks and costs, and ensure positive enhancement of natural and social capital (sustainability) over an asset lifecycle. In more practical terms, the goal of asset management is to provide an appropriate (not necessarily the best) level of service in the long-term in the most cost-effective way. To find the strategy that returns an appropriate level of service with the best whole-of-lifecycle cost, a detailed analysis needs to be conducted. This should take into account the asset lifecycle, the factors that drive decisions, alternative treatments, and maintenance costs.

In many organisations, the role of asset management has been delegated to technical areas (such as engineering or technical services). Operational and tactical asset management clearly should be managed as such (as the asset owners). Lower levels of the organisation working directly on service delivery are normally more heavily involved with operational asset management (maintenance management, etc), whereas the highest levels of the organisation are normally more heavily involved with strategic asset management.

However, as strategic asset management cuts across the entire organisation and is a fundamental corporate governance responsibility, all key departments must be involved with key direction provided by the highest levels of the management. This is especially so given that the delivery of services using assets is often responsible for over 90% of total expenditure in asset-intensive entities (via acquisition, operation, maintenance, renewal, and disposal). Because of the need for cross-department facilitation, this is normally managed through the creation of an asset management committee comprised of the Directors of the major departments within the organisation. The Finance Section takes a key role in this committee given the criticality of financial analysis in the development of these plans.

Given the significant resources controlled by asset-intensive entities, the financial statements must reflect a view consistent with the asset management reality (as reflected in Asset Management Plans). To fully satisfy the objective of financial reporting, it is a prerequisite that asset accounting and asset management be integrated. To do this the asset accounting must be driven by an assessment of the asset's lifecycle and condition, taking into account both holistic and physical factors such as functionality, capacity, utilisation, and obsolescence.

7.0 VALUATION AND DEPRECIATION

Financial statements are designed to provide users with information that enables them to make informed decisions. It is therefore critical that the asset values and depreciation expense figures reflect the reality of managing the asset. Fair value reflects the value of the remaining level of future economic benefit at the reporting

date. The depreciation expense reflects the future economic benefit expected to be consumed during the next 12 months.

Depreciation expense measures the estimated economic value of service potential consumed during the financial year. It has no relationship with the amount of future funding required to meet changing community needs and expectations. Depreciation is not a cost of providing a service, but a measure of the expected amount of service potential expected to be consumed over the year. The cost to provide the service includes the lifecycle costs: costs to acquire, maintain, operate, renew and dispose of the asset.

Irrespective of the depreciation methodology adopted, the actual cost to deliver the service will not change as a result of changing the depreciation methodology. The cost to deliver the service will change only as a consequence of changes in the lifecycle costs. The method used to determine the amount of depreciation expense, having regard to materiality, must:

- a. Match the expected pattern of consumption of the future economic benefit. While many entities adopt methods such as straight-line as a default, the standards require that the method used matches the pattern of consumption for future economic benefit.
- b. Be based on the relevant factors that provide sufficient and appropriate evidence for determining the level of remaining service potential and how it is consumed. This needs to take into account utilization, wear and tear, obsolescence, legal and other limits.
- c. Depreciate only the depreciable amount. This requires the determination of the non-depreciable component or residual value. For financial statement purposes, the depreciation expense calculations will typically be based on the value reported at the beginning of the financial year, which may differ from the assumptions used to determine the fair value at the end of the financial year. However, the assumptions used to determine the closing fair value will then be used in the subsequent financial year to determine depreciation expense.
- d. Depreciate the depreciable amount in a systematic way over the asset's useful life.
- e. Commence when the asset is ready for use.

7.1.1 Annual assessment for revaluation and/ or depreciation changes

At the end of each year, the entity needs to assess whether the carrying amount differs significantly from the fair value. This is done by consideration of changes to aspects such as functionality, capacity, utilization, obsolescence, and the assessment of unit rates, pattern of consumption of future economic benefit, residual value, useful life, Condition, and as a result remaining useful life. Based on this assessment, the assets may need to be revalued, impaired, and/or depreciation rates changed prospectively.

IPSAS 17 requires that where assets are revalued, such revaluations should be undertaken with sufficient regularity to ensure that no item is included at a valuation materially different from its fair value. If there are indicators of material differences, the entire class of assets must be revalued. However, there are some exceptions allowed in practice when applying materiality considerations.

8.0 AUDIT CONSIDERATIONS

The role of audit is to provide assurance to the wider public with regard to the information contained within the financial reports. In some jurisdictions, the auditor may also provide an opinion as to whether those who have been entrusted with the public funds have exercised their responsibilities diligently and in accordance with the relevant legislation.

The valuation of public sector assets is a highly specialized field often requiring detailed accounting, engineering, and valuation knowledge. Some auditors may feel they do not possess the technical knowledge and skills to challenge the views of those who have undertaken the valuation. As a result, they often engage specialists to assist.

Some common challenges facing auditors are:

- gaining assurance that the asset register is complete and accurate;
- understanding significant movements in the valuations and depreciation from year to year;
- difficulty in obtaining sufficient and appropriate evidence over critical assumptions, judgments, or estimates;
- lack of understanding by the management of the processes and methodology used to determine the valuation;
- complexity and differences of valuation methodologies of different valuers; and
- the associated difficulty in assessing general compliance of the methodologies against the changing accounting standards.

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

📍 PLOT 42/46/48 BUKOTO STREET, KOLOLO, P.O. BOX 12464, KAMPALA, UGANDA

☎ 0414-540125 🌐 www.icpau.co.ug ✉ standards@icpau.co.ug 📱 @ICPAU1 📘 ICPAU 📺 Institute of Certified Public Accountants of Uganda 📺 ICPAU