

FIXED ASSET MANAGEMENT

A better practice guide

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CONTROLLER AND CHIEF AUDITOR'S FOREWORD

This Better Practice Guide (Guide) is intended to assist Public Sector managers responsible for decisions relating to acquiring, owning, operating and using major assets, such as buildings, vehicles, and heavy-duty plant. The guide also assists in decision-making when multiple items of equipment of more portable items such as IT equipment, photocopy machines and the like are under consideration.

The purpose of this Guide is primarily to raise awareness of the need to:

- Differentiate fixed asset acquisition from other recurring expenditure
- Record all fixed assets in a properly maintained fixed asset register
- Maintain proper internal controls over fixed assets
- Regular reconciliation of the fixed asset register to the physical assets and the general ledger
- Consider future costs associated with asset acquisition, including maintenance, operational and energy costs associated with the on-going use of assets.

The Guide includes a glossary to assist readers understand the concepts used throughout.

The Guide arose from the Samoa Audit Offices' Institutional Strengthening Project which identified fixed asset management as an area for improvement in the Public Sector.

1 PUBLIC SECTOR FINANCIAL REPORTING FRAMEWORK

Public sector reporting in Samoa is currently in a transitional phase as it includes:

- Public bodies that report on an accrual basis in accordance with *International Financial Reporting Standards*(IFRS), the *Companies Act 2001*, *Public Finance Management Act 2001*(PFMA), *Public Bodies (Performance and Accountability) Act 2001*(PBPAA) and relevant enabling legislation.
- Ministries that have no separate reporting obligations but are required to comply with PFMA, *Treasury Instructions 1977* and relevant enabling legislation. The annual accountabilities of Ministries is achieved through the Government of Samoa's Public Accounts which is prepared on a *modified cash basis* in accordance with section 107, Schedule 5 of the PFMA.

The PFMA assigns the specific responsibilities for asset accountability as follows:

5. Specific responsibilities of the Minister – The Minister is responsible for:

(f) The supervision of the finances, assets and liabilities of the State so as to ensure that a full accounting is made to the Legislative Assembly of all transactions involving public moneys or the disposition of public property.

103. Accounts and records–(1) A public body or a subsidiary shall keep proper accounts and records of its transactions and financial position, and shall do all things necessary to ensure that all payments out of its moneys are correctly made and properly authorised and shall maintain adequate control over its assets, or assets in its custody, and over the incurring of liabilities by it.

Further the *Treasury Instructions 1977*, which applies to all government employees includes Part K on stores. The definition of stores is broad and includes:

“books, buildings, cheque forms, postage stamps, stationery, office requisites, vehicles, machinery, implements, livestock, all articles of consumable or non- consumable nature and all chattels and personal property in the possession or under the control of any Ministry or on account of the Government. The terms include unserviceable articles, whether old or new, which may or may not possess a value to the department.”

The primary objective of recognition, recording and reporting of fixed assets is the same irrespective of whether a modified cash basis of accounting is used (Government Ministries) or full accrual accounting (Public Bodies) is used for maintaining books and records and reporting to the Legislative Assembly.

2 WHAT IS AN ASSET?

An asset is an item of value - something that is 'worth having'. Some assets have an expected short life or are readily turned into cash, such as investments or inventory - these are known as 'current assets'. Others have a potential service life longer than one year, and are known as 'non-current assets'.

Non-current assets may be either a physical item (such as land or buildings) or intangible (such as computer software or intellectual property). The relationship between types of assets is shown below in Exhibit 1.

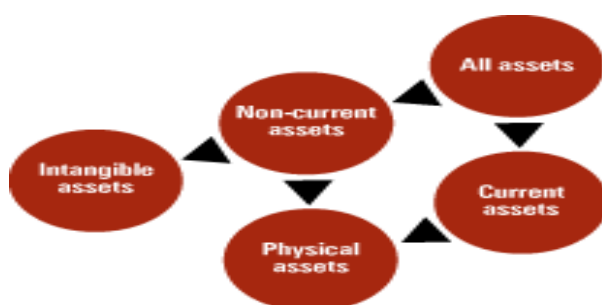


Exhibit 1: Types of Assets

This guide deals only with non-current, physical assets. Sometimes, such assets are referred to as 'fixed assets'. In accounting terms, fixed assets in this category are defined as physical items of significant value that:

- possess service potential or future economic benefits;
- are controlled by an entity; and
- originate as a result of past transactions or events.

This definition typically includes such items as land, buildings, infrastructure, plant and equipment, cultural collections, and natural resources.

2.1 WHAT ARE ASSETS FOR?

The role of assets is to support the delivery of a government service to the public. They combine with other resources of government (such as funding and human resources) to make the delivery of a community service possible. If it does not contribute effectively to such a service, an asset should not be held in or used by the public sector.

Decisions about assets must therefore be service driven. The need for services may vary depending on such factors as population distribution, and will alter over time as the characteristics of populations change. As the need for services changes, the demand for different types of assets will also change.

2.2 CLASSES OF FIXED ASSETS

Fixed Assets vary considerably in their size and nature, and they should be classified into the following logical groupings for management control, financial treatment and external reporting requirements:

- land;
- buildings;
- infrastructure;
- plant and equipment;
- cultural collections; and
- natural resources.

This classification should be used in the 'Chart of Accounts' for balance sheet reporting in annual financial statements. Classes should be sub-divided even further for management purposes. For example, the 'plant and equipment' class of fixed assets should be sub-divided as follows:

- furniture and fittings;
- information technology assets (computing equipment);
- office machines;
- kitchen equipment; and
- vehicles.

Managers need to distinguish between classes of assets, and exercise judgment and discretion in applying the policies and practices outlined in this part. For example, the maintenance approach adopted for personal computers or a suite of office furniture will be different to that required for a major item of sophisticated machinery or a school. Similarly, the planning input required for the construction of a new resource centre would obviously be more comprehensive than that required for the acquisition of a new vehicle. The accounting treatment of various classes of fixed assets may also differ considerably in areas such as applicable depreciation rates, the frequency and precision of revaluation, and the approach to condition assessment and stocktaking.

In determining the approach most suited to the class of fixed asset, managers should consider their responsibility to account for the effective and efficient management of the item(s) in question, and the risks and benefits attached to differing levels of record-keeping and accountability.

3 FIXED ASSET MANAGEMENT

The principal objective of fixed asset management is to enable an entity to meet its service delivery objectives efficiently and effectively. It involves guiding the acquisition, use and disposal of assets, and managing the related risks and costs over all phases of the asset life cycle.

To be effective, asset management needs to be considered as a comprehensive and multi-disciplinary activity that takes into account a range of factors such as:

- the asset life cycle and asset management principles;
- the needs of the users of the asset;
- the policy and legislative environment;
- the entity's corporate management and planning framework;
- technical adequacy and commercial viability;
- external or market factors (commercial, technological, environmental or industry implications);
- the competing demands of stakeholders (in some instances); and
- the need to rationalise operations to improve service delivery or to enhance cost-effectiveness (in some instances).

Managers should use life cycle costing and risk management (as defined in the Glossary) to manage fixed assets. Risk management is particularly important as it underpins many of the key decisions made about assets.

Asset management is a continuous process covering the whole life of the asset. An entity's asset management program should encompass all the activities illustrated below.

Exhibit 2: Key Asset Management Activities



Good asset management usually meets the following criteria:

- The entity knows what is in its asset portfolio, where those assets are and who is responsible for their upkeep (usually this means that each asset assigned a short asset statement: these are summarised into service asset statements which support the corporate asset management plan)
- The entity has developed a means of relating the assets in its portfolio to its wider objectives, thus providing a basis for investment and disposal decisions and for setting priorities between them
- The asset portfolio is reviewed regularly, on an entity wide basis, according to criteria set by the Treasury Instructions and used consistently across the entity
- The entity has considered both long term (5-10 years) and shorter term objectives
- It links the use of assets to the use of other resources
- Decisions about reviews, additions, disposals, maintenance programmes and collaboration with other organisations are taken systematically and implementation is monitored by the entity.

4 ASSET MANAGEMENT PRINCIPLES

1. *Service delivery needs are to guide asset practices and decisions.*

Entities are to undertake asset management activities within a strategic framework that is driven by program and service delivery needs.

2. *Asset planning and management are to be integrated with corporate and business plans, budgetary and reporting processes.*

Planning, budgeting for, and reporting on assets are to be integrated with broader planning processes, both within entities and between central and other entities.

3. *Asset management decisions are to be based on evaluations of alternatives that take into account full life cycle costs, benefits and risks of assets.*

Capital expenditure decisions are to be based on rigorous and documented economic appraisals of options that include financial as well as non-financial parameters. The economic appraisals should be evaluated by a party other than the proponent of the project.

4. *Ownership, control, accountability and reporting requirements for assets are to be established, clearly communicated and implemented.*

Ownership and control of all assets are to be fully defined. Accountability and reporting requirements for both ownership and control are to be determined and clearly communicated.

5. *Asset management activities are to be undertaken within an integrated Government asset management policy framework.*

An entity's asset management is to be based on better practice in government and industry and on Government policy.

In order to assist entities assess whether they comply with asset management principles, an *Asset Management Diagnostic* is included in *Appendix 1*.

5 FIXED ASSET POLICIES

Asset policies extend beyond accounting policies and should be comprehensive, covering all phases of the asset life cycle, and should address the principles of asset management.

The development and promulgation of comprehensive asset policies and procedures are important elements of the internal control structure of an entity. They reflect management's operating philosophy and style. Their content is one indication of management concern with maintaining adequate control over its resources.

Good policy and procedure manuals are:

- **Integrated** - policy statements and procedural guidance are combined;
- **Consolidated** - all relevant policy and procedures are located in one source;
- **Cross-referenced** - references to legislative requirements, government policy pronouncements, and supplementary instructions are supplied ; and
- **Formatted** for ease of update - preferably in electronic format.

Asset policy and procedure manuals should include more than operational aspects, such as recording assets, taking stock and write-off procedures. They should also address strategic issues such as planning for acquisition, accountability arrangements, maintenance and operating policies and strategies. The following checklist has been developed to provide guidelines of the contents of a comprehensive policy and procedure manual.

Appendix 2 includes a fixed asset policy and procedure checklist.

6 ASSET INFORMATION REQUIREMENTS

Comprehensive, accurate and up-to-date information on assets is vital to effective asset planning. Good information is necessary to:

- support sound decisions about assets relating to service delivery capacity, acquisition, maintenance and disposal; and
- comply with statutory financial reporting obligations.

Information generated about assets must match the decision-making purpose (see below) for which it is required:

Strategic decisions: These generally require small amounts of information about a range of issues and asset characteristics related to trends, rather than specific data about individual assets. In this situation, the level of accuracy is of less importance than completeness. Approximations or proxy information are often acceptable for these decision-making purposes.

Tactical decisions: These require a broader range of information, and at a greater level of detail. The level of accuracy of the data required depends on the criticality of the decisions to be made.

Operational decisions: These tend to require source data with high levels of accuracy as the information supports day-to-day decisions by individual staff in the field. Operational data are the prime sources of aggregated information for tactical and strategic purposes.

6.1 FIXED ASSET REGISTER

Entities should maintain Fixed Asset Registers to facilitate the implementation of appropriate portfolio and risk management strategies across the public sector.

For a fixed asset register to fully support effective decision-making about asset utilisation, it must:

- be comprehensive, and include all assets under the control of the entity;
- be structured in a way that allows different classifications of assets to be distinguished, and treated appropriately. For example, assets such as buildings and plant may have a long life and complex maintenance requirements. These may be recorded in a specialised section of the asset register which contains more information than the section used to record furniture and office equipment;
- capture details of all transactions affecting the assets, as they occur;
- have associated procedures, controls and audit trails to maintain the integrity of the information;
- identify the individual or organisational unit accountable for the asset and the location of the asset; and
- carry the financial information needed for financial reporting.

Information in the fixed asset register must be readily accessible to individuals who are accountable for the control and management of a nominated asset or group of assets, preferably on a 'real-time' basis.

Entities may elect to use separate fixed asset registers for different classes or categories of assets. If this course is taken, common data standards should be employed so that consistent consolidated reports on assets can be readily prepared for the entity as a whole.

Appendix 3 lists three questions all public sector entities should address to ensure an appropriate fixed asset register is established and maintained.

6.2 FIXED ASSET PERFORMANCE DATA

Fixed Asset Registers should have provision for recording performance data for individual assets.

As examples, useful performance data may include:

- measures of the operational performance of the asset in relation to its service delivery objectives;
- measures of how intensively the asset is utilised (to disclose any surplus capacity that could be taken up for other purposes); and
- operating costs (to include, for example, cleaning and energy costs and maintenance expenditure).

The information should be appraised by entities against other entities and/or best practice data to establish whether assets are being managed effectively.

7 CAPTURE OF FIXED ASSET INFORMATION

Fixed asset data should be kept up to date. Data on transactions affecting fixed assets should be captured as the transactions occur, and entered in the fixed asset register. Wherever possible, data transfers should take place electronically, and not rely on discretionary actions or anecdotal evidence.

7.1 ASSET DATA AT ACQUISITION

Records for newly acquired assets should be captured from the purchasing system at the time of purchase or acquisition, and the initial valuation of the asset should be taken as the cost of acquisition. In this context, 'cost of acquisition' means the actual purchase price, plus any costs incidental to the acquisition.

All costs attributable to the purchase or construction activity should be capitalised and included in the acquisition cost. This includes such costs as design fees, agent's commission, the cost of import licences, freight and the like.

7.2 EXPENDITURE ON EXISTING FIXED ASSETS

Expenditure on existing fixed assets that increases its service potential should be treated as capital expenditure, and must be recorded either as:

- an addition to the value of the existing asset; or
- a new asset, linked to the existing asset.

Normal maintenance expenditure is recorded as an operating expense. Maintenance work should be initiated by a 'Work Order' or equivalent, and used to collect the costs and to prepare a history record of work completed. The fixed asset register or a specialised maintenance management system may be used for the purpose.

Maintenance history is important for forward maintenance planning and budgeting purposes, and care should be exercised to identify and retain appropriate data.

7.3 STOCKTAKING

Stocktakes of fixed assets must be carried out at periodic intervals—normally annually—with the results being reconciled with the records in the asset register.

The stocktake frequency may be modified or supplemented by a sampling approach at the discretion of the entity controlling the assets.

Barcoding, or similar optical recognition techniques, may be utilised for stocktaking purposes to introduce higher levels of accuracy and to reduce asset management costs.

8 ACQUISITION OF ASSETS

The acquisition of assets is a significant asset management activity therefore, it is imperative that acquisition decisions are taken within an integrated planning framework that takes account of service delivery needs, corporate objectives, financial and budgetary constraints, and the Government's overall resource allocation objectives.

Options for acquiring assets include purpose-design and construction, purchasing or financial leasing. As part of the acquisition process, an entity needs to consider:

- the nature of the assets to be acquired - whether they are specialised assets or general items;
- the market conditions and the implications for the acquisition cost;
- the industry capacity based on the number of potential contractors or suppliers—based both locally and overseas—capable of supplying the assets;
- the industry standard as to how the fixed assets are normally procured in the industry; and
- the suitability of contractors or suppliers depending on whether the contractors or suppliers engaged need government endorsement of the Government of Samoa Tenders Board.

8.1 MINIMIZING THE EXPOSURE TO RISK

Acquisition decisions require thorough examination and economic appraisal. Any potential risks as well as the consequences of acquiring an asset should be examined before any action is taken.

The involvement of the private sector in the acquisition process should also be considered, where appropriate.

In accounting for private involvement in public investment, however, the entity should arrange for an appropriate sharing of risk. This approach is consistent with the Government's drive towards a more commercial focus in the management of its entities. Legal expertise should be engaged to assist in preparing contracts to minimise exposure to risk.

Some of the issues which may be applicable and need to be considered and clarified in contracts with contractors and suppliers include:

- the type of contract;
- ownership and control;
- performance criteria to be met;
- rights over the intellectual property developed as a result of the contract;
- responsibility for maintenance;
- responsibility for testing, inspection and installation; and
- responsibility for post-completion testing.

8.2 PURCHASING ETHICS AND PRINCIPLES

Officers involved in purchasing and supply management in the public sector should maintain the highest ethical standards, and seek best value for money.

The following principles should be observed:

- Public money should be spent efficiently and effectively, and in accordance with Government statutes, regulations and policies, including the supply policies of the Purchasing Board and the Minister responsible for building and construction matters.
- Confidentiality is to be maintained at all times.
- Gifts or favours from current or potential contractors or suppliers that might compromise their integrity as a delivery/purchasing agent should not be accepted.
- Purchasing should be carried out without favour or prejudice.
- Purchase orders for identical goods or services must not be split in order to circumvent established procurement delegation limits.
- All potential contractors and suppliers are to be provided with adequate and identical information on which to base their tender, proposal or quotation.

Procedures should be established and maintained to ensure that:

- (a) fair and equal consideration is given to each tender or quotation received; and
- (b) selection is based on fitness for purpose and on the lowest total cost complying bid.

9 FIXED ASSET RECORDING

9.1 RESPONSIBILITIES

Within entities, accountability for assets will normally be devolved to the business units responsible for the delivery of the service that the asset supports. Fixed asset details should be captured and reported at this level. Individual managers may then monitor and manage the utilisation and maintenance of the assets assigned to their control.

Details of individual assets must be capable of being consolidated and summarised for financial reporting purposes, and for co-ordinated portfolio management. If more than one asset register is used within an entity, common data standards should be employed to assist in consolidating the data.

9.2 RECORDING THRESHOLD

Entities are required to set a minimum monetary threshold for the recording and financial reporting of assets. Effort on these activities is then limited to those assets whose value is of significance to service delivery objectives and is above the threshold. This approach can achieve significant administrative savings.

The principal consideration in setting a threshold is whether the omission of those assets whose value is below the threshold would materially affect the quality and usefulness of the information derived. In the absence of a conscious decision to the contrary, entities must maintain an asset register for all non-current physical assets that have a value above an appropriate threshold:

- Ministries are required by TSY Instructions to register all non-consumables over \$1.
- Public Bodies have their own fixed accounting policies but generally register items of \$100 and over

Entities may elect to use a higher threshold to meet their individual requirements, but must be prepared to justify their decision.

9.3 PORTABLE AND/OR ATTRACTIVE ASSETS

Some items whose value falls below the threshold level but which otherwise qualify as significant assets should be recorded and tracked either for control or security reasons, or to meet other management requirements. Such items may be classified as 'portable and/or attractive'.

They should be recorded in the asset register but excluded from the entity's annual financial statements. (This exclusion does not mean that they are less important to the entity, but only that full accounting treatment is not warranted.)

9.4 CORE AND NON-CORE ASSETS

The terms 'core assets' and 'non-core assets' are used to distinguish assets that are central to the obligations of Government from those that are not.

An asset is classified as 'core' where it is:

- necessary for the ongoing delivery of a service required by Government; and

- publicly owned, and not readily replaced with a private sector alternative; or
- retained for heritage or conservation reasons.

An asset is classified as 'non-core' or 'surplus' where it is:

- intended not to be replaced if lost because it is not required for the long-term service output of the entity; or
- identified as surplus and awaiting disposal or redeployment.

9.5 GROUPING OF ASSETS

Recording of assets should generally be on an asset-by-asset basis. In some cases, however, it may be more appropriate to record a group of interrelated assets (of which some or all of the components may have a value below the recording threshold). Examples include a major piece of machinery with a number of sub-assemblies, or an infrastructure asset such as a services network. The fixed asset register should record the grouped asset, and identify the individual components.

Unlike assets that are aggregated for convenience, a group of assets attracts particular value because it represents a complete collection (eg a suite of furniture, a set of crockery, or a services network). Loss or removal of one item would significantly diminish the value of the group or collection by making it incomplete. This would apply even if the value of the particular item were relatively low. (This contrasts with an aggregation of assets where the loss or removal of one item may have negligible effect on the total value of the aggregated assets.)

9.6 AGGREGATION OF ASSETS

Some entities have large numbers of homogeneous assets which have complementary values (such as library books, or a collection of scientific material). In such cases, the assets may be recorded in aggregate. As for assets that are grouped, this approach will be useful where the value of the components of an individual asset may fall under the recording threshold, but the aggregate value of the 'asset' is above the threshold.

Aggregation should not be used for assets that have fundamentally different characteristics as this will result in inconsistent assumptions about useful life and depreciation.

10 ASSET VALUATION & DEPRECIATION

The valuation of assets is undertaken for a number of purposes. For example, the valuation of an asset may be used to:

- generate the information needed for internal control, resource allocation and performance assessment;
- establish the basis for asset realisation;
- determine insurance cover and risk exposure; and
- meet requirements for external financial reporting.

Choice of an appropriate valuation method depends firstly on the purpose of the valuation, and secondly on the nature of the asset involved. The initial valuation is applied at the time of acquisition, and generally corresponds to the cost of acquisition. Subsequent revaluations are undertaken at periodic intervals with a frequency chosen to reflect the nature of the class of assets concerned.

Valuation methods used should be in accordance with the International Accounting Standard IAS 16 *Property Plant and Equipment*.

A description of the approach to be taken to depreciation is discussed below.

10.1 VALUATION OF CORE AND NON-CORE ASSETS

It is necessary to distinguish between core and non-core assets in determining valuations.

A non-core asset is to be valued at its net realisable value, which is the current market value net of all costs involved with disposing or redeploying the asset.

A core asset should, in general, be valued at the cost of replacing the service potential remaining in the asset. If a viable market exists for the asset, a core asset is to be valued at its current market price. If a market for the asset does not exist, a core asset is to be valued at its written-down replacement cost.

10.2 VALUATION OF HERITAGE/CULTURAL ASSETS

True valuation may be difficult to obtain for assets retained for heritage or conservation purposes.

Heritage assets have two components of value: a market-related value and an aesthetic or social value. The aesthetic or social component will probably not be reflected, in part or in full, in the asset's current market value. A note to the entity's annual financial statements should mention that the asset's true worth to the Government is probably only partly reflected in its reported value.

If an entity has difficulty in establishing a reliable measure of a heritage or cultural asset's value, it must notify the Treasury. Insurance and risk management issues must be considered. Entities must also provide narrative information in the notes to their financial statements on heritage assets.

10.3 DEPRECIATION

Depreciation recognises the cost of consuming the service potential of an asset over time, and provides a means of accounting for the cost of an asset over its useful life.

The recognition of depreciation charges is necessary for the valuation of assets and costing of services, and is also used for resource allocation and asset performance assessment. Depreciation is not normally funded and does not provide cash for the replacement of an asset.

Depreciation can be calculated in several ways. Some methods are arithmetical, such as the straight-line or reducing balance techniques. Others are designed to reflect the actual condition or capacity of the asset as realised over time (such as the production unit method, or 'condition-based depreciation'). The method chosen should match the pattern of service potential yielded by the asset as closely as possible, and the depreciation charge will then be a realistic reflection of the cost of providing the services by using the asset.

Depreciation rates must be reviewed annually and, if necessary, adjusted to reflect the most recent assessments of the asset's useful life (see the section on useful life below for issues to be considered in making this assessment).

10.4 ASSET USEFUL LIFE

An asset's useful life is the period over which it is expected to provide the entity with service. Depending on the nature of the asset, useful life can be expressed in terms of time (years) or output (production or service units). Useful life must be realistically assessed.

Entities should consider the following:

- Over what period does the entity expect to gain service potential from the asset?
- Has the asset been acquired for a specific project, or can it be redeployed within the entity over time?
- What has been the past experience of such assets in use?
- Is the past experience an appropriate benchmark, given the technology embodied in the asset?
- Has an independent adviser assessed the condition of the asset or its life expectancy?
- What is the opinion of the user or relevant expert about the asset's useful life?
- What is the net amount expected to be recovered on the asset's disposal?

Consideration of these factors will enable the expected life of an asset to be assessed realistically. Useful life is an important determinant of the rate of depreciation.

11 FIXED ASSET MAINTENANCE

Entities should be responsible for developing at least a five-year asset management strategy for the assets under their control. The strategies are to cover maintenance, refurbishment and energy management and include all operating costs. They should also detail the systems and processes to be established to monitor asset performance.

The usefulness of an asset depends on how effectively it meets its purpose. For many types of asset, this may depend on the regularity and appropriateness of its maintenance. Regular maintenance may also help to preserve an asset's value.

Planning for asset maintenance enables targeted action to be taken in a timely and cost-effective manner. This, in turn, helps to ensure that the entity's asset portfolio can remain appropriate and productive for the lowest possible long-term cost.

As a first step, the entity must determine which of its fixed assets need to be maintained (ie it must assess the materiality of its assets).

Some fixed assets may, for example, have low or little value and have a relatively short expected life; others may be of a type that normally requires little or no regular maintenance effort (eg furniture). Entities controlling such assets may elect to exclude these from the formal maintenance planning process, and rely on regular condition assessments or inspections (eg in conjunction with stocktakes).

For each of those assets or groups of assets that are to be regularly maintained, the entity should develop a maintenance strategy.

11.1 MAINTENANCE STRATEGY

A maintenance strategy is a comprehensive plan that:

- defines the asset, the performance required of it, and the level to which it is to be maintained;
- describes the systems and procedures to be used to plan and manage the maintenance work;
- specifies the types of maintenance to be carried out, and why;
- nominates the means of resourcing and implementing maintenance;
- indicates any requirements for inhouse plant, equipment or spare parts; and
- outlines the projected costs of routine (and corrective/preventive) maintenance, as well as forecasting major replacements for the next 5–10 years.

In developing a maintenance strategy, two considerations are particularly important the level of maintenance required for the fixed asset and maintenance priorities.

11.2 LEVEL OF MAINTENANCE

The level of maintenance required for an asset, and the performance expected of it, should be clearly established. The level set should:

- be consistent with the role that the asset will play in the delivery of services, relative to other like assets in the portfolio of the entity;
- reflect obligations for compliance with statutory requirements for occupational health and safety, fire, environmental management and the like;
- be realistically attainable, given the age, condition and expected life of the asset;
- be capable of being achieved within planned resource availability; and
- be agreed with the users of the asset.

The level of maintenance should specify the extent to which the performance of the asset is operationally critical and to which visual appearance is important. It should also stipulate the necessary response times in the event of failure.

Maintenance priorities: Higher priority maintenance tasks (such as those that affect health and safety or that are operationally critical) should be identified in the maintenance strategy. This will enable maintenance effort to be focused on these areas if resources fall below the planned levels.

11.3 MAINTENANCE PLAN

Once a maintenance strategy is developed for an asset, it must be translated into annual maintenance plans that set out, in detail, the maintenance tasks to be performed each year.

The maintenance plan provides a basis for managing the work and for monitoring maintenance performance. It should set out the maintenance requirements of assets, broken down into individual components, systems or elements when necessary. It should also include a statement of resources, which details such information as:

- the resources required to undertake the maintenance function, including its planning and management;
- the expected number and type of maintenance contracts and suppliers; and
- the expected funds sources for both capital and recurrent costs over the period (sources of funds could include recoveries from user charges and other sources as well as funds appropriated in the budget).

Maintenance data need to be captured as work is performed, with records being kept of maintenance history for planning purposes. As appropriate, such data should also be used to prepare the annual maintenance plan.

11.4 CRITERIA FOR ASSESSING MAINTENANCE PERFORMANCE

The outcomes of effective asset maintenance include:

- a long-term reduction in life cycle costs;
- better asset performance and service;
- the optimisation of asset life; and
- improved public perception of the asset's service and safety standards.

These outcomes should be monitored and reported through the use of performance measures. Typical indicators can be derived from such measures as the asset's availability, its operational performance in relation to service delivery, its energy consumption, its operating costs, and user satisfaction. Many of these indicators can be benchmarked against other like fixed assets.

12 ASSET DISPOSAL

Entities should:

- evaluate the effectiveness of their redeployment/disposal strategies in maintaining an asset portfolio that best meets service needs; and
- establish arrangements for the decommissioning of assets and for under-performing or surplus assets as efficiently as possible, prior to redeployment or disposal.

Asset disposal decisions are to be made within an integrated service and financial planning framework. The following guidelines are provided to help entities dispose of their assets in an accountable manner. Entities should:

- establish and maintain an asset information system, which records all relevant information, to assist in asset planning and management;
- prepare and evaluate proper costing to support the selection of the most cost-effective disposal methods;
- identify those areas most susceptible to fraud or risks, and introduce appropriate preventive measures;
- identify and communicate the preferred arrangements for disposals to relevant staff;
- engage experts to develop the terms of contract and to assist in preparing the contract (particularly for complex and non-standard disposals) to minimise the exposure to risk;
- provide clear instructions to the agent engaged to undertake the disposal; and
- monitor and evaluate disposal performance regularly for achievement, fair dealing, cost-effective choice of disposal methods and for compliance with the Government's disposal policies and objectives.

Different disposal methods will be needed for different types of assets. Auctions, for example, may not be appropriate to dispose of some classes of assets. Before deciding on a particular disposal method, the following matters should be considered:

- the nature of the asset (ie a specialised asset or a common item);
- its potential market value;
- other intrinsic value of the asset (ie cultural/heritage aspects etc);
- its location (with respect to its transportation or access);
- its volume;
- its trade-in value;
- its ability to support wider Government programs;
- environmental considerations;
- market conditions; and
- the asset's life.
- Appropriate means of disposal may include:
 - public auction;
 - public tender;

- transfer to another entity;
- sale to another entity;
- sale to staff;
- trade-in; and
- controlled dumping (for items that have a low value or are unhygienic).

As discussed earlier, professional valuations play an important role in asset disposal. They can help managers to select the most appropriate selling method. They also help to set realistic expectations for the sale. If they are required, valuations must be obtained from experienced agents who have knowledge of the type of asset(s) for sale and the current market trends. The Ministry of Natural Resources and Environment (MNRE) employs a Valuer who is supposedly responsible for all Government valuations.

GLOSSARY

Accounting standards	Accounting standards referred to in the Guide are the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IASs) issued by the International Accounting Standards Board. These standards detail the accounting requirements that will apply for most Ministries and entities. Any public body registered as a corporate entity under the PFMA should refer to IFRS and IASs.
Accrual accounting	The system of recording and reporting of financial transactions for which an entity is responsible. It identifies and records revenues and expenses as they occur, without regard to the date of receipt or payment of cash.
Administrative policy	The policies that detail and execute Government policy. Focuses on process-procedures and propriety, and is the more detailed level of policy that determines 'how' Government policy is executed.
Asset	<p>In this Guide, an asset is defined as an item possessing the following characteristics:</p> <ul style="list-style-type: none"> • it is a physical item of significant value; • it possesses service potential or future economic benefit; • it is controlled by the entity; and • it originates as a result of a past transaction or event. <p>Such an asset is called a 'non-current physical asset'.</p>
Asset acquisition	The process by which an entity assumes control of an asset.
Asset disposal	The process by which an entity relinquishes control of an asset.
Asset life cycle	The life of an asset, from when a need for it is first established, through its acquisition, operation and any maintenance or upgrading, to its disposal.
Asset management	The process of guiding the acquisition, use and disposal of assets to make the most of their service delivery potential and manage the related risks and costs over their entire life.
Asset register	A data source that records information on individual assets, usually only those over a certain value. Information may include the assets' location, condition, utilization and ownership details, as well as the value (and depreciation) of the asset and its major components.
Asset strategy	The means by which an entity proposes to manage its assets (across all phases of their life cycle) to meet service delivery needs most cost-effectively.
Asset utilization	A measure of how effectively an asset is being used to meet the entity's service delivery objectives.
Business Plan	A document that details how the strategies defined in the Corporate Plan are to be implemented, as well as the financial implications of these actions.
Capital	The amount invested in an entity.
Capital budgeting	The process of determining how best to spend/allocate capital.

Capital costs	The costs incurred by the entity in procuring additional or upgraded assets.
Capitalisation	The process whereby expenditure is charged to a capital account rather than to an expense account.
Chart of Accounts	The Chart of Accounts for a public body or Ministry identifies the structure of the ledger and represents the framework upon which the ledger and associated management reports are based.
Condition assessment	An assessment of the current condition of an asset (and its components) in relation to its service performance, as well as the maintenance or renovation required and associated costs.
Constructed assets	Building and related works and other capital improvements on land.
Control of an asset	<p>An entity is deemed to control an asset if it:</p> <ul style="list-style-type: none"> • has the capacity to benefit from the asset in pursuing its objectives; • is able to deny or regulate the access of others to that benefit; and • has the ability to secure the service potential or the future economic benefit.
Core asset	An asset that is central to the obligations of Government.
Core services	Those services that must continue to be provided to the community (eg health care, road maintenance etc).
Corporate Plan	A document or statement setting out the strategies that the entity intends to follow in the medium term in order to achieve the Government's policy objectives.
Cost	The money out-laid to procure the resources used for a particular purpose.
Costing	The process of determining the costs of operating an asset to deliver services. Cost is a key element in pricing services.
Demand management	A management technique used to identify and control demand for services.
Depreciation	A system of accounting used to allocate the cost of an asset (less residual value if any) over its estimated useful life. Depreciation recognises the gradual exhaustion of the asset's service capacity.
Direct costs	Costs that can be specifically assigned and directly attributed to an asset.
Disposal	The process whereby an asset is disposed of or decommissioned.
Economic appraisal	<p>The analysis of the costs and benefits of each service delivery option identified. In essence, it shows:</p> <ul style="list-style-type: none"> • whether the benefits of an option exceed its costs; • which option is the most cost-effective, if project benefits are equivalent; and • which option has the highest net benefit. <p>This analysis is also referred to as investment</p>

	appraisal.
Effectiveness	The evaluation of whether resources have been deployed in the best possible way to achieve objectives.
Efficiency	The evaluation of how well the resources have been used, irrespective of the purpose for which they have been deployed.
Enhancement	The work needed to increase an asset's service potential, which is regarded as capital expenditure. Enhancement extends an asset's useful life.
Entity	The term used to apply to each or any of the Ministries and public bodies that are wholly or partly funded through the Independent State of Samoa and accountable to the Legislative Assembly.
Finance lease	A lease which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property without transferring the legal ownership.
Financial statement	A formal accounting report of an entity, such as a balance sheet, income statement, statement of changes in equity or cash flow statement.
Government policy	The policy made by Government Ministers pursuant to powers enacted upon them by the Legislative Assembly.
Gross replacement cost	The total current cost of replacing an asset or its equivalent as new.
Indirect costs	Costs that cannot be directly associated with one particular asset, but which can be attributable to the entity's total asset base.
Investment	An asset (or money outlaid to acquire an asset) that delivers, or is expected to deliver, services, and that yields, or is expected to yield, revenue for the entity.
Lease	An agreement that conveys the right to use an asset, usually for a specified purpose and duration, and for an agreed cost.
Life cycle costing	The full cost of an asset over its life. This includes all costs associated with acquiring, controlling, operating and disposing of the asset.
Maintenance	The work needed to maintain an asset in a condition that enables it to reach its service potential. Maintenance does not extend an asset's useful life.
Needs analysis	A thorough analysis to compare community demands, expectations and needs with current and possible sources of service supply.
Net realisable value	The current market value of an asset, less all costs to dispose or redeploy it.
Non-core assets	An asset that is not central to the obligations of Government.
Non-current asset	An asset having a potential service life longer than one year.
Operating lease	A lease where the risks and benefits incidental to ownership are not substantially transferred to the lessee.
Performance indicator	A specific qualitative or quantitative measure that allows performance against a benchmark to be assessed.
Pricing	The process of developing the rates for charging an entity's products and

	services. Prices can be based on market rates, full cost or partial cost. Products and services can also be supplied at no cost, reflecting community service obligations.
Recurrent costs	All costs, including the cost of finance, incurred in holding and operating the asset.
Refurbishment	Modification works carried out on an asset to restore it to acceptable condition. Some refurbishment works do not extend the life of the asset, but are necessary for the planned life to be achieved.
Residual value	The net market value or recoverable value which is (or expected to be) realised from the disposal of an asset at the end of its life.
Revaluation	The recording of an increase in the book value of an asset, to be reflected in the entity's financial statements.
Revenue	The gross proceeds from the sale of goods and services.
Risk management	A management technique used to identify and analyse potential risks, and to implement appropriate responses.
Service potential	A measure of an asset's ability at any point in its life to contribute to the delivery of a service. Service potential is also referred to as future economic benefit.
Transaction	An event or condition which is recorded in the accounting records in monetary terms.
Useful life	The time period over which an asset is expected to provide the entity with service potential.
User charge	A fee or charge imposed on the users of services.
Valuation	The process of assigning and recording a monetary value for an asset (initially, the cost at acquisition).
Value management	A management technique that aims to provide all the functions needed to deliver services at the lowest total cost, consistent with required levels of performance and quality.
Whole-of-life cycle approach	Asset management across the whole life of the asset.
Written-down replacement cost	Current costs less, where appropriate, accumulated depreciation to reflect the amount of potential that has already been consumed.

APPENDIX 1: ASSET MANAGEMENT DIAGNOSTIC

The following is a checklist for making an asset management diagnosis based on the five Asset Management Principles:

Is your entity applying the asset management principles?

Service focus

1. Are assets managed within a strategic framework driven by program and service delivery needs and strategies?
2. Do all asset creation, refurbishment and disposal proposals:
 - identify the service capacity needs?
 - assess other options and compare predicted service delivery outcomes with identified service needs?
3. Are performance management of assets and reporting on assets carried out in terms of service delivery potential, service delivery outcomes, continuing service delivery needs and economic viability?
4. Have asset service delivery objectives, outputs and outcomes been explicitly identified?
5. Is the asset strategy based on the needs analysis?

An integrated approach

6. Have non-asset alternatives to asset-based service provision been considered?
7. Have asset strategies been integrated with corporate and business plans? Will they achieve the objectives of these plans?
8. Are asset strategies linked to a budgetary process that integrates capital and recurrent resource allocation?
9. Are all costs, liabilities and risks incorporated in forward asset planning and budget estimates?
10. Are full costs as well as service delivery outcomes monitored and reported on as part of the regular reporting cycle?

Informed decision-making

11. Are capital expenditure decisions based on rigorous and fully documented economic appraisals that take into account the full life cycle costs, benefits and risks of the asset, and financial as well as non-financial parameters? Are proposals reviewed by a party other than the originator of the proposal?
12. Does the entity maintain an effective asset register that provides an accurate record and valuation of assets?
13. Is the performance of assets regularly reviewed?

Clear accountability and responsibility

14. Have responsibility and accountability for both ownership and control of assets been determined and communicated?
15. Are asset management responsibilities reflected in the performance agreements of the Chief Executive Officer, and in service agreements established between the Chief Executive Officer and service entities in the portfolio?
16. Have staff been informed about their responsibilities for asset planning, pricing, recording, valuation and reporting, acquisition, management in use and disposal?

Government policies

17. Are the entity's asset management policies and practices in keeping with the Asset Management Series and with best practice in government and industry?

APPENDIX 2: FIXED ASSET POLICY AND PROCEDURES

Public Sector entities are encouraged to use the following checklist to:

- Assess the adequacy of their Fixed Asset Policies and Procedure Manual or
- Develop a comprehensive Fixed Asset Policies and Procedure Manual.

Management Review Checklist - Asset Policy and Procedure Manual	
Phase	Section
Planning	<ul style="list-style-type: none"> • Definition of assets • Role of assets in program delivery • Non-asset solutions • Asset life cycle • Life cycle costing approaches • Accountability and responsibility • Elements of the asset strategy
Acquisition	<ul style="list-style-type: none"> • Analysis of alternatives • Developing an acquisition plan • Receipt and acceptance of assets • Establishing ownership and control
Operation	<ul style="list-style-type: none"> • Establishing performance indicators • Operation & maintenance plans • Monitoring condition and use • Maintenance scheduling • Tracking assets: - transfers, loans, off-site repairs. • Safeguarding and protecting assets <ul style="list-style-type: none"> • Physical inventory • Physical security
Disposal	<ul style="list-style-type: none"> • Identification of surplus, obsolete & under-performing assets • Replacement strategy • Evaluation of disposal alternatives • Write-off of damaged or missing assets • The disposal plan
Accounting	<ul style="list-style-type: none"> • Definition of assets: <ul style="list-style-type: none"> • Capitalization threshold • Enhancements & upgrades • Valuation of assets: <ul style="list-style-type: none"> • Recognition criteria • Valuation methodology • Depreciation of Assets: <ul style="list-style-type: none"> • Method • Useful life • Treatment of repairs & maintenance • Recording assets on acquisition, transfer and disposal

APPENDIX 3: FIXED ASSET REGISTER

All public sector entities should consider the following to ensure an appropriate fixed asset register is established and maintained:

1. Have you identified who is responsible for management of the asset register?

Identify and document responsibilities of an officer or group who, as the Asset Manager, is responsible for maintaining and enhancing the asset register.

2. Have you established an asset register which records all physical and intangible assets?

An asset register is a database of information about tangible and intangible assets that an organisation owns or maintains.

An asset register should include purchased assets. Assets capitalised for financial reporting purposes should also have a set minimum value (for example, non-current assets may have a value of \$1,000 or more).

Leased and hired assets are generally recorded separately and are usually the responsibility of the lessor. Entities should have clauses within their lease contracts that ensure completion of asset registers and audit programs.

An asset register should also incorporate a register of portable and attractive items. These are items valued at less than \$1,000 but regarded as accountable after issue. Portable or PEDs (personal electronic devices) would be included on this register. Computer hardware is usually classified in financial statements under property, plant and equipment. Purchased software and communications licenses are usually classified as intangibles.

Entities should comply with procedures in their Chief Executive Instructions and should pay due regard to any supporting Financial Procedures, issued by the Chief Financial Officer and the Finance Minister's Orders (Requirements and Guidance for the Preparation of Financial Statements) issued for the particular financial year.

3. Have you recorded all fixed assets, excluding information assets and intellectual property, on the asset register?

Asset registers should retain the following minimum information:

- date of acquisition
- description of item
- asset serial number
- asset barcode number
- cost of acquisition and maintenance (if appropriate)
- the location of the asset
- ownership.

APPENDIX 4: BETTER PRACTICE CHECKLIST

In general

- Do you understand the asset management lifecycle?
- Are you familiar with the principles of asset management?

Develop a fixed asset management framework

- Have you developed policies to cover fixed asset management?
- Have you linked asset registers to procurement and disposal processes?
- Have you considered environmentally friendly acquisition and disposal options?
- Have you developed usage policies for portable equipment?
- Have you considered issues of system security?
- Have you considered using advanced systems to enhance fixed asset management?
- Have you considered innovative approaches to streamline fixed asset management?
- Have you established a robust control framework?

Establish and manage asset registers

- Have you identified who is responsible for management of the asset register?
- Have you established an asset register which records all fixed assets?
- Have you recorded all fixed assets on the asset register?
- Have you established an integrated software asset register?
- Have you established a personal issue items register?
- Have you developed usage policies for portable assets?
- Have you developed stocktake procedures to maintain and reconcile asset registers?

Audit fixed assets

- Have you monitored compliance with policies and legislation?
- Have you monitored software compliance?