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Audit Report No.37 2005–06
Performance Audit

The Management of Infrastructure, Plant and Equipment Assets

Australian National Audit Office

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of Australia 2006

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Canberra ACT
3 May 2006

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit across agencies in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *The Management of Infrastructure, Plant and Equipment Assets*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations

ANAO	Australian National Audit Office
AFTRS	Australian Film, Television and Radio School
Austrade	Australian Trade Commission
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CEIs	Chief Executive Instructions
CPGs	Commonwealth Procurement Guidelines
DIMA	Department of Immigration and Multicultural Affairs
DPS	Department of Parliamentary Services
FMIS	Financial Management Information System
FMA Act	<i>Financial Management and Accountability Act 1997</i>
IPE	Infrastructure, Plant and Equipment
PBS	Portfolio Budget Statements

Glossary

Asset	An asset provides an organisation with future service potential or economic benefits. In this audit, assets were defined as physical items of infrastructure, plant and equipment with an estimated life-cycle of 12 months or more.
Asset management	A planned and structured approach to controlling assets over their life-cycle. It encompassing dealing with the risks and costs associated with an asset's acquisition, operation or use and disposal. Asset management is often underpinned by a formal strategy or plan, including an analysis of how well assets support business objectives and is characterised by clarity of asset-related roles and responsibilities.
Asset capitalisation threshold	The minimum value for reporting an item as a non-current asset in the financial statements.
Depreciation	Depreciation is used to allocate the value of non-current assets over their life-cycle. It is an indicator of the rate at which the 'service potential' of assets diminishes, or is consumed, over their life-cycle.
Finance lease	A lease where substantially all of the risks and benefits incidental to ownership have been passed to the lessee.
Gross book value	The cost of acquiring, or the fair value attributed to, each asset.
Life-cycle (or Useful life)	The asset life-cycle (useful life) is the estimated period of time over which an asset is expected to be used, or the benefits represented by the asset are expected to be derived, by each entity.

Life-cycle costs	The total costs incurred over the life-cycle of an asset. In the case of owned assets, this includes costs associated with acquiring or constructing, operating, maintaining and ultimately disposing of the asset.
Net book value	The gross book value less accumulated depreciation charges.
Non-asset solutions	Methods of addressing program delivery other than by adding to asset capacity. Methods include reducing demand for the service, increasing the utilisation of existing assets, and contracting out functions.
Portable and attractive items	Assets that are below the threshold value for reporting as non-current assets in an entity's financial statements, but that need to be controlled because of their 'portable and attractive' nature.

Summary and Recommendations

Summary

Background

1. Infrastructure, Plant and Equipment (IPE) assets¹ are a key resource in meeting business objectives. The effective management of IPE assets involves the alignment of asset planning and decision-making with business priorities and strategies. Sound management across the asset life-cycle facilitates better decision-making about the acquisition, ongoing use or operation and ultimately the disposal of assets at the right time, and in a cost effective manner.
2. The Australian Government has a substantial investment in IPE assets. As at 30 June 2005, it reported IPE assets with a gross book value of \$58 billion (net book value \$32 billion).²

Audit objective and scope

3. The objective of the audit was to assess whether selected Australian Government entities were effectively supporting their business requirements through planning for, and management of, the acquisition, disposal and use of their IPE assets. The audit reviewed each entity's policies and practices against a series of audit criteria across the following components of asset management: control environment; planning; acquisitions; operations; and disposals.

Audited entities

4. The audit was conducted at the following entities:
 - Australian Film, Television and Radio School;
 - Australian Trade Commission;
 - Department of Immigration and Multicultural Affairs (formerly Department of Immigration and Multicultural and Indigenous Affairs); and
 - Department of Parliamentary Services.

¹ As defined in Australian Accounting Standard AAS 36 – *Statement of Financial Position*.

² Excluding Specialist military equipment.

Audit conclusion and key findings

5. The ANAO found that IPE assets were being generally well managed in the audited entities. In particular, the entities' practices reflected an increasing recognition of the role of, and commitment to, the management of IPE assets. The ANAO also found that the audited entities had, to a large extent addressed, or had action in train to address, the asset management criteria evaluated during the audit.

6. Each of the audited entities had well-designed and informative policy and procedural material in place covering their operational asset requirements. However, only one entity had adequately included, in its policy and procedural documentation, guidance and instructions on the more strategic issues associated with the management of assets. For example, details of the asset management principles relevant to the entity; including guidance to staff on the interpretation and application of these principles.

7. The audit found that the asset register in each of the audited entities contained information concerning the identity and ownership of, and the accounting for, IPE assets. Each of the audited entities had generally sound processes for maintaining the accuracy and completeness of their asset register, including having clearly established roles and responsibilities.

8. At the time of the audit, the development of formal asset strategies or plans was at an advanced stage in three of the entities. The extent of asset management planning will depend on the size and nature of an entity's asset holdings, including the criticality of those assets to the entity's business objectives. Overall, based on the proposed scope of these plans, and given the work already completed, the audit assessed that these plans had the potential, once finalised, to be useful tools in the management of each entity's IPE assets.

9. The audit also found that each of the audited entities had sound processes in place to identify, assess and approve their asset acquisition needs. In each entity these processes culminated in the development of sound asset acquisition or capital expenditure plans. Each of the audited entities also had effective arrangements for monitoring and reporting progress against the approved asset acquisition plans.

10. For the most part, the audited entities had sound arrangements for managing the operation of IPE assets, particularly those IPE assets critical to meeting their business requirements. The audit found that most of the entities had formal and well-managed preventative maintenance programs in place.

In addition, where applicable, sound processes were in place to manage the delivery of asset maintenance and related services under contract.

11. In each of the audited entities, managers were regularly provided with financial reports to assist their asset-related decision-making. Formal management reporting was largely focussed on details of actual capital expenditure, together with a comparison against planned or budgeted amounts.

12. None of the audited entities had structured and coordinated processes for monitoring the performance of their IPE assets on an entity-wide basis. In three of the entities, the audit found that individual operational areas regularly monitored performance-based information to assist in the management of selected IPE assets. This data was maintained within the operational areas responsible for the assets in question. The audit found that this performance information was focussed on non-financial measures. In addition, at the time of the audit, none of the entities had specified any standards relating to the financial performance of assets. The ANAO considers that access to timely and reliable information on the financial and non-financial performance of those IPE assets that are significant or critical to an entity is an important component of effective asset management, in particular, to support informed analysis and decision-making.

13. There was little evidence of structured or formal planning in relation to the disposal of IPE assets amongst the audited entities. Rather, disposal decisions were generally made on an ad-hoc basis relying on information obtained during other processes. This included, for example, observations made during the conduct of stocktakes, information gained from maintenance activities and assessments made during asset acquisition planning.

14. Each of the asset acquisition and disposal transactions reviewed were found to have been properly approved and recorded in the asset register in a timely manner. For most of these transactions, sufficient evidence existed to support or justify the decisions made. In particular, most of the audited entities demonstrated that alternatives to the disposal of assets were actively considered during the decision-making process. In some of the audited entities, the ANAO found a lack of consistency regarding the level and nature of documentation supporting asset acquisition and disposal transactions.

15. The ANAO has made five recommendations designed to strengthen the arrangements for the management of IPE assets in Australian Government entities.

Entities' comments

16. Each of the audited entities responded positively to the report and agreed with each of the recommendations. Comments provided by the entities in relation to the recommendations have been included in the body of the report. Any further general comments on the report have been included in Appendix 3.

Sound and better practices

17. The following table outlines sound and better practices found during the audit. These practices were considered beneficial to improving the effectiveness of asset management practices in the audited entities.

Table 1

Sound and better practices

Reference	Description
Policy and procedures	One entity included information on risks, controls and examples of better practices in its asset policy and procedural documentation.
Asset planning	The draft asset plan in one entity included an analysis of its existing asset-base against a desirable or optimal asset base and a schedule of potential risks to, and their impact on, the effective use of assets.
Asset acquisitions	Two of the audited entities had developed standard forms for use in documenting asset acquisition decisions. The application of these forms was supported by clear and well-defined thresholds to assist staff determine the relevant acquisition category.
Managing performance	One entity included a number of asset-related performance indicators in its Portfolio Budget Statements.
Asset disposals	One entity required its staff, as part of the asset disposal decision-making process, to assess if the asset could be used by another area of the organisation. In these cases, the availability of the equipment was notified using an electronic bulletin board. In one entity, as part of the preparation of annual asset acquisition plans, staff reviewed IPE assets approaching the end of their estimated useful lives.

Source: ANAO, based on audit findings.

Recommendations

The following recommendations are based on the findings of the fieldwork at the audited entities. The ANAO considers that they are likely to be relevant to all Australian Government entities. All entities should therefore assess the benefits of implementing the recommendations in light of their own circumstances, including the extent to which each recommendation, or part thereof, is addressed by practices already in place.

Recommendation No.1 The ANAO recommends entities include, at a minimum, the following information in their asset policy and procedural documentation:

Policies and procedures

Para 2.16

- an outline of the asset management principles relevant to the entity, including guidance on interpreting and applying those principles;
- details of key asset management roles and responsibilities; and
- a description of the key policies and practices relevant to each stage of the asset life-cycle.

Recommendation No.2 The ANAO recommends entities develop a strategy or plan for the management of those IPE assets that are critical to meeting their business objectives.

Asset planning

Para 2.26

Recommendation No.3 The ANAO recommends that entities adopt, and periodically re-assess, thresholds and associated minimum documentary requirements for use in the acquisition of IPE assets.

Asset acquisitions

Para 2.41

Recommendation No.4 The ANAO recommends, for those IPE assets that are critical to meeting their business objectives, that entities:

Managing performance

Para 2.61

- develop appropriate performance indicators, addressing both financial and non-financial factors, to measure the efficient and effective operation of those assets; and
- regularly capture, monitor and report to relevant managers, information on achievements against those indicators.

Recommendation No.5 To assist in the identification of IPE assets that may require disposal, the ANAO recommends that entities

Disposal planning

Para 2.73

regularly monitor those assets nearing the end of their estimated useful lives.

Entities' responses to the recommendations

18. The audited entities agreed to the recommendations. Where provided, entities' additional responses to the recommendations are provided in the body of the report.

Audit Findings and Conclusions

1. Introduction

This Chapter provides background information about the audit, including details of the audit scope, objective and focus.

Background to business support process audits

1.1 This audit is part of a program of Business Support Process audits that examine business processes that support the delivery of services provided by Australian Government entities. They are normally conducted at a selection of entities under the provisions of section 18 of the *Auditor-General Act 1997*, which provides for the examination of a particular aspect of the operations of the whole or part of the Australian Government sector. The audit recommendations are framed to have general applications, and the audit findings are reported to Parliament in generic terms, without being attributed to particular entities. Where appropriate, references to sound and better practices have been included in this report. In addition to this report, an individual management report was provided to each of the entities examined in the audit.

Context of this audit

A better service, not a better asset, is a key indication of successful asset management.³

1.2 Infrastructure, Plant and Equipment (IPE) assets⁴ are a key resource in meeting business objectives. The effective management of IPE assets involves the alignment of asset planning and decision-making with business priorities and strategies. Sound management across the asset life-cycle facilitates better decision-making about the acquisition, ongoing use or operation and ultimately the disposal of assets, at the right time and in a cost effective manner. As well as making a key contribution to the entity's business, informed decisions about assets also assist in the control of asset-related expenditure.

1.3 The Australian Government has a substantial investment in IPE assets. As at 30 June 2005, it reported IPE assets with a gross book value of \$58 billion

³ Department of Treasury and Finance, *Sustaining Our Assets*, Victoria Government (Melbourne), 2000, p. 3.

⁴ As defined in Australian Accounting Standard AAS 36–*Statement of Financial Position*.

(net book value \$32 billion).⁵ Each year, Australian Government entities outlay considerable funds acquiring additional and replacement IPE assets, and charges substantial depreciation on their IPE assets holdings. Table 1.1 illustrates the extent of these transactions for each of the last three financial years.

Table 1.1

IPE asset acquisitions and depreciation expense

	2004–05 \$ billion	2003–04 \$ billion	2002–03 \$ billion
Acquisitions	8.9	6.9	6.6
Depreciation	6.3	6.2	5.9

Source: Commonwealth of Australia Consolidated Financial Statements.⁶

Asset management

1.4 The effective management of IPE assets entails integrating asset planning with the entity's strategic and/or business planning processes, together with the implementation of sound decision-making processes across each of the phases of the asset life-cycle. A strong internal control environment, including a robust record of the entity's assets and clear and informative guidance on asset policies and procedures, should be in place to support these decision-making processes. The performance of assets and asset management processes should also be regularly measured to assist in the assessment of whether strategies and decisions continue to be appropriate.

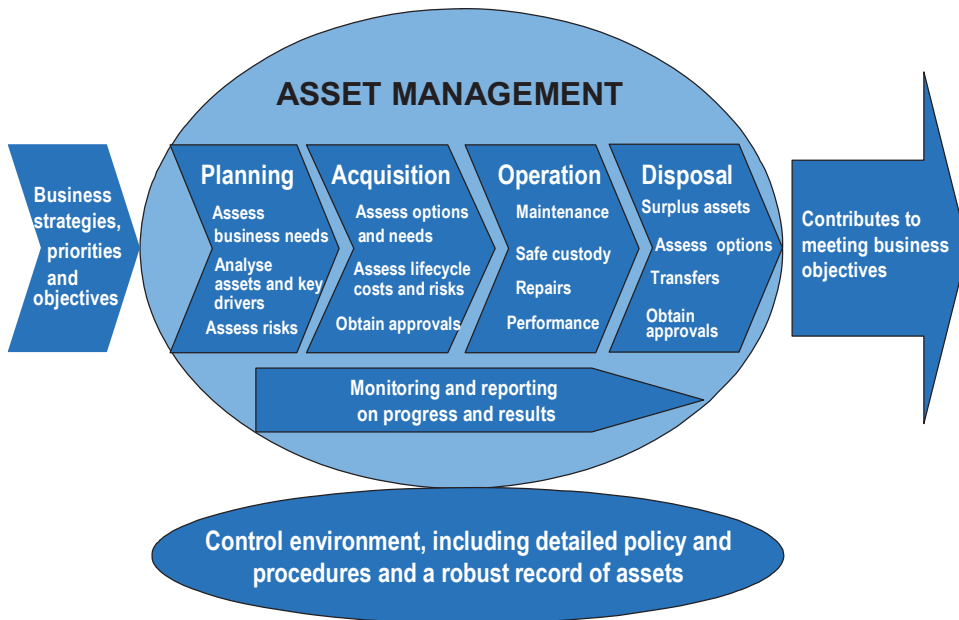
⁵ These amounts comprise IPE assets owned and covered by finance lease arrangements, but exclude Specialist military equipment. The amounts have been extracted from Commonwealth of Australia, *Consolidated Financial Statements for the year ending 30 June 2005*. A copy of these financial statements is available from <<http://www.finance.gov.au/publications>>.

⁶ Commonwealth of Australia, *Consolidated Financial Statements for the years ending 30 June 2003, 2004 and 2005*, (Note 23A in 2003 and Note 25A in 2004 and 2005). A copy of these financial statements is available from <<http://www.finance.gov.au/publications>>.

1.5 The key elements of asset management are demonstrated in Figure 1.1

Figure 1.1

Asset management



Source: Source: ANAO, adopted from information in *Sustaining Our Assets*, published by the Victorian Department of Treasury and Finance in December 2000.

1.6 The implementation of an effective asset management function can, amongst others things, assist in:

- maximising the service potential of existing assets;
- lowering the overall cost of owning and using assets;
- reducing the demand for new assets; and
- improving asset performance and results by establishing clear lines of accountability and responsibility.

The principles of asset management

1.7 Adherence to a set of common or standard principles is widely accepted as a foundation requirement for an effective asset management framework. Although not definitive, the ANAO considers that the following

principles are generally applicable to asset management arrangements in Australian Government entities:⁷

- business requirements should form the basis for, and guide asset management practices and decision-making;
- planning for assets should be integrated with business planning processes;
- asset acquisition or investment decisions should be based on an evaluation of alternatives (including non-asset solutions) and take into account costs, benefits and risks across each asset's life-cycle;
- responsibility and accountability for the safe custody, use and performance of assets should be clearly established and communicated;
- asset disposal decisions should be based on an analysis of disposal methods and be designed to achieve the best available net return; and
- a robust internal control structure is required to support effective asset management practices.

1.8 Each entity should determine, based on the size, nature and characteristics of its asset holdings, the relevance of these principles, including the extent to which any particular principle should be applied. These principles, and the associated procedures and practices, should be applied in a cost effective manner, commensurate with each entity's asset holdings.

Factors influencing asset management in the Australian Government Sector

1.9 A range of initiatives over the last several years has further contributed to the need for greater discipline and more active and careful management of assets. Some of these factors are discussed below.

Legislative requirements

1.10 The *Financial Management and Accountability Act 1997* (FMA Act) sets out the principles for the proper use and management of Commonwealth resources. Of particular relevance is section 44, which defines proper use to mean efficient, effective and ethical use. IPE assets clearly fall within the ambit

⁷ These principles are based on the ANAO's research, including a review of the asset management principles adopted at other levels of government and the findings of this audit.

of Commonwealth resources and therefore should be subject to prudent management in order to meet these requirements.

1.11 While there is no equivalent requirement in the *Commonwealth Authorities and Companies Act 1997* (CAC Act), the *CAC Act (Report on Operations) Orders* require details, both operational and financial, of the acquisition and disposal of non-current assets, including plant and equipment assets, to be included in each authority's annual report.

Accrual budgeting

1.12 Accrual budgeting recognises the full cost of the resources used and controlled by an entity, not simply cash receipts and payments. A key element in the successful introduction of accrual budgeting is a better understanding, and more active management, of assets and the attendant costs. Effectively meeting the requirements associated with accrual budgeting has required the introduction of more structured asset acquisition planning processes and a disciplined approach to the management of asset replacement funding.

1.13 Under the accrual budgeting framework, monies appropriated to Australian Government entities include funds based on each entity's estimated annual depreciation expense. These funds are provided to support the purchase of replacement assets. The failure to properly manage these funds could result in an entity having insufficient funds available, without recourse to funds earmarked for other purposes, to support the maintenance of a sufficient and appropriate asset base.

Financial reporting requirements

1.14 Australian Government entities are required to prepare financial statements under the FMA Act, the CAC Act or the Corporations Act 2001, as applicable. These Acts, together with the Finance Minister's Orders (FMOs),⁸ set the financial reporting framework for these entities.

1.15 The FMOs, which incorporate Accounting Standards and other pronouncements of the Australian Accounting Standards Board and the former Public Sector Accounting Standards Board, are designed to facilitate

⁸ Each year the Minister for Finance and Administration issues requirements for the reporting of financial statements of Australian Government entities. These are issued as Finance Minister's Orders, which comprise the *Financial Management and Accountability (Financial Statement) Orders*, the *Commonwealth Authorities and Companies (Financial Statement) Orders* and include the *Requirements and Guidance for the Preparation of Financial Statements of Australian Government Entities*. The FMOs have the force of law under section 63 of the *Financial Management and Accountability Act 1997* and section 48 of the *Commonwealth Authorities and Companies Act 1997* respectively.

consistency of accounting policies across the Australian Government. This is important to ensure comparability between, and enhance the usefulness of, the financial reports of Australian Government entities.

1.16 The FMOs indicate that the efficient and effective management of non-current assets is essential to the delivery of outputs and outcomes and that a prerequisite for effective asset management is access to relevant, reliable and timely information. In this regard, an important element in the development and maintenance of accurate asset information is the adoption of sound asset-accounting practices.

1.17 Relevant asset-related financial reporting requirements addressed in the FMOs include: revaluations; impairment testing; and the analysis (and disclosure) of asset movements. In addition, Appendix C of the FMOs for the 2004–05 reporting period, also contained detailed guidance on a range of asset accounting issues, including information on recognition thresholds, measurement of acquisitions, depreciation, revaluations, asset sales and disposals, transfers between entities and capitalising (or expensing) maintenance costs.⁹

1.18 The increasing level of knowledge and discipline required to address these asset-accounting and external financial reporting requirements is also likely to have a positive impact on the development of accurate and informative internal management reports.

Asset management audits by the ANAO

1.19 Since 1995, the ANAO has conducted a number of audits, as part of its general performance audit program, evaluating asset management arrangements. Relevant reports are as follows:

- *Asset Management* – Report No.27, 1995–96;
- *Asset Management* – Report No.41, 1997–98;
- *Disposal of Infrastructure, Plant and Equipment* – Report No.8, 2001–02; and
- *Purchasing Procedures and Practices* – Report No.57, 2004–05.

⁹ These guidelines have not been included in the FMOs for the 2005–06 reporting period.

1.20 The above audits found that sound asset management practices were generally not being consistently applied. In particular, the audits found that entities needed to:

- adopt a strategic approach to the management of assets by effectively integrating their asset planning decisions into their corporate and resource planning frameworks;
- introduce life-cycle costing methodologies;
- establish baseline cost and performance standards for key assets and monitor outcomes against these standards;
- implement financial management and asset management systems which facilitate the routine capture and reporting of performance information for management purposes; and
- make asset disposal decisions within a framework that includes the regular monitoring of the condition and performance of assets and replacement planning.

Audit objective, criteria and approach

Audit objective

1.21 The objective of the audit was to assess whether selected Australian Government entities were effectively supporting their business requirements through the planning and management of the acquisition, disposal and use of their IPE assets.

Audit criteria

1.22 The audit reviewed each entity's policies and practices against a series of audit criteria across the following components of asset management: control environment; planning; acquisitions; operations; and disposals.

1.23 The audit criteria were developed following a review of the ANAO's earlier asset management audits, and a review of asset management practices, both in other Australian Government jurisdictions and also internationally. In particular, the following publications were used:

- *Strategic Asset Management Guidelines* – produced by the Queensland State Government in 2002;¹⁰
- *Sustaining our Assets* – produced by the Victorian State Government in 2000;¹¹ and
- *Total Asset Management* policy paper and various supporting guidelines – produced by the New South Wales State Government in 2004.¹²

1.24 The detailed audit criteria are shown in Appendix 1.

Approach

1.25 In each of the audited entities, fieldwork involved interviews with a number of the entity's officers, general observations, review of relevant policy and procedural documentation and the examination of documentation relating to a selection of asset acquisition and disposal transactions. In those entities where significant asset management functions were provided under contract, the audit reviewed processes for the management of the delivery of those services.

Audit coverage

1.26 The audit was conducted at the following entities:¹³

- Australian Film, Television and Radio School;
- Australian Trade Commission;
- Department of Immigration and Multicultural Affairs (formerly Department of Immigration and Multicultural and Indigenous Affairs); and
- Department of Parliamentary Services.

¹⁰ This document can be accessed from the web site of the Queensland Department of Public Works. Refer to <<http://www.build.qld.gov.au/amps/amps02.asp>>.

¹¹ This document can be accessed from the web site of the Victorian Department of Treasury and Finance. Refer to <<http://www.dtf.vic.gov.au/dtf/rwp323.nsf/search/D62EBFC40F8477C805256A9A00726104?op=endocument&Expand=7.2&>>.

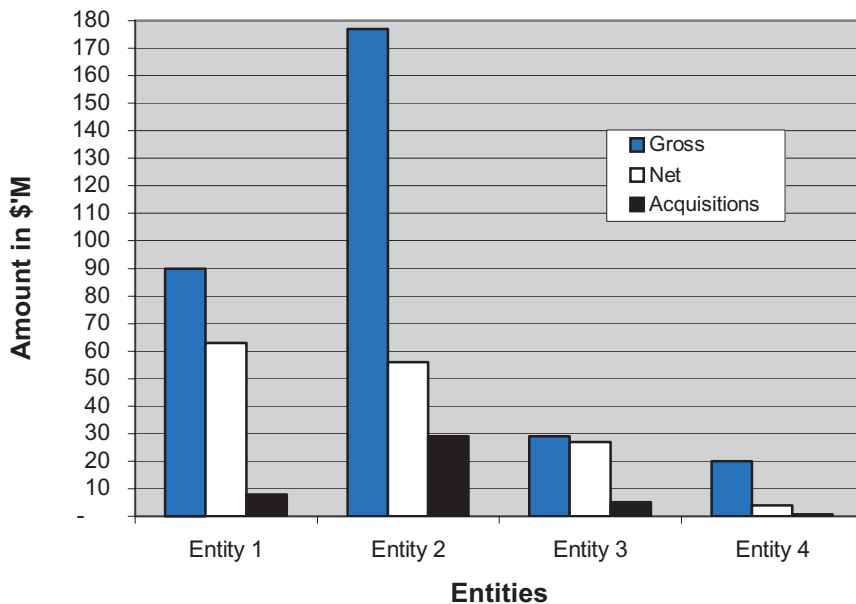
¹² These documents can be accessed from web site of the NSW Treasury Department. Refer to <<http://www.treasury.nsw.gov.au/tam/tam-intro.htm>>.

¹³ These entities contained a good cross section of IPE asset classes, including general administrative or office equipment, furniture, fixtures, security equipment, information technology equipment, specialised communications equipment, motor vehicles and other specialised equipment.

1.27 Details of relevant financial information for the 2004–05 financial year for each of the audited entities are shown in Figure 1.2. Details of disposals have not been included in Figure 1.2 as the amount of disposals at each of the audited entities during 2004–05 was not significant.

Figure 1.2

Gross and Net book values of IPE assets at 30 June 2005, together with the value of IPE asset acquisitions for the year ended 30 June 2005



Source: Entity annual reports for year ending June 30, 2005.

1.28 Each of the audited entities was provided with a management report detailing the audit findings, recommendations for improvement, where appropriate, and conclusions arising from the fieldwork specific to them.

1.29 The audit was undertaken in accordance with the ANAO's Auditing Standards and was completed at a cost of \$278 000.

2. Audit findings – Management of Infrastructure, Plant and Equipment Assets

This chapter outlines the results of the audit against the following components of asset management: control environment; planning; acquisitions; operations; and disposals. It also includes any sound and better practices identified during the audit and the five recommendations made to improve the management of IPE assets in Australian Government entities

Introduction

2.1 The effective management of IPE assets is generally characterised by the existence of formal and structured planning processes to determine the direction and priorities of asset management activity. Planning should be supported by sound decision-making practices across the asset life-cycle, that is, acquisition, operation and disposal. Underpinning these decision-making practices should be a strong control environment, incorporating a robust record of the entity's assets and clear and informative asset policy and procedural documents.

Control environment

Introduction

2.2 A robust and structured control environment is important to underpin and support the management of IPE assets. In this part of the audit, the ANAO assessed whether the following elements were in place:

- comprehensive, clear and readily accessible policies and procedures, covering each stage of the asset life-cycle; and
- a formal and secure record of asset information, providing accurate, reliable and timely information on the entity's asset holdings.

Policies and procedures

2.3 Informative and up-to-date policy and procedural documentation is important to foster consistency of understanding, interpretation and sound practices throughout the entity. The absence of adequate guidance material can infer a lack of support for, and can lead to inconsistencies in, decision-making

by line managers. In relation to assets, the absence of effective guidance increases the risks of:

- inappropriate or excessive assets being acquired;
- assets not being properly recorded in the asset register;
- assets not being effectively utilised and maintained; and
- assets being disposed of inappropriately.

Audit findings

2.4 The audit found that each of the audited entities had, or were in the process of updating, policy and procedural material containing information on asset-related operational matters. This documentation included information on stocktake processes, maintaining the asset register and details of the administrative requirements for the acquisition and disposal of assets. This latter component included guidance on the requirements of the Commonwealth Procurement Guidelines (CPGs), information on critical aspects of decision-making and details of approval processes. One entity also included, for each major operational element, information on risks, controls and examples of better practices. This was considered to be an example of a sound and better practice.

2.5 However, asset policy and procedural material should cover more than operational aspects. It should also address the more strategic issues associated with the management of assets, including the following:

- an outline of the asset management principles relevant to the entity; including guidance to staff on the interpretation and application of these principles;¹⁴
- clarification of key asset management roles and responsibilities;
- description of the major asset management practices required, or in place, across each phase of the asset life-cycle; and
- information on processes for monitoring the performance of assets.

2.6 The extent to which this type of information should be addressed in asset policy and procedural documentation depends on the volume, nature and significance of the entity's assets. At the time of the audit, the ANAO

¹⁴ Those principles generally applicable to Australian Government entities are discussed at paragraph 1.7 of this report.

considered that the asset policy and procedural documentation of only one entity adequately addressed these broader issues.

2.7 Appendix 2 sets out an outline of the suggested content of asset policy and procedural document that is likely to be relevant to many Australian Government entities.

2.8 In each of the audited entities, asset policy and procedural material was readily available to staff through the entity's intranet. Additionally, each of the entities had structured processes in place for maintaining the currency of its asset policy and procedural material. Two of the entities reviewed their policy and procedural material at fixed intervals. In the remaining two entities, relevant staff members had been nominated as responsible for maintaining the currency of material as the need arose. In each of the audited entities, the ANAO identified that asset policy had recently been, or was in the process of being updated, to reflect changes in the entity's operating environment or practices. For example, asset policy had been updated to reflect the requirements of the new CPGs¹⁵ and, in one case, was being updated at the time of the audit, to include more guidance to staff on the management of assets.

Asset recording

Asset registers

2.9 A robust asset register is fundamental to the maintenance of a complete and accurate record of asset holdings, and to support effective asset decision-making. An asset register should be the prime source of asset information, including that required to satisfy financial statement reporting requirements. The asset register should be structured and meet the various information requirements of asset managers throughout the entity.

2.10 While the content of the asset register will largely depend on the quantity and nature of assets held by the entity, it should, in broad terms, contain information such as:

- *identity*: includes description, serial number, unique asset number;
- *accounting*: includes cost and date of acquisition, life-cycle (useful life), depreciation rate, depreciation amount, residual value, associated liabilities; details of revaluations and disposal consideration;

¹⁵ The new CPGs were introduced in January 2005.

- *ownership*: including location, custodian, special identifiers, covenants or restrictions; and
- *performance*: listing of performance measures or indicators, such as capacity or life-cycle, condition, usage levels and costs of operating.

Audit findings

2.11 Each of the audited entities maintained a formal record of their asset holdings. In three of the entities the asset register was integrated with their Financial Management Information System (FMIS). The lack of integration in the remaining entity meant that acquisition and disposal information had to be separately input into both systems.

2.12 The audit found that the asset register in each of the audited entities contained an appropriate level of information in relation to the following factors identified above: *identity*; *accounting*; and *ownership*. None of the entities recorded information on the *performance* of individual assets in their asset register.¹⁶

2.13 The audit also found that each of the audited entities had generally sound processes for maintaining the accuracy and completeness of their asset register. This included controls to facilitate the prompt recording of authorised asset acquisition and disposal transactions, the conduct of regular reconciliations between the asset register and the general ledger and undertaking regular (generally annual) asset stocktakes.

2.14 Another factor contributing to the effective maintenance of an asset register is clarity of responsibilities. In each entity responsibility for the maintenance of the asset register was clearly established. Generally, responsibility resided with a specially designated asset team or officer. In one large entity, operating in a devolved environment, individual state offices were responsible for maintaining their own asset registers. In this case, some control was still exercised by a centralised asset team, through the conduct of periodic quality review checks of the transactions processed to these registers.

2.15 Overall, the ANAO assessed the information in the asset registers at the audited entities to be reliable. However, it did find a number of instances of breakdowns in the controls over the accuracy and completeness of information. These included:

¹⁶ The use and reporting of performance information is discussed further at paragraphs 2.49 to 2.62.

- delays in the resolution of errors and omissions identified during stocktakes;
- inappropriate levels of user-access to asset records, including potentially incompatible functions; and
- lack of timeliness of processing assets disposed of at auction.

Recommendation No.1

2.16 The ANAO recommends entities include, as a minimum, the following information in their asset policy and procedural documentation:

- an outline of the asset management principles relevant to the entity, including guidance on interpreting and applying these principles;
- details of key asset management roles and responsibilities; and
- a description of the key policies and practices relevant to each stage of the asset life-cycle.

Entities' responses

2.17 Each of the audited entities agreed with the recommendation.

Asset planning

Introduction

2.18 Each entity should carefully assess, in light of the size, nature and significance of its asset holdings (including the criticality of those assets to meeting its business objectives) the extent and nature of asset planning required.

2.19 The development of an asset strategy or plan should assist in coordinating the identification and implementation of asset management priorities and practices. More specifically, the plan should be designed to assist the entity assess whether the volume, nature and composition of its assets remain appropriate for, and compatible with, its business requirements.

2.20 Effective asset planning helps organisation to better align their assets with their business requirements. For example, effective formal planning can assist in:

- identifying assets that do not adequately support, or which lack the capacity or functionality to adequately address, business requirements or operating standards;
- identifying excess asset capacity and/or functionality;
- managing the demand for new assets;
- identifying and controlling future asset-related costs; and
- maintaining and using existing assets more effectively.

2.21 The level of asset planning, including the structure and level of detail in an asset management plan will depend largely on the volume and nature of each entity's assets, as well as its operating environment. Table 2.1 outlines the better practice elements of an asset plan.

Table 2.1

Contents of an asset plan

Component	Description
Identification of business requirements and priorities	Asset management decisions should be guided by a clear understanding of the entity's business requirements, including service levels and standards, priorities and stakeholder expectations.
Analysis of existing assets	This involves matching the performance of existing assets against the entity's business requirements, in the context of available resources, and developing strategies to deal with any gaps identified between the existing asset portfolio and the optimum level and type of assets.
Analysis of critical drivers	The critical drivers or elements in the delivery of the asset management function should be outlined, including details of related plans, priorities, activities and responsibilities across each stage of the asset life-cycle.
Risk assessment	Asset management decisions should be made in light of an analysis and evaluation of the risks to the entity's business associated with the acquisition, use and disposal of assets.
Performance measures	Details of the measures and mechanisms used to assess the performance of the strategies in the asset management plan, and the performance of individual asset classes in supporting the entity's business.

Source: ANAO, based on information in *Asset Strategy Planning (TAM04-1)*, *Total Asset Management Guidelines*, published by the NSW Treasury in September 2004.

Audit findings

2.22 The audit found an increasing level of attention being given to asset planning in the entities audited. For example, at the time of the audit, the development of formal asset strategies or plans was at an advanced stage in three of the entities. One entity was updating and revising an existing asset plan, while in the other two entities, the plans under development were new initiatives.

2.23 Based on the proposed scope of their asset plans, and given the work already completed, the ANAO assessed that the plans in two of the entities had the potential, once they were finalised, to be useful tools in the management of the entity's assets. In particular, these plans contained:

- an outline of asset management roles and responsibilities;
- a clear link to corporate and business planning, including the identification of those business objectives requiring the support of IPE assets;
- an analysis of current and future issues and priorities impacting on the demand for assets, including emerging technologies and evolving stakeholder requirements; and
- identification of the critical drivers relating to the use and management of assets, including guidance on interpreting and applying policies across the asset life-cycle.

2.24 In addition, the asset management plan being developed in one of these entities contained an analysis of its existing asset base against a desirable or optimal asset base. Such an assessment was considered to be a useful initiative and is potentially, once the plan is finalised and approved, a valuable source of information about the entity's assets. For example, the assessment could be used to assist in the identification of assets that need to be upgraded, supplemented or replaced. It could also assist in assessing the degree of ongoing maintenance necessary to maintain an appropriate asset base. The analysis was undertaken across the following dimensions:

- *service dependency*: the extent to which the entity is dependent on its assets;
- *utilisation*: how effectively existing assets are being utilised;
- *location*: are sufficient assets in the correct locations;
- *capacity*: is there sufficient capacity amongst existing assets; and
- *functionality*: are existing assets suitable to support the business.

2.25 The draft plan also contained a schedule of potential risks to, and their impact on, the effective use of assets. The identification of the risks associated with the use of assets is critical in assisting entities to minimise disruptions to business from, for example, asset breakdowns. It can also be useful in reducing unplanned asset-related expenditure.

Recommendation No.2

2.26 The ANAO recommends entities develop a strategy or plan for the management of those IPE assets that are critical to meeting their business objectives.

Entities' responses

2.27 Each of the audited entities agreed to the recommendation.

Acquisitions

Introduction

2.28 Structured and coordinated processes should be in place to facilitate the regular identification and approval of the entity's asset acquisition needs. Such processes assist in determining priorities that are consistent with the entity's objectives, and in managing the expenditure of available funds. Once acquisition needs are determined, progress against plans should be regularly monitored, including mechanisms to deal with any re-assessment of priorities.

2.29 Acquisition decisions should be made on the basis of an assessment of relevant costs, together with the risks and benefits associated with the proposed acquisition. Where relevant, it is also appropriate to consider alternatives to asset ownership including, amongst other things, leasing, increasing the utilisation of existing assets, contracting-out functions to an external provider (thereby reducing the requirement to own or utilise assets), and managing a reduction in the demand for assets.

Acquisition planning

2.30 The ANAO assessed the extent and nature of planning for asset acquisitions. The audit also assessed whether acquisition plans were being monitored, and re-assessed, in light of actual acquisition activity.

Audit findings

2.31 The audit found that each of the entities had formal and co-ordinated planning processes in place to identify, assess and approve their asset acquisition needs. Amongst the audited entities, information about asset acquisition needs was obtained from a variety of sources, including:

- an analyse of the condition and utility of IPE assets, particularly, those reaching the end of their life-cycle;
- priorities identified in other planning documents or by project-specific groups, for example, steering committees;
- an assessment of the impact of changes in technology; and
- an assessment of IPE assets incurring maintenance costs above acceptable levels.

2.32 In each of the audited entities the preparation of asset acquisition plans occurred in the context of the entity's broader strategies and priorities, including those impacting on the demand for assets. In addition, each of the audited entities also had well-defined arrangements supporting the monitoring and reporting of progress against approved acquisition plans. For the most part, monitoring relied on the provision of reports from the central finance area (or equivalent).

2.33 Table 2.2 outlines examples of the sound and better asset acquisition planning practices found amongst the audited entities.

Table 2.2

Sound and better asset acquisition planning practices

Description
Preparation of asset acquisition plans and budgets was co-ordinated through a designated officer or specialist section.
Detailed guidelines, including standardised templates, were provided to line areas to explain the capital expenditure process, including the identification of funding parameters, and to assist with the submission of bids in the correct format.
Formalised and well-defined processes for reviewing and, where necessary, prioritising asset acquisition bids.
Unique fields were created in the FMIS to facilitate the tracking of asset purchases and the monitoring of capital expenditure by operational areas.

Source: ANAO, based on the results of the audit.

Acquisition activity

2.34 The first stage of a procurement process is to define the requirement. The extent to which requirements are defined should reflect the nature and significance of the proposed purchase.¹⁷ In relation to the acquisition of assets, this normally involves, at a minimum:

- a description of the asset(s) to be acquired;
- a statement of the reasons for, or justification of, the acquisition; and
- an estimate of the cost of the acquisition.

2.35 In the case of more complex or significant asset acquisitions, including those that are strategically important to the entity, the definition of requirements should address a number of additional elements. This involves preparing a detailed business case outlining:

- the reasons or justification for the acquisition, including describing how the acquisition contributes to the entity's business;
- details of non-asset solutions, for example, hiring or leasing the item, or using or extending existing resources;
- the relevant costs across the asset's life-cycle;
- details, and implications of timeframes; and
- the risks involved in the acquisition, and how they might be addressed.

2.36 The ANAO examined a selection of asset acquisitions to identify if transactions were supported by sufficient documentation, including an explanation of the reasons for the acquisition, an evaluation of alternatives to the acquisition of new assets, an assessment of costs, and evidence of approval. The ANAO also assessed whether each acquisition was recorded in the asset register in a timely manner.

Audit findings

2.37 All of the asset acquisitions reviewed were found to be properly approved and recorded in the asset register in a timely manner. For most of the asset acquisitions evaluated, evidence existed to support or justify the decisions made. However, in two of the audited entities, the ANAO found a lack of consistency in the level and nature of documentation supporting asset acquisitions.

¹⁷ ANAO Audit Report No.57, 2004–05, *Purchasing Procedures and Practices*, pp. 32–33.

2.38 A better practice identified at two of the audited entities was the development of standard forms for documenting asset acquisition decisions. In one of these entities, clear and well-defined thresholds were established to assist staff determine the relevant category of acquisition. The ANAO considers that the use of standard forms was effective in supporting the development of asset acquisition requirements, and in achieving reliable, transparent and more consistent decision-making.

2.39 For each of the asset acquisition transactions reviewed, the audit found that an analysis of costs was undertaken. Generally, low-value or simple acquisitions focussed on the amount of the initial outlay. The more significant or complex acquisitions incorporated more detailed analysis of costs across the asset life-cycle. This generally included:

- acquisition costs – the initial capital outlay, including any commissioning, installation and delivery costs; and
- operational costs – costs incurred in the use or operation of the equipment, including the annual depreciation charge, insurance, energy, cleaning, scheduled maintenance, repairs and spare parts.

2.40 None of the entities included estimates of the proceeds from the asset's eventual disposal, or of disposal costs, such as the cost of the destruction of the item, the removal of sensitive or classified information, advertising and storage costs, in their analysis of costs. Disposal costs and proceeds are generally the more difficult amounts to accurately estimate, particularly, for assets with longer useful lives. Such amounts are unlikely, in many cases, to be a significant part of the total life-cycle cost of an asset, and their omission was considered unlikely to significantly affect the acquisition decisions reviewed. Nevertheless, an estimate of disposal proceeds and costs should be included in the analysis of life-cycle costs, particularly in those cases where they are expected to be significant, and they can be estimated with a reasonable degree of accuracy.

Recommendation No.3

2.41 The ANAO recommends that entities adopt, and periodically re-assess, thresholds and associated minimum documentary requirements for use in the acquisition of IPE assets.

Entities' responses

2.42 Each of the audited entities agreed with the recommendation.

Operations

Introduction

2.43 The active management of the operation of assets plays a key role in managing the costs and risks of asset ownership and usage. Being informed about the performance of assets is critical in assessing their contribution to supporting business requirements. In particular, the adoption of formal operational planning and management processes for assets can provide the following benefits:

- enhanced capacity to manage or reduce asset failures;
- better management of safety issues and reductions in disruptions to business;
- greater control over, and ability to reduce, the risks and costs associated with operating and using assets, including maintenance costs;
- improved, and more timely, information for decision-making; and
- extending the useful life of assets, leading to more control over the need for, and timing of, asset replacements.

2.44 The key elements in managing the operation of assets reviewed during the audit were:

- the existence of processes for maintaining assets in good working order, including the appropriate mix of preventative and corrective maintenance activity;
- whether operating standards or indicators, setting out the level of performance required of assets, or groups of assets had been established and were regularly monitored; and
- the reporting arrangements used to inform managers about the operation of assets.

Operations and maintenance arrangements

2.45 Depending on the size and nature of its IPE asset holdings, each entity should strive to maintain an informed balance between the level of planned maintenance activity and the amount of reactive or corrective activity. Generally, the more significant the level of assets and their criticality in meeting business objectives, the greater amount of planned maintenance activity should be scheduled.

2.46 In determining the most cost-effective strategy for maintaining IPE assets in good working order, each entity should consider factors such as the:

- nature and the roles of its assets;
- likelihood, and consequences, of breakdowns or non-performance of assets, including the impacts of disruption to business; and
- availability of sufficient resources, including funding and qualified staff.

Audit findings

2.47 The audit assessed that three of the audited entities had sound arrangements for maintaining their IPE assets in good working order. The range of processes included:

- formal maintenance arrangements were in place for higher value or essential items of office equipment assets, such as facsimile machines, photocopiers and multi-function devices;
- maintenance requirements, including schedules of programmed maintenance were clearly set out in lease agreements;
- in-house maintenance schedules were based on manufacturer's recommendations and recent operational experience;
- a database was used to manage corrective maintenance activities, including a record of reported faults, details of work undertaken, and information on time spent on maintenance activities;
- detailed schedules of preventative maintenance activity were in place; and
- a program was undertaken to upgrade or refurbish assets and related services to ensure compliance with documented maintenance standards.

2.48 In addition, where significant elements of maintenance activity were delivered under contract, the ANAO found there was sufficient clarity about the services to be delivered, and that the audited entities were effectively managing these arrangements. Each entity had a range of structured processes to manage the delivery of services, including processes to monitor and measure the performance of the contracted service provider. Among the better contract management practices reviewed during the audit were:

- regular meetings being held with the contracted service providers to discuss issues arising from the work, including performance against performance indicators;
- the provision (and review) of regular reports detailing the work undertaken; and
- the conduct of periodic inspections of the contractor's systems and procedures.

Performance information

2.49 Access to reliable and accurate performance information is a key element in the effective management of business objectives. As well as providing an informed basis for decision-making, the timely review of performance information can also highlight the need for preventative action.

2.50 Entities should consider the use of performance measures or indicators for those assets that are critical to meeting their business objectives or requirements. The use of performance indicators can assist in the:

- assessment of whether assets are effectively supporting business requirements;
- evaluation of the cost-effectiveness of operational and maintenance strategies; and
- measurement of whether actual costs accord with estimated costs over the asset life-cycle.

2.51 Potential asset performance indicators include measures associated with:

- *physical condition*: assets maintained in good condition and do not detract from a safe and healthy work environment;
- *functionality*: user satisfaction and level of availability;
- *utilisation*: information on actual usage of assets, for example hours of operations; and
- *financial performance*: cost of operating and maintaining assets.

2.52 Each entity should assess the extent to which formal performance measurement is likely to be warranted in relation to its IPE assets. In this regard, the use of standards or performance indicators is generally more

appropriate in those circumstances where IPE assets are significant or critical to meeting the entity's business objectives.

Audit findings

2.53 None of the audited entities had structured and coordinated processes for monitoring the performance of IPE assets on an entity-wide basis. In three entities, individual operational areas regularly assessed the performance of selected assets against predefined standards. In each case, these assessments were limited to a specific group or class of assets, and the information was obtained from, or maintained on, a variety of stand-alone sources within the respective areas. The assessments undertaken at these entities included:

- whether assets were maintained in a safe, useable and hygienic condition;
- whether maintenance activities were compliant with relevant legislative requirements;
- levels of compliance with maintenance standards;
- the continued availability and functionality of equipment; and
- an assessment of the extent to which equipment was utilised.

2.54 None of the audited entities employed standards or indicators covering each of the dimensions mentioned at paragraph 2.51. For example, none of the entities had developed, at the time of the audit, standards addressing the *financial performance* of their IPE assets. Access to information such as whether the cost of repairs and maintenance and/or the cost of operating an asset are consistent with normal or acceptable standards can be an important element in managing the performance of assets, particularly those that are critical to meeting business objectives. Such information can also be important in asset acquisition and disposal decisions.

2.55 On their own, neither financial nor non-financial performance information is generally sufficient to support managers meeting their asset management responsibilities. In particular, undue reliance on different types of performance information can adversely affect decision-making. Accordingly, performance information should comprise an appropriate mix of both financial and non-financial measures.

2.56 One entity included, in its Portfolio Budget Statements (PBS), a number of indicators relating to the performance of selected IPE assets. These indicators included measures relating to the availability of this equipment and

also achievements against asset replacement programs. The ANAO considered that the inclusion of these performance indicators in the PBS, and the regular monitoring of performance against them, was an effective means of achieving an increased focus on the management of these assets. The ANAO considers this approach to be an example of better practice because, in this instance, the operation of these assets contributed directly and significantly to the achievement of the entity's outputs.

Management reporting

2.57 Management reporting should provide a level of information that assists managers plan for, evaluate and control the assets they utilise. In particular, entities should have arrangements for capturing and reporting information on the operation of their assets, or on the performance of asset management processes.

Audit findings

2.58 In each of the audited entities, the audit found that managers were regularly provided with financial activity reports to assist their decision-making about assets. For the most part, these reports focussed on details of actual capital expenditure, including a comparison to planned or budgeted amounts. In each case, these reports were produced centrally by the corporate finance area and sourced from the entity's FMIS.

2.59 Three of the entities had arrangements in place for reporting non-financial information relating to the operation of IPE assets. As was the case with the use of performance standards, this non-financial information was sourced and managed within individual operational areas and related to specific groups or classes of assets. The assessment of performance against pre-determined standards comprised a key part, but not all, of the non-financial information used in the management of IPE assets. Amongst the audited entities, the audit identified the use of information relating to:

- performance against specified standards, including the availability and functionality of equipment;
- details and analysis on the number of, and the time spent on, repair and maintenance jobs;
- analysis of service faults and service requests;
- results against planned maintenance activities;

- an analysis of repair activity, including an assessment of the causes of repairs and an analysis of the number and priority of work orders; and
- equipment usage data.

2.60 Overall, the audit considered that the level of information provided to managers, together with the information contained in each entity's asset register¹⁸ was, for the most part, adequate to support asset management decision-making. The ANAO considers that asset decision-making would be enhanced by also collecting and reviewing information addressing the financial performance of assets, for example, information on the costs of repair and maintenance activities.

Recommendation No.4

2.61 The ANAO recommends, for those IPE assets that are critical to meeting their business objectives, that entities:

- develop appropriate performance indicators, addressing both financial and non-financial factors, to measure the efficient and effective operation of those assets; and
- regularly capture, monitor and report to relevant managers, information on achievements against those indicators.

Entities' responses

2.62 Each of the audited entities agreed with the recommendation. Austrade provided the following specific comment:

In addition to the regular monitoring of the performance of business critical assets, Austrade considers that appropriate redundancy or back-up arrangements should be in place for these assets. For less significant assets, Austrade agrees that there should be an informed balance between formal monitoring mechanisms and reactive or corrective activities.

Disposals

Introduction

2.63 To assist in the identification of opportunities to better support the conduct of business, entities should have structured processes for identifying assets that are under-performing, are inefficient to operate or are surplus to

¹⁸ As discussed at paragraphs 2.11 to 2.15.

requirements. Identifying and dealing with these assets in a timely and considered manner, also increases the likelihood of maximising the proceeds from disposal activity. Once potential disposals have been identified, sufficient justification should be provided to enable disposal transactions to withstand scrutiny, particularly if the disposal involves significant assets.

Disposal planning

2.64 Relevant considerations in the identification of surplus assets include the following:

- assets may no longer support the entity's objectives due to changes in the entity's business, including the type of services provided;
- assets have varying useful lives;
- assets may be able to perform as originally planned, but have been made redundant or less effective due to advances in technology or changed work practices; and
- potential savings from the replacement of an asset must be weighed against the cost of that replacement.

Audit findings

2.65 None of the audited entities had regular or structured planning processes specifically dealing with asset disposals. Rather, they tended to rely on a range of ad-hoc and less formal processes to identify potential asset disposals. These processes included, for example, observations made during routine operations, observations during the conduct and from the results of stocktakes, and information gained from maintenance activities.

2.66 In addition, potential disposals were also often identified as part of the assessment of asset replacement requirements. In this regard, a better practice at one entity was the review, as part of preparation of their annual asset acquisition plan, of those assets approaching the end of their estimated useful lives. These reviews were designed to assess the condition of the assets, and their ability to continue to provide an appropriate level of useful service.

2.67 The monitoring of assets that are at, or are nearing the end of their useful life, is a useful practice to facilitate the identification of potential disposals in a timely manner.¹⁹ The well-timed disposal of an asset can reduce the costs of holding older assets and also maximise disposal proceeds.

¹⁹ ANAO Audit Report No.8, 2001–02, *Disposal of Infrastructure, Plant and Equipment*, p. 51.

Disposal activity

2.68 The audit assessed, for a selection of disposal transactions, whether the disposal was supported by sufficient documentation, including:

- explanation of the reasons for the disposal;
- identification of the most appropriate disposal method, including consideration of issues around timing, security and achieving the best return; and
- evidence of approval.

Audit findings

2.69 All the disposal transactions reviewed were properly approved, however, evidence was not always available to justify the disposal. In particular, in two entities the ANAO found a lack of consistency in the level of documentation supporting disposals.

2.70 Three of the audited entities had developed standard forms to guide staff through the disposal of an asset. In two of these entities, the ANAO assessed the forms as sufficient and useful to support decision-making, including providing justifications or explanations for the disposal transaction. The ANAO considers that the existence of these standard forms, and associated guidelines, contributed to more consistency in disposal decision-making.

2.71 In three of the audited entities alternatives to the disposal of assets were actively considered during the decision-making process, including, transferring assets to different areas of the entity, adapting assets to meet another function, or retaining surplus equipment as back-up equipment or for spare parts.

2.72 A better practice identified at one entity was the requirement for staff members, prior to disposing of an asset, to make an assessment of whether the asset could be used by another area of the entity. In these cases, the availability of the equipment was notified to other areas of the entity via an electronic bulletin board.

Recommendation No.5

2.73 To assist in the identification of IPE assets that may require disposal, the ANAO recommends that entities regularly monitor those assets nearing the end of their estimated useful lives.²⁰

Entities' responses

2.74 Each of the audited entities agreed with the recommendation.



Ian McPhee
Auditor-General

Canberra ACT
3 May 2006

²⁰ A similar recommendation was made in ANAO Audit Report No.8, 2001–02.

Appendices

Appendix 1: Audit criteria

Component	Audit criteria
Control environment	<p>Comprehensive, clear and readily accessible policies and procedures, covering each stage of the asset life-cycle have been developed.</p> <p>A formal and secure record of asset information, providing accurate, reliable and timely information on the entity's asset holdings.</p>
Asset planning	<p>A structured process is in place to develop an asset management strategy/plan, which is integrated with the entity's strategic or business planning processes, and aligns the entity's asset portfolio with their business requirements.</p>
Acquisitions	<p>A structured process is in place for the identification and approval of organisation's acquisition needs.</p> <p>Acquisition activity accords with acquisition plan(s), and is adequately justified, approved and recorded in the asset information management system in a timely manner.</p>
Operations	<p>Processes are in place for maintaining assets in good working order, including the appropriate mix of preventative and corrective maintenance activities.</p> <p>Operating standards or indicators setting out the level of performance required of assets, or groups of assets have been established and are regularly monitored.</p> <p>Reporting arrangements are in place to regularly inform managers about the operation of assets.</p>
Disposals	<p>A structured process is in place for the identification and approval of surplus, obsolete and under-performing assets for disposal.</p> <p>Disposal activity accords with disposal plan(s), and is adequately justified, approved and recorded in the asset information management system in a timely manner.</p>

Appendix 2: Content of asset policy and procedural documentation

The content of an entity's asset policy and procedural documentation should reflect the volume and nature of its asset-base. However, the following table provides an outline of the content likely to be relevant to many Australian Government entities.

Phase of Asset life-cycle	Section
Planning	<ul style="list-style-type: none"> Definition of asset management Role of assets Phases of the asset life-cycle Understanding life-cycle costing Accountability and roles and responsibilities
Acquisitions	<ul style="list-style-type: none"> Analysis of alternatives, including non-asset solutions Acquisition planning Life-cycle costing Purchasing, including the requirements of the Commonwealth Procurement Guidelines Receipt and acceptance of assets Establishing ownership and control
Operations	<ul style="list-style-type: none"> Establishing performance indicators Operation and maintenance planning Monitoring use and performance Preventative and corrective maintenance Tracking assets, including transfers and loans Safeguarding assets Stocktaking assets
Disposals	<ul style="list-style-type: none"> Identification of surplus, obsolete and under-performing assets Developing replacement strategies Evaluation of disposal alternatives Write-off of damaged, lost or stolen assets
Accounting	<ul style="list-style-type: none"> Definition of assets, including the criterion of control Capitalisation thresholds Portable and attractive assets Revaluations Recognition criteria Depreciation, including asset life-cycle or useful life Treatment of repairs and maintenance Recording acquisitions/disposals

Source: ANAO.

Appendix 3: Entities' comments on the proposed audit report

This appendix contains any general comments received on the audit report that are not shown in the body of the report.

Australian Film, Television and Radio School

AFTRS acknowledges that the report captures the many positive, as well as the small number of not-so-positive, points that were identified in its audit and subsequently expressed in the management letter to AFTRS. AFTRS can confirm that it has already addressed some of the issues that were flagged as needing attention, and will resolve the few that remain outstanding in an expedient manner.

Australian Trade Commission

Austrade agrees with all the report's recommendations. Austrade intends to review its policies and procedures to ensure that all recommendations are incorporated into them as appropriate, and values the ANAO's contribution in this regard.

Department of Immigration and Multicultural Affairs

The Department of Immigration and Multicultural Affairs (DIMA) welcomed the chance to participate in this audit and appreciated the feedback provided in our individual management letter. DIMA agrees with the better practices outlined in recommendations one to five, and will endeavour to incorporate these practices into operations and policy where relevant.

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