

A PRACTICAL GUIDE TO RECOGNITION, MEASUREMENT, FINANCIAL RESILIENCE AND ROAD MANAGEMENT SYSTEM IMPLEMENTATION

Why Local Authorities Must Account for Road Assets

Road infrastructure enables mobility, emergency access, commerce, property development and access to public services. It also requires substantial expenditure on construction, rehabilitation and maintenance. Recognising road assets ensures that the statement of financial position faithfully represents the infrastructure controlled by the Local Authority, while depreciation, impairment and derecognition make the consumption and replacement of that infrastructure visible. Sound road-asset accounting therefore supports financial accountability, long-term planning and evidence-based engineering decisions.

Road-asset accounting at a glance	
Requirement	Local-authority response
Identify the asset	Define the controlled road network and its significant components.
Recognise it	Confirm service potential and reliable measurement.
Measure it	Determine an initial amount and apply a consistent subsequent-measurement model.
Maintain evidence	Reconcile the general ledger and fixed-asset register to RMS and engineering records.
Report consumption	Depreciate components, assess impairment and derecognise replaced parts.

What qualifies as an asset?

Under IPSAS 45, an asset is a resource presently controlled by an entity as a result of a past event. A road asset is the identifiable road infrastructure, or a component of that infrastructure, controlled by a Local Authority and used to provide transport-related service potential. It may include the road formation, pavement layers, shoulders, kerbs, bridges, culverts, drainage works, traffic signals, guardrails, signs and other street furniture. A road need not generate cash inflows, its economic value ordinarily lies in its ability to provide mobility, safety, access and wider social and economic benefits.

Roads as infrastructure assets

Roads are infrastructure assets because they form part of an integrated network, are specialised in nature, generally have long useful lives and are used to deliver public services. The unit of account should reflect how the network is constructed, managed, maintained and replaced. Significant components with materially different useful lives such as road formation, pavement layers, bridges, drainage works, traffic-control equipment and street furniture should be recognised and depreciated separately where their cost or value is material.

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Recognition and Measurement under IPSAS 45

A Local Authority should recognise a road asset when it controls the resource, it is probable that the associated service potential will flow to the Local Authority, and the asset's cost or value can be measured reliably. The road-asset register should provide evidence of:

- the Local Authority's control of the road and the service potential it provides;
- the occurrence of a past event, such as construction, acquisition, transfer or commissioning;
- a complete and uniquely identified road network;
- the separation of significant components where useful lives or patterns of consumption differ;
- reliable initial measurement at cost, or at an appropriate value where cost is not available;
- consistent application of either the historical cost model or the current value model after recognition;
- systematic depreciation over reviewed useful lives, together with impairment assessments;
- derecognition of disposed or replaced components; and
- reconciliation of the general ledger and fixed-asset register with RMS, project and engineering records.

Initial measurement. A newly acquired or constructed road asset should ordinarily be measured at cost, including directly attributable expenditure required to bring it to the location and condition necessary for operation. Where reliable historical cost is unavailable for example, for previously unrecorded roads the Local Authority should apply an IPSAS-consistent measurement technique supported by engineering quantities, current construction rates, condition assessments and documented assumptions.

Subsequent measurement. The Local Authority should adopt and consistently apply either the historical cost model or the current value model to an appropriate class of road assets. Under the historical cost model, carrying amount is cost less accumulated depreciation and accumulated impairment losses. Under the current value model, the asset is carried at a current value appropriate to its operational use, less subsequent depreciation and impairment. The selected policy, valuation method, significant assumptions and frequency of reassessment should be documented and disclosed.

Depreciation and impairment. Each significant component should be depreciated separately from the date it is available for use, using a method that reflects the pattern in which its service potential is consumed. Useful lives, residual values and depreciation methods should be reviewed regularly. Condition deterioration, physical damage, reduced functionality, obsolescence or a decision to abandon part of the network may indicate impairment and should trigger an assessment.

Using the RMS to Recognise and Measure Road Assets

A Road Management System (RMS) should serve as the authoritative engineering record supporting the accounting register. It can provide geospatial location, segment length and width, surface type, component details, construction and rehabilitation history, condition, remaining service life, maintenance needs and project status. RMS information is accounting evidence, but it does not by itself establish recognition or determine a carrying amount. The Local Authority must confirm control, validate data quality, define accounting units and components, establish commissioning dates, distinguish capital expenditure from maintenance, and reconcile physical changes to accounting records.

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- **Establish a single, integrated asset register.** Link every RMS road segment and significant component to a unique fixed-asset record, geographic reference, responsible department, commissioning date, ownership or control evidence and funding source.
- **Validate completeness and existence.** Reconcile the RMS network to maps, approved layouts, completion certificates and physical inspections, and investigate roads recorded in one system but omitted from another.
- **Determine the unit of account.** Define consistent segments and separately identify material components with different useful lives or replacement cycles.
- **Establish opening balances.** Use reliable historical construction costs where available. Where they are unavailable, apply a documented valuation methodology using verified dimensions, unit rates, component quantities, age, condition and remaining service potential, with appropriate engineering and valuation expertise.
- **Record additions promptly.** Use practical-completion or commissioning evidence and RMS updates to transfer completed projects from work in progress to operational road assets when they are available for use.
- **Distinguish capital work from maintenance.** Capitalise expenditure that creates an asset or replaces or improves a component in accordance with the accounting policy; expense routine maintenance that merely preserves existing service potential.
- **Account for replacements and disposals.** Derecognise the carrying amount of replaced, abandoned or disposed components and record the replacement as a new component where the recognition criteria are met.
- **Use condition data to support estimates.** Use deterioration trends, traffic loading, defects and remaining-life information to review useful lives, depreciation methods, residual values and impairment indicators. Condition data should inform, but not automatically replace, professional accounting judgement.
- **Reconcile systems at each reporting date.** Reconcile the RMS, project ledger, procurement records, fixed-asset register and general ledger, with differences investigated and approved before financial reporting.
- **Maintain an audit trail and governance controls.** Retain source documents, inspection evidence, valuation models, assumptions, approvals, change logs and user-access controls, and assign clear responsibilities to engineering, finance, planning and internal audit personnel.

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Effects on financial position, liquidity and solvency

Recognising previously omitted road assets may increase property, plant and equipment and net assets, thereby improving the completeness of the statement of financial position and certain long-term solvency indicators. It does not, however, create cash or current assets. Recognition may also increase depreciation and impairment charges and may expose the scale of future maintenance and renewal requirements. Road assets are specialised public-service assets and may be legally restricted or unsuitable as collateral, they should therefore not be presented as an artificial improvement in liquidity.

RMS data can nevertheless improve real liquidity and solvency over time as follows:

- Condition-based preventive maintenance can reduce costly emergency repairs and extend component lives.
- Life-cycle forecasts can improve cash-flow and capital-budget planning.
- A credible, evidence-based capital plan can support grant and road-funding applications.
- Risk-based prioritisation can direct scarce resources to interventions with the greatest service, safety and financial benefit.
- Reliable asset information can strengthen accountability and the confidence of funders, lenders and other stakeholders.

Any borrowing should be supported by lawful, ring-fenced revenue or transfers and demonstrated debt-service capacity, rather than by road values alone. Management should therefore monitor liquidity, unrestricted cash days, collection rates, debt-service coverage, the maintenance and renewal backlog, and the proportion of the network in poor condition alongside reported asset values.