The Auditor-General

Audit Report No.8 2001–2002

Assurance and Control Assessment Audit

Disposal of Infrastructure, Plant and Equipment

Australian National Audit Office

ISSN 1036-7632

ISBN 0 642 44235 5

Canberra ACT
9 August 2001

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken an Assurance and Control Assessment audit in accordance with the authority contained in the *Auditor-General Act 1997.* I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Disposal of Infrastructure, Plant and Equipment.*

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—http://www.anao.gov.au.

Yours sincerely

P. J. Barrett
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/Glossary

AAS	Australian Accounting Standard
ANAO	Australian National Audit Office
Asset	An asset is any item that will provide an organisation with some form of future benefit. For the purposes of the audit, assets were defined as physical items of infrastructure, plant and equipment with an estimated useful life of more than 12 months, but excluding specialised military equipment. The definition covered all items of infrastructure, plant and equipment including those items below the threshold value for recording assets in the financial statements.
Asset Management Handbook	ANAO Better Practice Guide published in 1996 to assist asset managers to interpret and implement asset management principles.
Asset management plan	A plan of action linking an organisation's corporate objectives with individual planning for each stage of the asset life-cycle, namely acquisition, operation and maintenance, and disposal.
Asset threshold	The minimum value for the recording and reporting of assets in the financial statements. The standard threshold adopted by most Commonwealth public sector organisations is $2000. However, lower or higher thresholds may be selected so long as the total value of all assets over the threshold represents, within materiality parameters, the total value of all assets held by the organisation.
CAC Act	*Commonwealth Authorities and Companies Act 1997*
Capital use charge	The cost of capital as applied to an organisation's net assets (equity). A capital use charge was implemented by the Department of Finance and Administration in conjunction with accrual budgeting from 1999–2000.
CEI	Chief Executive Instructions
CEO	Chief Executive Officer
Depreciation	Depreciation is used to allocate the cost of assets over time. It is also an indicator of the rate at which the 'service potential' of assets diminish the useful life of the assets.

Disposal	The intentional removal of an asset from an organisation's control by sale, transfer or destruction.
Finance	Department of Finance and Administration
Finance Minister's Orders	Orders issued under the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997* by the Minister for Finance and Administration. For example, the Requirements for the Preparation of Financial Statements are issued under Finance Minister's Orders.
FMA Act	*Financial Management and Accountability Act 1997*
FMIS	Financial Management Information System
Fraud control plan	A plan devised to protect the revenue, expenditure and property of an organisation from any attempt, either by members of the public, contractors, sub-contractors, agencies, intermediaries or its own employees to gain by deceit financial or other benefits. This policy is designed to protect public money and property, protect the integrity, security and reputation of our public institutions and maintain a high level of services to the community consistent with the good government of the Commonwealth.
Gross book value	The original cost or updated valuation of an asset.
GST	Goods and Services Tax
IT	Information technology
Infrastructure, plant and equipment	Physical assets other than land and buildings. For the purposes of this audit the definition excluded specialised military equipment.
Internal audit	An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (definition as approved by the Board of Directors of the Institute of Internal Auditors in June 1999).

Internal control framework	Management's philosophy and operating style, and all the policies and procedures adopted by management to assist in achieving the entity's objectives. It comprises the interrelated components of risk assessment, control environment, control activities, monitoring and review processes, and information and communication processes.
JCPAA	Joint Committee of Public Accounts and Audit
MAB–MIAC	Management Advisory Board—Management Improvement Advisory Committee
Net book value	The original cost or updated valuation of the asset, less accumulated depreciation to date. The net book value reduces over the life of the asset, reducing to zero or the residual value at the end of the estimated useful life of the asset.
Portable and attractive items	Assets that are below the threshold value for recording assets but need to be controlled because of their 'portable and attractive' nature. The recording of such items is usually subject to a separate threshold value (commonly $500).
Residual value	An estimate based on the net amount to be recovered for similar assets which have reached the end of their useful lives and which have operated under conditions similar to those in which the asset will be used.
Sound and better practices	Business practices, which, if adopted, would strengthen the internal control framework and lead to improved effectiveness and efficiency of outputs and outcomes.
Useful life	The estimated period of time over which a depreciable asset is expected to be able to be used, or the benefits represented by the asset are expected to be derived.
Write-off	The retirement of assets that have been lost or damaged.

Summary and Recommendations

Summary

Background

1. ANAO audits conducted during the second half of the 1990s indicated that many government organisations had not yet achieved effective asset management in accordance with the principles outlined in the ANAO's *Asset Management Handbook*.[1]

2. One area where organisations needed to improve performance related to the decision to dispose of assets. The fourth of the asset management principles, referred to in the Handbook, indicates that:

> *asset disposal decisions are based on analysis of the methods which achieve the best available net return within a framework of fair trading*.[2]

3. Specifically, the audits found that many disposal decisions were not planned strategically. Therefore organisations were unlikely to achieve the best possible outcomes from resulting disposal actions.

4. In view of the audit findings, and as many organisations are significant users of infrastructure, plant and equipment, the ANAO undertook an audit of the *Disposal of infrastructure, plant and equipment*. The disposal of such assets by Commonwealth organisations involved total gross and net book asset values of $2267 million and $467 million respectively, and total proceeds from disposal of approximately $432 million, during 1999–2000[3].

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1 The ANAO's *Asset Management Handbook* was published in 1996 in conjunction with Audit Report No.27, 1995–96, *Asset Management.* A follow-up audit was subsequently undertaken and reported in Audit Report No.41, 1997–98, *Asset Management*, April 1998.

2 ANAO *Asset Management Handbook*, 1996, p. 10.

3 Commonwealth of Australia Consolidated Financial Statements for the Year Ending 30 June 2000 (Note 32, 'Land and buildings, infrastructure, plant and intangibles' and Note 15 'Net gains/ (losses) from sale of assets'). The amounts quoted are for 'Other infrastructure, plant and equipment' and exclude specialised military equipment.

Audit objectives and coverage

5. The objectives of the audit were to:

- assess whether the disposal of 'infrastructure, plant and equipment' assets was being carried out in accordance with Government policy, relevant aspects of the asset management principles, and applicable internal controls;
- identify better practices in the management of asset disposals; and
- as necessary, recommend improvements in the controls and practices relating to the asset disposal process.

6. Government policy is set out in the *Guidelines for Surplus Asset Disposal* issued by the Department of Finance and Administration (Finance).[4] The audit was based on this policy and the internal controls and better practices as outlined in the same publication and the *Asset Management Handbook*, as well as generally accepted internal control and best practice frameworks.

7. The audit was undertaken at eight organisations, which on average disposed of about 1200 items of infrastructure, plant and equipment in 1999–2000, with gross book value of $13 million and net book value of $3 million, for proceeds of $2.4 million.[5]

Audit conclusion

8. The ANAO concluded that organisations were disposing of assets in accordance with Government policy and mostly in accordance with relevant aspects of the asset management principles and applicable internal controls. However, organisations often held certain assets for long periods and placed relatively low priority on the disposal of such assets, unless they were of significant market value. The ANAO considered that organisations could make many improvements to enhance disposal management, where justified, so as to achieve more effective internal control and better disposal outcomes. These areas included:

- conduct of a *risk assessment* to identify asset management risks and to implement planning and controls that mitigate the identified risks;

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4 This publication was originally developed by the former Department of Administrative Services in 1992. It was revised in 1996 and has been the responsibility of the Department of Finance and Administration since that Department was formed in 1997.

5 Based on information provided by the organisations for the year 1999–2000. It should be noted, however, that disposals by an organisation may vary considerably from year to year.

- establishment of an asset management *control environment* providing for appropriate responsibilities, policies and procedures for disposal management and a high level of staff awareness of the requirements;
- maintenance of *specific internal controls* to readily identify assets for disposal, consider available disposal options, fully document the disposal process, and properly account for each disposal transaction;
- use of *asset accounting systems* for management purposes; and
- implementation of *monitoring and review processes* to measure disposal performance and the suitability of disposal policies.

9. The audit confirmed the findings relating to asset management and disposal planning arising from the previous audits and indicated more effort was still required for organisations to achieve effective asset management. The ANAO considers that asset management continues to be viewed too narrowly by many organisations with the main focus commonly being on asset acquisition, funding and financial reporting. Organisations should look more closely at the ‘management’ of assets in the other phases of the asset life-cycle, namely operation, maintenance and *disposal*.

10. The ANAO considered that the organisations were in a position, to varying degrees, to implement improvements in the management of their assets, and in particular, asset disposal. Main areas requiring improvement related to the timeliness in identifying assets for disposal, the adequacy of documentation on disposal decisions and the need for reporting and measuring disposal performance. The ANAO considers that a raising of the standards applied to disposal management would greatly improve overall asset management performance, particularly where an organisation’s asset holdings are significant. Such an approach would provide a stronger focus on the performance of assets held and increase returns from asset disposals. However, the implementation of better practices in disposal management needs to be considered in the wider context of an organisation’s total asset management activities as part of sound corporate governance.

Summary of audit findings

11. The main findings arising from the audit were as follows:

- *Asset management risk assessment and planning*—although the organisations examined had undertaken risk assessments at the organisational level, they had not formally assessed risks in relation to asset management and / or disposal management other than through fraud control plans. In addition, the organisations had conducted limited planning for the disposal of infrastructure, plant and equipment assets, except where items were of significant value. Some organisations had implemented asset management plans and were making progress in disposing of their surplus assets. However, most of the organisations needed to review their asset holdings; identify risks associated with holding and using assets; and implement improved strategic asset management planning as part of their overall corporate governance. Finally, a number of the organisations did not maintain portable and attractive item asset registers for the control of such items.
- *Control environment*—responsibility for asset and disposal management was not always clearly established below the more senior levels of management. As well, policy and procedures were sometimes incomplete and / or not up-to-date. Nevertheless, the stated policies were generally consistent with legislative requirements and government policy. However, in most cases, staff awareness relating to the overall disposal responsibilities, policies and procedures needed to be strengthened.
- *Specific internal controls*—assets requiring disposal were often identified for disposal action well after they had become surplus, non-operational or obsolete. This was largely because there was no systematic and regular monitoring of the condition, age and estimated useful life of plant and equipment assets, other than through stocktaking. Accordingly, there was a need in most organisations covered to implement appropriate procedures to ensure assets are disposed of in a timely manner. In addition, documentation relating to the approval of disposals required improvement in all of the organisations. In particular, there was usually little evidence available supporting the reasons for disposal or the disposal options considered. Further, in some cases the approval documentation could not be located. The accounting records in most organisations were deficient in that they

did not distinguish 'disposals' (the intentional retirement of assets by sale or other means of disposal) from 'write-offs' (the retirement of assets that have been lost, damaged or missing) so that each could be separately disclosed in management reports and the financial statements.

- *Asset management information systems*—none of the organisations operated information systems solely for the 'management' of assets. However, the organisations' financial management information systems provided some standard reports on disposal of assets, which were mainly used for financial reporting purposes. The systems did not provide 'asset management' reports, for example, identifying assets nearing the end of their useful lives. Where feasible, the asset accounting modules of the systems should be used for the production of regular reports to management on particular aspects of asset management. Reports should be provided to cost centre managers. As well, for the purposes of independent and overall monitoring, they should be forwarded to a coordinating asset manager, and to higher levels, as appropriate.
- *Monitoring and review processes*—some organisations' disposal actions had not been subjected to review or audit in recent years. Furthermore, performance standards had not been set for measuring disposal performance. Consequently, there was a need for management in all organisations covered to implement a program of monitoring of disposal performance to assess whether policies and procedures were working as intended.

12. The background and detail behind the above findings are outlined in Chapter 2.

Sound and better practices

13. The audit identified examples of sound and better practices currently used by the organisations reviewed. While many of the sound practices would be expected to exist in <u>all</u> organisations reviewed, this was not the case. Therefore, to provide some insight into approaches being taken in various organisations, details of the sound practices identified have been included in the Report along with identified better practices. A summary of the sound and better practices observed is provided in Table 1.

Table 1

Sound and better practice in disposal of assets

Control framework component	***Sound and better practices***
Risk assessment	• Fraud control plans highlighted the risk areas relating to assets from the point of view of fraud. Further, the plans proposed actions aimed at addressing those risks. • Asset management strategies had been developed for all of the organisation's assets either centrally or by each operational division. • Close adherence to replacement policies for motor vehicles and some other higher value assets. • Maintenance of the portable and attractive items asset register on the organisation's asset accounting system.
Control environment	• Responsibility for each asset was allocated to a nominated officer, usually the main user of the asset. • An asset management team had been appointed to coordinate asset activities. • Delegations/authorisations were provided at suitable operational levels and specified that financial limitations referred to net book values (rather than any other values). • Comprehensive guidelines supporting the *Chief Executive Instruction* on *Public Property*. • Clear policies outlining the circumstances under which assets may be sold to staff or alternatively outlawing disposals to staff. • Communication of policy and procedure documents by means of intranet facilities. • Specific training in the use of the asset accounting system.
Control activities	• Annual stocktakes of assets. • Monitoring of assets with zero net book values. • Officers responsible for the management of particular assets personally recommended disposal action on the request for disposal. • Assets were dismantled for spare parts where the complete asset had no market value. • Assets were safeguarded/secured prior to disposal. • Disposal forms provided for certification that the disposal had been actioned in accordance with the approval provided. • Write-offs were properly recorded and disclosed in the annual financial statements. • Access to the asset accounting system was properly controlled by the system administrator. • Reconciliations were performed and checked by management on a monthly basis.

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Control framework component	*Sound and better practices*
Information and communication	• Accounting systems were suitable for financial reporting and reconciliation processes. • Reports on disposal activity were provided to management on a monthly basis or on request.
Monitoring and review	• Monthly reporting of gains/losses on disposal. • Trial evaluation of an alternative asset replacement timing policy.

Reports to organisations

14. Each of the audited organisations was issued with a comprehensive report comprising an executive summary and detailed report outlining the audit conclusion, findings and recommendations applicable to the organisation. Each of the organisations responded to the individual findings and recommendations, and advised of remedial action taken or proposed, as appropriate.

Recommendations

The following recommendations are directed to all Commonwealth organisations holding physical assets. Organisations should consider the recommendations in line with a risk management approach and in accordance with the asset management principles as outlined in the ANAO's Asset Management Handbook *and the disposal of assets guidelines set out in Finance's* Guidelines for Surplus Asset Disposal.

Risk assessment

Recommendation No.1
Para. 2.35

The ANAO *recommends* that, where asset holdings justify appropriate management action, organisations:

- undertake a risk assessment in relation to the various classes of assets;
- develop an asset management plan including an asset disposal plan; and
- set objectives and strategies for the disposal of assets.

Disposal objectives, strategies and plans need to be closely linked with other aspects of asset management, and in particular, asset replacement programs.

Recommendation No.2
Para. 2.36

The ANAO *recommends* that organisations maintain a portable and attractive items register. As far as is practicable, the register should be maintained in the organisation's asset accounting system.

Control environment

Recommendation No.3 Para. 2.70

The ANAO *recommends* that organisations:

- allocate responsibility for the coordination of asset management activities to an appropriately trained manager or management team;
- develop appropriate policy and procedures covering all key aspects of the disposal process and include the policy and procedures in the Chief Executive Instructions or in supporting policy statements and procedural guidelines; and
- promote responsibilities, policies, planning, instructions and procedures relating to asset management, including the disposal of assets, among relevant staff. Specialised training should be considered as appropriate.

Control activities

Recommendation No.4 Para. 2.122

The ANAO *recommends* that organisations:

- prepare, on a regular basis, a report identifying assets nearing the end of their estimated useful lives so as to assist in monitoring assets which may require disposal consideration and/or action, or alternatively, reassessment of estimated useful life; and
- conduct stocktakes periodically, which, among other things, review the condition and status of assets.

Recommendation No.5
Para. 2.123

The ANAO *recommends* that, in approving assets for disposal, organisations:

- consider alternative methods and costs of disposal where items have a disposal value;
- prepare and retain all documents supporting asset disposal decisions;
- arrange for any special preparations for disposal to be documented in the disposal records, eg. the clearing of assets containing classified information / hazardous materials; and
- arrange for appropriate segregation of duties across the elements of the disposal process, ie. recommendation, authorisation, execution and accounting.

Recommendation No.6
Para. 2.124

The ANAO *recommends* that organisations:

- distinguish asset write-offs from disposals in the accounting records and in the annual financial statements;
- record proceeds arising from, and costs associated with, disposals, in the asset accounting records; and
- restrict system access for retiring or deleting assets from the records to the minimum number of staff necessary.

Information and communication

Recommendation No.7
Para. 2.138

The ANAO *recommends* that organisations:

- make greater use of the asset accounting system and other disposal information for asset management purposes. In particular, reports should identify assets requiring disposal consideration / planning and the costs of each disposal; and
- implement regular reporting to senior management on the results of disposal activity. Senior management would include cost centre managers, and an asset coordinating manager, where such a position exists.

Monitoring and review

Recommendation No.8
Para. 2.152

The ANAO *recommends* that organisations:

- establish performance indicators for asset disposal and other asset management activities as part of their asset management plan;
- provide performance information on assets and disposal activity in monthly management reports; and
- implement regular monitoring and review procedures to measure performance against the indicators set.

Responses to the recommendations by organisations included in the audit

A similar grouping of recommendations was made to each of the organisations covered by the audit. The recommendations varied according to the adequacy of the individual internal control framework operating within the organisation.

Most of the organisations agreed with the majority, or all, of the recommendations made for their particular organisation. In cases of disagreement, the organisations generally advised that the recommendations would not be implemented because of resource limitations and/or the low level of risk considered to be involved. The ANAO accepts that the management of each organisation may adopt such a position in line with a well-structured and agreed risk management strategy, consistent with Recommendation No.1, Risk assessment.

Audit Findings and Conclusions

1. Introduction

Asset management audits and subsequent developments

1.1 The ANAO conducted audits of asset management in 1996[6] and 1998[7] and issued a better practice guide on the subject in 1996[8].

1996 and 1998 audit reports on asset management

1.2 In the 1996 audit, the ANAO found that there was significant scope for improvement in the strategic approach to asset management in most of the organisations examined. The ANAO made six specific recommendations directed to achieving this end and published an *Asset Management Handbook*[9] based on five main principles, namely[10]:

- asset management decisions are integrated with strategic planning;
- asset planning decisions are based on an evaluation of alternatives which consider the 'life-cycle' costs, benefits and risks of ownership;
- accountability is established for asset condition, use and performance;
- asset disposal decisions are based on analysis of the methods which achieve the best available net return within a framework of fair trading; and
- an effective internal control structure is established for asset management.

1.3 The 1998 audit found that minimal progress had been made by most organisations operating under the *Financial Management and Accountability (FMA) Act 1997* since the issue of the 1996 audit report, and that more would need to be done with the introduction of accrual

6 Audit Report No.27, 1995–96, *Asset Management,* June 1996.

7 Audit Report No.41, 1997–98, *Asset Management,* April 1998.

8 *Asset Management Handbook*, June 1996. The handbook is available on the ANAO's website at www.anao.gov.au.

9 ibid.

10 These principles were developed by the ANAO in 1996 in conjunction with Audit Report No.27, 1995–96*, Asset Management.* They are sourced from the Management Advisory Board—Management Improvement Advisory Committee (MAB–MIAC) report *Improving Asset Management in the Public Sector* issued in May 1991, and various other publications.

budgeting, a capital use charge[11] and insurance arrangements[12] from 1999 for better asset management to be achieved. The audit found that organisations operating under the *Commonwealth Authorities and Companies (CAC) Act 1997* were generally in a better position.

JCPAA Inquiry into asset management

1.4 The Joint Committee of Public Accounts and Audit (JCPAA) conducted an inquiry into asset management in mid 1998. The Report, No.363, *Asset Management by Commonwealth Agencies*[13], was largely based on the ANAO audit reports and handbook. The Committee concluded that there were further opportunities for improving asset management mainly through the raising of awareness of the importance of good asset management. The Committee considered that the *Asset Management Handbook* was '*…an excellent guide for asset management and should be used by agencies to assist them formulating their own procedures tailored to their particular circumstances*'.[14]

Accrual budgeting framework

1.5 The accrual budgeting framework was introduced from 1999–2000. One of the aims of the framework is to encourage managers to actively manage their total resource base. For this reason, organisations are now funded for the full cost of their outputs including asset depreciation[15] and the capital use charge. These measures provide incentives for management to achieve better asset management performance.

Disposal of assets

1.6 The fourth principle in the *Asset Management Handbook* relates to decisions about the disposal of assets.

Significance

1.7 Disposal decisions are often connected with asset replacement and regularly generate revenue. Commonwealth financial data on disposals for the three financial years 1997–98 to 1999–2000 is shown in Tables 2, 3 and 4.

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11 A capital use charge was implemented by the Department of Finance and Administration in conjunction with accrual budgeting from 1999–2000. The charge represents the cost of capital and is applied to an organisation's net assets (equity).

12 New insurance arrangements, in the form of a managed fund called ComCover, became effective during 1998–99 for all organisations in the General Government Sector.

13 JCPAA, July 1998.

14 JCPAA Report, No.363, *Asset Management by Commonwealth Agencies*, July 1998, paragraph 2.53, p. 45.

15 Depreciation is used to allocate the cost of assets over time. It is also an indicator of the rate at which the 'service potential' of assets diminishes the useful life of the assets.

Table 2

Gross book value of Commonwealth asset disposals 1997–98 to 1999–2000

Asset classification	*1997–98 $ million*	*1998–99 $ million*	*1999–2000 $ million*
Land and buildings	1245	1192	852
Specialised military equipment	143	206	94
Other infrastructure, plant and equipment	2636	3230	2267
Intangibles	27	53	107
Total	**4051**	**4681**	**3320**

Source: Commonwealth of Australia Consolidated Financial Statements[16]

Table 3

Net book value of Commonwealth asset disposals 1997–98 to 1999–2000

Asset classification	*1997–98 $ million*	*1998–99 $ million*	*1999–2000 $ million*
Land and buildings	1143	1088	795
Specialised military equipment	77	92	0
Other infrastructure, plant and equipment	804	858	467
Intangibles	3	16	58
Total	**2027**	**2054**	**1320**

Source: Commonwealth of Australia Consolidated Financial Statements[17]

Table 4

Approximate proceeds from Commonwealth asset disposals 1997–98 to 1999–2000

Asset classification	*1997–98 $ million*	*1998–99 $ million*	*1999–2000 $ million*
Land and buildings	1160	1093	986
Infrastructure, plant and equipment	585	895	432
Intangibles	20	2	1363[18]
Total	**1765**	**1990**	**2781**

Source: Commonwealth of Australia Consolidated Financial Statements[19]

1.8 Financial data for the 2000–01 year was not available at the time of preparation of the report.

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16 Commonwealth of Australia Consolidated Financial Statements for the years ending 30 June 1998, 1999 and 2000 (Note 31 in 1997–98 and Note 32 subsequently, 'Land and buildings, infrastructure, plant and intangibles').

17 ibid.

18 Includes $1360 million from the sale of 1.8 GHz spectrum by the Australian Communications Authority.

19 Commonwealth of Australia Consolidated Financial Statements for the years ending 30 June 1998, 1999 and 2000 (Note 15 'Net gains/(losses) from sale of assets'). The statements do not separately disclose the proceeds from special military equipment and other infrastructure, plant and equipment.

Previous findings

1.9 Findings relating to disposals from the 1996 and 1998 asset management audits indicated that most organisations did not plan the disposal of their assets until close to, or after, the decision to dispose of assets, nor did they routinely measure or assess disposal performance. As such, disposal decisions were not necessarily taken in a strategic context, nor was information on disposals fed into the relevant planning processes.

1.10 Based on the above background, the ANAO programmed an audit on the disposal of assets to commence in late 2000.

Definition of assets

1.11 For the purposes of the audit, assets were defined as physical items of *infrastructure, plant and equipment* with an estimated useful life of more than 12 months, but excluding specialised military equipment. The definition covered all items of infrastructure, plant and equipment including those items below the threshold value for recording assets in the financial statements.

1.12 The other asset classes were excluded from the audit on the basis that such assets are more specialised and are mainly held by a relatively small number of Commonwealth organisations. In this regard, disposal of property was separately examined in Audit Report No.4, 2001–02 *Commonwealth Estate Property Sales*, Department of Finance and Administration, which was presented on 1 August 2001.

Legislative requirements

1.13 There are no specific legislative requirements relating to asset disposals in the provisions of the FMA Act and the CAC Act. Nevertheless, the Chief Executive Officer (CEO) of each Commonwealth organisation is responsible for the efficient, effective and ethical use of resources, including the management of disposals.

Commonwealth disposal guidelines

1.14 Government policy relating to disposals is outlined in the *Guidelines for Surplus Asset Disposal* issued by Finance.[20] While these guidelines apply specifically to organisations operating under the FMA Act, they provide appropriate principles for adoption by most Commonwealth organisations. The aims of asset disposal as outlined in the guidelines are to:

- achieve the best available net return when selling;
- treat correctly goods requiring special consideration in their disposal; and
- be even-handed, open and honest in all dealings.

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20 Department of Finance and Administration, 1996. The Guidelines are available on the Department's website at www.finance.gov.au.

1.15 The guidelines provide a valuable reference from which organisations can prepare their own guidelines tailored to suit their own circumstances.

Audit objectives and scope

1.16 The general objectives of the audit were to:

- assess whether the disposal of 'infrastructure, plant and equipment' assets was being carried out in accordance with Government policy, relevant aspects of the asset management principles, and applicable internal controls;
- identify better practices in the management of asset disposals; and
- as necessary, recommend improvements in the controls and practices relating to the asset disposal process.

1.17 The scope of the audit covered all aspects of the disposal process from initial planning through to the receipt of proceeds and evaluation of the outcome. Particular emphasis was placed on the management processes and internal controls associated with planning for disposal, obtaining value for money and enabling fairness and equity. The audit focused on actual disposals over the last two years.

1.18 Although the audit concentrated on the disposal of assets, other aspects of the asset management principles were considered, as all five of the principles are closely inter-related.

About the organisations

1.19 The audit was undertaken at eight organisations. The selection included both FMA and CAC organisations. Most of the organisations operated from multiple locations across Australia. Assets held included computer equipment, office equipment and furniture, office fit-out, motor vehicles and specialised technical equipment. The majority of the organisations were now leasing most computer equipment and motor vehicles. The gross book value of the infrastructure, plant and equipment assets at each organisation ranged from approximately $25 million to in excess of $500 million with the total gross and net book values of all eight organisations at 30 June 2000 being more than $1500 million and $600 million respectively. The number of assets held at each organisation varied from about 1200 to over 20 000 with over 90 000 assets being held in total. Some of the organisations also maintained a property assets portfolio while all of them held a range of intangible assets (mostly computer software).

1.20 The value and number of disposals at each organisation varied from year to year. For 1999–2000, the organisations disposed of over 9000 items in total, representing gross and net book values of $103 million and $24 million respectively, for proceeds totalling $19 million.

Audit criteria

Internal control framework

1.21 The internal control framework[21] of an organisation provides an important link between strategic objectives and the functions and tasks undertaken to achieve those objectives. It is fundamental to good corporate governance that the internal control framework is well designed, implemented and monitored to ensure it operates as management intended.

1.22 The management of the disposal of assets was assessed against audit criteria based on the five components of the internal control framework[22], namely:

- risk assessment;
- control environment;
- control activities;
- information and communication processes; and
- monitoring and review processes.

The interaction between these components is critical to the effectiveness of the internal control framework.

Detailed criteria

1.23 The detailed audit criteria were as follows:

- *risk assessment*—the organisation would be expected to have undertaken a risk assessment of its business operations including asset management considerations. The assessments in relation to asset management would be expected to have assessed the need to identify assets no longer required by the organisation and to have determined actual and planned levels of disposal activity. Furthermore, the organisation would need to have assessed the risks involved with asset disposal actions, eg. ensuring value for money is obtained. Finally, the organisation would need a plan for treating the risks. The organisation's fraud control plan may be the appropriate document in the absence of a risk management plan on assets.

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21 The internal control framework adopted by the ANAO is outlined in the ANAO Better Practice Guide, *Controlling Performance and Outcomes*, published in 1997. The ANAO framework was adapted from one developed by the Committee of Sponsoring Organisations of the Treadway Commission, *Internal Control—Integrated Framework*, American Institute of Certified Public Accountants, 1992.

22 ibid.

- *control environment*—the organisation would be expected to have: determined responsibilities for managing assets and delegated authority for approving the disposal of assets; developed policy regarding the objectives and processes of disposal activity, which was in line with Government policy; developed procedures for implementation of disposal policy and treatment of the identified risks relating to disposal activities; made policy and procedure readily available to staff; and arranged for the conduct of specific training of relevant staff.
- *control activities*—the organisation would be expected to have specific controls for: monitoring the status of assets and identifying items for disposal on a timely basis; evaluating alternative disposal options and recommending disposal action; authorising the disposal action; preparing and safeguarding the assets prior to disposal; adjusting the asset records; receiving the proceeds; and reconciling proceeds from the disposal.
- *information systems and communication processes*—the organisation would be expected to have systems/reports in place for identifying assets for disposal consideration and capturing and reporting budgeted and actual disposal proceeds, with close links between the general ledger and asset accounting systems, so as to enable good decision making in relation to disposals. It would also be expected to have regular two-way information flows between the staff responsible for disposal actions and those responsible for managing the relevant assets.
- *monitoring and review processes*—the organisation would be expected to have regular monitoring and review processes to ensure that policies and procedures are adhered to and properly applied, and to identify changes and weaknesses in the operating environment; this might be achieved by reporting against performance measures and through internal checking and auditing processes. The results from the monitoring and review of the disposals process need to be fed back into the next planning / risk management cycle.

Audit methodology

1.24 The audit was undertaken in accordance with *ANAO Auditing Standards* during the period October 2000 to May 2001.

1.25 The audit process involved interviews with selected officers, the examination of files and records supporting disposal activity, and general observation and inspection. A significant number of disposal transactions was examined at each organisation.[23]

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23 Although the audit covered disposal transactions during the period from 1 July 1998 to 30 September 2000, the majority of transactions examined related to the 1999–2000 year.

2. Audit Findings—Internal Control Framework

Introduction

2.1 This chapter discusses the findings and recommendations of the audit against each component of the internal control framework. Central to this framework is the understanding that control is a process, effected by the governing body of an organisation, senior management and other employees, designed to provide reasonable assurance that risks are managed to ensure the efficient, effective and ethical achievement of the organisation's objectives.

2.2 The framework has been adapted and organised to reflect key operational and risk aspects of an organisation's asset management arrangements with particular emphasis on the planning and actioning of asset disposals.

Categorisation of observations

2.3 The ANAO's observations are presented in two distinct categories: 'Audit findings' and 'Sound and better practices'.

2.4 *Audit findings* detail control weaknesses contributing to a breakdown in both efficiency and effectiveness of the internal control framework. *Sound and better practices* relate to business practices, which, if adopted, would strengthen the internal control framework and lead to improved effectiveness and efficiency of outputs and outcomes.

Risk assessment

Introduction

Assets, disposal and risk assessment

2.5 Assets exist to support an organisation's output and outcome delivery.

2.6 Disposal represents one stage in an asset's life-cycle, and accordingly, should be managed in conjunction with the other stages of the life-cycle, namely, acquisition, operation, maintenance and funding. As a result, risk management planning and control for the disposal of assets should be viewed as part of the asset management framework, rather than solely on the disposal of assets.

2.7 Risk assessment is the starting point for evaluating the asset management control framework, because, through a formal process, it provides the necessary information to properly design controls which are both appropriate and cost effective. A sound risk assessment also provides the basis for ensuring responsibility for managing risks is properly distributed to managers who understand the risks and can be held accountable for their management through the operation of the control framework. Managers should ensure an effective asset management control framework is in place to properly support an organisation's objectives.

2.8 The assessment and management of risks relating to assets or any other activity should aim to balance the cost of control against the likely benefits. As noted in the then Management Advisory Board—Management Improvement Advisory Committee (MAB–MIAC) publication[24]:

> *In managing risk you need to strike a balance between the cost of managing the risk and the benefits to be gained. Recognising that a risk-free environment is impossible (if not uneconomic) to achieve, you need to decide what level of risk is acceptable.*

2.9 Risks relating to assets within the Commonwealth are often more associated with the acquisition, operation and maintenance stages of the asset life-cycle, rather than the disposal stage. The most notable asset risks include breakdown, unserviceability, damage, loss and theft. However, these risks can impact on disposals as much as any other stage of the asset life-cycle.

Business benefits of risk assessment

2.10 Formal risk assessments identify organisational risks. They are the basis for evaluating the costs and benefits of controls and assist an organisation to apply consistent and defensible approaches to the management of risks, including those relating to asset management.

2.11 Process level risk assessments are the basis for subsequent design of all aspects of the control environment, specific control activities, monitoring and review processes, and information and communication processes relating to a particular process or function operated by an organisation. The process level risk assessments can enhance the internal control framework, detect control weaknesses, prevent control breakdowns, increase operational efficiency, and improve employee satisfaction levels.

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24 *Guidelines for Managing Risk in the Australian Public Service*, Management Advisory Board—Management Improvement Advisory Committee (MAB–MIAC), Report No.22 October 1996.

2.12 The risk assessment for asset management enables proper asset planning and control at all stages of the asset life-cycle including the disposal stage.

Audit findings and comment

Summary table

2.13 The following table summarises the audit review of risk assessment.

Table 5
Risk assessment

Principle	Implementation of an effective risk assessment framework is a central element of asset management control.
Audit evaluation criteria	• The organisation would be expected to have undertaken a risk assessment of its business operations including asset management considerations. • The assessments in relation to asset management would be expected to have assessed the need to identify assets no longer required by the organisation and to have determined actual and planned levels of disposal activity. Furthermore, the organisation would need to have assessed the risks involved with asset disposal actions, eg. ensuring value for money is obtained. • Finally, the organisation would need a plan for treating the risks. The organisation's fraud control plan may be the appropriate document in the absence of a risk management plan on assets.
Audit findings	In relation to the eight organisations reviewed, the audit found the following: • most organisations had implemented some form of organisational level risk assessment; • most organisations had not conducted a formal process level risk assessment relating to asset management, other than for risks covered by fraud control plans. Accordingly, risks associated with the disposal of assets had not generally been considered in implementing suitable controls to mitigate risks; • several organisations did not maintain portable and attractive item asset registers; • few organisations had developed asset management plans and/or disposal plans and strategies; • most organisations undertook some form of planning for major asset disposals, where the items had significant residual value; and • one organisation allowed the purchaser of its computing equipment to conduct a stocktake of the equipment unaccompanied by the organisation's staff.

continued next page

Sound and better practices	The audit noted the following in at least one of the organisations examined: • fraud control plans highlighted the risk areas relating to assets from the point of view of fraud. Further, the plans proposed actions aimed at addressing those risks; • asset management strategies had been developed for all of the organisation's assets either centrally or by each operational division; • close adherence to replacement policies for motor vehicles and some other higher value assets; and • maintenance of the portable and attractive items asset register on the organisation's asset accounting system.

Detailed findings

Organisational risk assessments

2.14 Most of the organisations had adopted a risk management policy and conducted organisational risk assessments in relation to their main business activities. Some of the assessments were still in progress at the time of the audit. Some organisations provided guidance / methodology for the identification, analysis and treatment of risks. The policy for the larger organisations generally required each division and state office to perform a risk assessment in conjunction with business planning processes.

2.15 Very few of the organisational risk assessments made any direct reference to asset management. Those that did, tended to be organisations with property or other significant asset holdings. The references were very brief and did not detail the asset risks.

2.16 Many of the organisations also had fraud control plans (which are a legislative requirement for FMA organisations[25]) and some had undertaken a security risk assessment. Some fraud control plans identified asset risks arising from fraud and theft while others included minimal coverage of assets. The security risk assessments identified the risks of loss, theft and damage relating to plant and equipment, information, personnel and intangible assets.

Asset management risk assessment

2.17 Assets are generally an important resource of any organisation and therefore the risks to effective management need to be assessed and, where appropriate, managed.

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25 Fraud control plans are required by section 45 of the *Financial Management and Accountability Act 1997.*

2.18 None of the organisations had conducted any specific formal risk assessment on asset management other than through the fraud control plan. Nevertheless, at least two organisations had, independently of their fraud control plans, implemented asset management planning which demonstrated an understanding of the risks involved. These organisations had afforded higher priority to their more valuable assets and had made a number of asset management decisions to reduce their total asset risk exposures, eg. by leasing personal computers and motor vehicles. A third organisation had just completed a comprehensive review of its asset management framework with a view to implementing new and improved asset management strategies. This organisation had already recognised a number of deficiencies in its asset management arrangements that were highlighted by the audit.

2.19 Some of the risks associated with asset management and the disposal of assets are discussed below.

Asset threshold

2.20 Each organisation needs to determine a threshold value for the recording and reporting of assets in the financial statements. Assets above the threshold will therefore need to be properly controlled in an accountability sense. The standard threshold adopted by most Commonwealth public sector organisations is $2000. However, lower or higher thresholds may be selected so long as the total value of all assets over the threshold represents, within materiality parameters, the total value of all assets held by the organisation.

2.21 Three of the organisations had adopted the $2000 threshold while the others had adopted threshold levels of $3000 and $5000. The organisations with the larger thresholds had higher value portfolios of assets, usually including property assets (land and buildings).

Portable and attractive items

2.22 The control of assets below the threshold will be dependent on the risks involved. The risk is usually higher below the threshold because many of the items are portable and attractive and therefore subject to loss or theft. One fraud control plan examined in the audit identified residual risk profiles of 'medium' for portable and attractive items and 'low' for plant and equipment assets above the threshold.

2.23 The recording of assets below the threshold varied across the organisations. Some organisations recorded portable and attractive items under the threshold value while others left the recording decision to the discretion of divisional / regional management or did not require the items to be recorded. The recording was also usually subject to a threshold value (commonly $500).

2.24 The maintenance of a portable and attractive item register reduces the risk of loss or misappropriation of items and improves accountability. It also provides an avenue for the maintenance of disposal records for such items. A few of the organisations recorded portable and attractive items on the organisation's asset accounting system. The ANAO considers that portable and attractive registers are highly desirable, and as far as is practicable, they should be recorded on an organisation's asset accounting system.

Disposal risks

2.25 Apart from the risks of fraud and theft as covered in fraud control plans, there are other risks that may impact upon disposals specifically. Risk factors that could result in a disposal decision having to be made, include the impact of assets being:

- non-operational through breakdown or damage;
- out-of-date through obsolescence;
- surplus to requirements, as a result of policy / organisational changes; and / or
- past the optimal time for disposal.

The risks are likely to be higher on some items (eg. information technology equipment) than others (eg. office furniture).

2.26 Additional risks, specifically concerning the disposal process itself, include:

- policies and practices being inconsistent with Government guidelines and accepted best practice;
- inadequate communication to, and / or understanding by, all stakeholders;
- exposure to loss or damage while being moved or stored in preparation for disposal;
- disposal of assets at less than optimal rates; and
- receipts not received / recorded in the accounting records.

2.27 The organisations examined had not directly assessed the above-mentioned risks in a formal risk assessment process. Nevertheless, it was apparent from particular controls implemented in various organisations, that management was aware, to varying degrees, of a number of these risks. However, controls could be improved in all of the audited organisations through the completion of a process risk assessment on asset management.

Asset management planning

2.28 Having established the risks facing the management of its asset resources, an organisation should develop an appropriate strategy to address the identified risks. The strategy may involve an asset management plan, a disposal plan, the fraud control plan and other strategic plans of the organisation. Where there are multiple plans in existence, the plans need to be properly integrated so as to form a total asset strategy.

2.29 Asset management principles encourage organisations to integrate asset planning into strategic planning processes using a 'whole-of-life' approach. This may be done through the development of an asset management plan covering all phases of the life-cycle of assets, that is, acquisition, operation, maintenance, disposal and funding. Such a plan should be linked to the strategic plans of the organisation.

2.30 Most organisations did not have a formal asset management plan. Most organisations relied on the *Chief Executive's Instruction (CEI)* and/or *Guidelines* on *Public Property* (where provided) to guide asset management planning. In relation to disposals, some of the instructions/guidelines require staff, among other things, to ensure that disposals obtain the best outcome for the Commonwealth and withstand public scrutiny. These are important objectives, which should establish a foundation for appropriate planning of disposal activity. However, the ANAO considers that these objectives need to be enhanced and given a stronger strategic focus. This could be done through the establishment of a disposal plan setting the objectives, strategies, responsibilities and standards for disposal activities.

Disposal planning activities

2.31 Organisations generally undertook some strategic planning in relation to major asset disposals, eg. a capital re-acquisition program, outsourcing of information technology (IT) requirements, and the replacement of motor vehicles. There was less strategic planning for other types of disposal, such as office equipment.

2.32 The disposal of IT equipment at one organisation was based on a stocktake of assets conducted by the IT contractor against the organisation's asset register without the contractor being accompanied by internal staff. Under these arrangements, the organisation had no control over the process and relied upon the integrity of the purchaser in assessing the quantity and type of assets being disposed of, which ultimately determined the amount to be paid. Proper planning and control would have prevented this situation.

Conclusion—risk assessment

2.33 The ANAO considers that organisations should undertake a risk assessment in relation to assets as part of their overall risk management strategy, whereby the risks relating to all categories of asset resources should be identified and assessed. This is particularly important for organisations with significant asset holdings. The assessment process should also identify an appropriate control framework to mitigate the identified risks.

2.34 Furthermore, an asset management plan should be developed as part of the control framework for treating the identified risks. This might be linked with the development of the fraud control plan. An asset management plan would give additional strategic direction to the management of, and control over, assets. Such a plan should outline the objectives (eg. maximising returns, minimising costs) and strategies (eg. expert advice, performance measures) for the disposal of assets and incorporate a disposal plan to assist in the identification of surplus, obsolete and unserviceable assets. Asset planning should also cater for portable and attractive items.

Recommendation No.1

2.35 The ANAO *recommends* that, where asset holdings justify appropriate management action, organisations:

- undertake a risk assessment in relation to the various classes of assets;
- develop an asset management plan including an asset disposal plan; and
- set objectives and strategies for the disposal of assets.

Disposal objectives, strategies and plans need to be closely linked with other aspects of asset management, and in particular, asset replacement programs.

Recommendation No.2

2.36 The ANAO *recommends* that organisations maintain a portable and attractive items register. As far as is practicable, the register should be maintained in the organisation’s asset accounting system.

Control environment

Introduction

2.37 A critical component of an effective control environment is management's attitude and commitment to the implementation and maintenance of an effective internal control framework. The level of positive support by management strongly influences the design and operation of control policies and procedures.

> *Through their words and actions, management sets the tone of the organisation's workplace, its integrity, values and ethics.*[26]

2.38 Without an effective control environment, managers will be unable to ensure the adequacy of the asset management control framework. Organisations should establish a control environment that clearly sets out asset management and disposal responsibilities and promotes sound principles of pro-active management, including continuous improvement. Comprehensive and up-to-date policies and procedures, and training programs to promote staff awareness of the requirements, are fundamental to achieving such an environment.

Business benefits of an effective control environment

2.39 An effective control environment will ensure asset management policies, procedures and practices are aligned with overall corporate strategies and objectives. Such an environment establishes a control consciousness within which specific operational controls are applied. It provides the framework which supports management's ability to rely on the operation of the disposal planning and actioning processes and contributes to the proper recording and effectiveness of each disposal transaction.

Audit findings and comment

2.40 The control environment relating to asset management and the disposal of assets was examined under three main elements, as follows:

- *Structure*—organisations structure their asset management arrangements to allow for clear responsibilities, accountabilities and transparency of asset disposal processes.
- *Process*—organisations establish appropriate documentation for policies and procedures that provide the base on which asset specific control activities are built, and revise and update the policies and procedures as circumstances require.
- *Staff awareness*—organisations employ high quality and experienced management and ensure all relevant personnel are aware of their

[26] op. cit., ANAO *Controlling Performance and Outcomes.*

responsibilities, and policies and procedures, through training and regular communication.

2.41 The audit findings for each of the above elements are detailed below.

Structure—summary table

2.42 The following table summarises the audit review of structure.

Table 6
Structure

Principle	The structure of the asset and disposal management function should allow for clear responsibilities and accountabilities, which support the organisation's strategies and objectives.
Audit evaluation criteria	The organisation would be expected to have: • determined responsibilities for managing assets; and • delegated authority for approving the disposal of assets.
Audit findings	In relation to the eight organisations reviewed, the audit found the following: • most organisations had allocated high-level responsibility for the management of assets to senior and middle management; • operational management below the higher level responsibilities was not always clearly established or was given relatively low priority; • some organisations did not have a coordination role to ensure all aspects of asset management were provided for; and • most organisations had delegated authority to dispose of assets to appropriate levels of management.
Sound and better practices	The audit noted the following in at least one of the organisations examined: • responsibility for each asset was allocated to a nominated officer, usually the main user of the asset; • an asset management team had been appointed to coordinate asset activities; and • delegations/authorisations were provided at suitable operational levels and specified that financial limitations referred to net book values (rather than any other values).

Structure—detailed findings

Asset management responsibility

2.43 The CEOs of most organisations had allocated the responsibility for the efficient, effective and ethical management, and safe custody, of assets, to the managers of operational business units. In most cases, responsibility was allocated through CEIs setting out the broad lines of responsibility and accountability for the use of the organisation's assets. However, responsibility for asset management below this level, was not clearly established within all of the organisations examined.

2.44 Some organisations had appointed asset managers to coordinate asset management throughout the organisation or within particular business programs. Such a position was responsible for the coordination of most matters of asset management including any or all of the following—policy development, procedural instructions, staff training, maintenance of accounting records, stocktaking and other monitoring processes, and financial and management reporting arrangements.

2.45 Other organisations had given little attention to the coordination of asset management practices. These organisations were therefore often reliant on the adequacy of the organisation's policy and procedures and the staff with responsibility for individual aspects of asset management. The ANAO found that the organisations with a coordination role generally achieved a better all-round performance in the overall management of asset disposals.

2.46 A few organisations had allocated responsibility for particular assets to particular officers, usually the main user of the asset. The responsibility would mainly involve the operation, maintenance and security of the asset, but also monitoring of performance in accordance with expectations, and recommending repair, upgrade, replacement/ disposal when performance was below the required level or disposal where the asset was surplus to requirements. The ANAO considers this to be a highly desirable practice that should be adopted by more organisations, where practicable.

Responsibility for disposals

2.47 There was a mix of organisational practices for the disposal of assets function, with most organisations having devolved the function to operational managers. Accordingly, organisations with several geographic locations were likely to have a number of officers responsible for disposal activities. Overall, responsibility for disposals was generally in line with responsibility for asset management, however, in practice, the disposal function was afforded lower priority than other stages of an asset's life-cycle, eg. the acquisition stage.

Delegations/authorisations

2.48 Delegates or authorised officers were appointed to approve the disposal of assets, normally through the CEIs. Generally, the delegations/ authorisations provided authority to a range of officers commensurate with the level of responsibility. Most delegations/authorisations clearly outlined the financial limitations as being based on net book value, rather than gross book value. The relevant value was not specified in the delegations/authorisations at some organisations.

Structure—conclusion

2.49 The ANAO considers that responsibility for asset management and disposal of assets needs to be established more clearly so as to provide a greater impetus for efficient and effective asset management processes. In particular, the ANAO considers that organisations should:

- make particular officers responsible for each asset, where practicable. This is a straight-forward process where the asset is used by one user (eg. personal computer) or managed by a section manager (eg. photocopy room); it requires operational management to allocate an appropriate officer, where the asset is for general use, such as a colour printer; and
- allocate responsibility for the coordination of asset management to an appropriate management position and/or team.

Process—summary table

2.50 The following table summarises the audit review of process.

Table 7
Process

Principle	Effective policies and procedures provide all relevant personnel with access to a documented framework for asset and disposal management.
Audit evaluation criteria	The organisation would be expected to have: • developed policy regarding the objectives and processes of disposal activity, which was in line with Government policy; and • developed procedures for implementation of disposal policy and for treatment of the identified risks relating to disposal activities.
Audit findings	In relation to the eight organisations reviewed, the audit found the following: • policy in place was generally consistent with broad Government policy; • policy and procedure documentation was not always complete or up-to-date; • some organisations did not have a clearly stated policy regarding sales to staff; and • policies relevant to disposals were sometimes contained in other policy documents, eg. information technology policy.
Sound and better practices	The audit noted the following in at least one of the organisations examined: • comprehensive guidelines supporting the *CEI* on *Public Property*; and • clear policies outlining the circumstances under which assets may be sold to staff, or alternatively outlawing disposals to staff.

Process—detailed findings

Commonwealth policy guidance

2.51 The *Guidelines for Surplus Asset Disposal* provide Commonwealth policy on the disposal of assets.[27]

2.52 In addition, the *Model CEIs*[28] for FMA organisations, which were issued to assist organisations develop their own CEIs, provide guidance on public property, including the disposal of assets.

2.53 The policy framework is mostly about accountability and value for money in the conduct of the disposal process. It does not cover asset management issues prior to the commencement of the disposal process, such as mechanisms to identify assets that are surplus to requirements, or decisions to repair or upgrade assets rather than dispose of them. Guidance on these issues is partially covered by the *Asset Management Handbook*.

Policies and procedures in the audited organisations

2.54 The existence of policies and procedures is a key element for preventing possible control breakdown, should, for example, the organisation experience high turnover in personnel.

2.55 Formal policies and procedures for asset management were generally outlined in the *CEIs* (by both FMA and CAC organisations) and *Guidelines* on *Public Property* (where issued). In most cases, the instructions and guidelines were relatively brief and those relating to disposal of assets mainly covered the parties involved and their responsibilities, such as approval requirements; there was usually little guidance concerning the processes that were to apply to both before and after approval. However, a few organisations provided detailed guidance, although in at least one case the guidance was somewhat dated. In other cases, the guidance was not referenced in the *CEI* on *Public Property*.

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27 While the guidelines apply specifically to FMA organisations, they provide appropriate principles for adoption by other Commonwealth organisations.

28 Issued by the Department of Finance and Administration in 1997 in conjunction with the introduction of the *Financial Management and Accountability Act 1997*.

Policies

2.56 Some disposal policies required the organisation to obtain the best net outcome from the disposal of assets. But most policy did not cover a range of important considerations, such as the identification of assets requiring disposal action, obtaining value for money from the disposal activity, consideration of alternative methods of disposal, preparation of items for disposal, and disposals to staff. Nevertheless, the policies adopted were generally based on those in the central guidance provided in the Finance publications.

2.57 The policy of some organisations included a statement that the organisation would not sell surplus assets directly to staff outside a publicly competitive process. The policy in other organisations was silent on this aspect. The ANAO considers that each organisation should have a clearly stated policy on this issue, as sales to staff need to be able to withstand public scrutiny.

2.58 Certain policies were sometimes covered by policy statements on other topics. For example, the destruction of computer hard disks prior to disposal was usually in an information technology policy, rather than the policy on disposals or asset management. The ANAO considers that policies of this nature should be cross-referenced in the disposal policies to ensure that officers organising disposals are aware of the particular requirements.

Procedures

2.59 The overall procedures at some organisations were incomplete or out-of-date and in need of review. As a result the practices employed were sometimes reliant on the experience and judgement of the officers undertaking disposal action.

2.60 The procedures for the approval of disposals varied among the organisations examined. The procedures at one organisation required a Board of Survey (that is, two or more officers) to determine a recommendation, where the net book value of the asset was above a certain threshold. The procedures at all of the other organisations provided for approval directly by the delegate or authorised officer.

2.61 Some organisations had additional documented procedures for the processing of disposals through the accounting system covering mainly the system processing entries. The procedures included disposal by auction, trade-in and destruction, and write-offs.

Process—conclusion

2.62 The ANAO concluded that the stated policies of all organisations were generally consistent with relevant legislative requirements and with Government policies relating to the disposal of assets. However, there was scope for further policy development and enhancement of procedures at many of the organisations. The ANAO considers that organisations should undertake this process in conjunction with an asset management plan / strategy.

Staff awareness—summary table

2.63 The following table summarises the audit review of staff awareness.

Table 8

Staff awareness

Principle	Staff demonstrate an understanding of their role in the organisation's internal control framework and of the specific policies and procedures for asset management and disposal activity.
Audit evaluation criteria	The organisation would be expected to have: • made policy and procedure readily available to staff; and • arranged for the conduct of specific training of relevant staff.
Audit findings	In relation to the eight organisations reviewed, the audit found the following: • few organisations demonstrated a strong management culture towards staff awareness and training in disposal activities; and • most organisations could improve their asset management staff awareness and training programs.
Sound and better practices	The audit noted the following in at least one of the organisations examined: • communication of policy and procedure documents by means of intranet facilities; and • specific training in the use of the asset accounting system.

Staff awareness—detailed findings

2.64 Instructions and guidelines relating to disposals were generally available on each organisation's intranet and/or in hardcopy manuals. However, as noted previously the information was not always complete and up-to-date. Furthermore, training in relation to assets was generally limited to asset accounting (ie. processing of transactions on the accounting system). The ANAO observed little specific training in asset management or disposal processes.

2.65 Only a few of the organisations demonstrated a strong commitment towards staff awareness and training in disposal activities. These organisations were the ones with asset management plans and/or an asset management team.

2.66 While particular staff in some organisations demonstrated a sound awareness of the relevant requirements, there was, in general, insufficient staff awareness in relation to asset management practices, including disposal activities. This was partly due to limited policies and lack of detail in the instructions and guidelines and the unclear lines of responsibility below managerial levels in some of the organisations. A further cause in most organisations, was the relatively low priority afforded to the administration of disposals (except for items with significant residual values).

2.67 The main areas where staff awareness required improvement were as follows:

- asset management generally;
- identification of assets requiring disposal;
- consideration of disposal options; and
- recording of information for management purposes.

The main basis for this finding is derived from the next section of the report—Control activities.

Staff awareness—conclusion

2.68 Improved awareness of asset management principles at all staff levels would enable better use of asset resources and higher returns on disposal activity. Managers, in particular, should be encouraged to learn more about managing assets both efficiently and effectively. Managers could then instil a greater awareness among the staff responsible for conducting the various elements of the disposal process.

Conclusion—control environment

2.69 Organisations need to develop clear policies and lines of responsibility for asset management / disposal of assets. In addition, they need more comprehensive instructions and procedures and a staff awareness program to ensure relevant officers are aware of the policies and procedures, and their own particular responsibilities.

Recommendation No.3

2.70 The ANAO *recommends* that organisations:

- allocate responsibility for the coordination of asset management activities to an appropriately trained manager or management team;
- develop appropriate policy and procedures covering all key aspects of the disposal process and include the policy and procedures in the Chief Executive Instructions or in supporting policy statements and procedural guidelines; and
- promote responsibilities, policies, planning, instructions and procedures relating to asset management, including the disposal of assets, among relevant staff. Specialised training should be considered as appropriate.

Control activities

Introduction

Specific internal controls

2.71 Control activities refer to the specific internal controls that combine to mitigate risks and assist in the achievement of business objectives. They operate as the organisation's front line of defence in ensuring authorisation, completeness, accuracy and timeliness of transactions, system security and segregation of duties. Without the proper design of control activities, managers cannot ensure that assets requiring disposal are properly identified, authorised, actioned and recorded.

Business benefits of control activities

2.72 Preventative and detective controls minimise the impact of risks and contribute to the efficient and effective delivery of an organisation's strategies and policies for asset management and disposal of assets. The controls also help to ensure the integrity, accuracy, completeness, probity and propriety of disposal transactions, and enable the reporting of relevant financial data in the annual financial statements.

Audit findings and comment

2.73 The control activities relating to the disposal of assets were examined under three main elements of control, as follows:

- *Management controls*—organisations establish management and other supervisory arrangements to ensure the specific control activities are carried out by personnel and/or systems established to do so.

- *Authorisation controls*—organisations have operating procedures to ensure all transactions meet organisational requirements, are authorised by officers with proper authority and are actioned in accordance with the authorisation provided.
- *Accounting controls*—organisations have established accounting systems for the efficient recording and reporting of transactions and determined appropriate levels of system access.

2.74 The audit findings for each of the above controls are detailed below.

Management controls—summary table

2.75 The following table summarises the audit review of management controls.

Table 9
Management controls

Principle	Management reviews the operation of disposal control activities.
Audit evaluation criteria	The organisation would be expected to have specific controls for: • monitoring the status of assets; and • identifying assets for disposal on a timely basis.
Audit findings	In relation to the eight organisations reviewed, the audit found the following: • stocktaking was the main form of monitoring assets; • two organisations had undertaken only one stocktake in the last three years; • most assets that were no longer required and/or obsolete were identified during stocktaking; and • there was no systematic review or reporting to identify those assets reaching the end of their useful lives.
Sound and better practices	The audit also noted the following in at least one of the organisations examined: • annual stocktakes of assets; and • monitoring of assets with zero net book values.

Management controls—detailed findings

Monitoring of assets

2.76 There is a need to monitor the condition, age and useful life of plant and equipment assets on a regular basis. This should help to ensure assets are disposed of in a timely manner as well as assist in planning for asset replacement or other means of providing the functionality/service required.

2.77 The annual stocktake was commonly the main form of monitoring of the status of assets in the organisations examined. The stocktakes identified items that had not been used for a considerable time or that had been lost or damaged, and therefore provided an opportunity for initiating disposal and/or write-off action.

2.78 Most organisations conducted stocktakes annually with some being on a three-year rolling program. Two of the organisations had conducted only one stocktake over the last three years. The lack of regular stocktakes by these organisations not only resulted in asset condition not being monitored, but also reduced reliance on the asset register in the preparation of the annual financial statements.

2.79 The ANAO considers that stocktakes should be undertaken either annually or on a two or three year rolling program based on an assessment of risks. The stocktake should be used for both accountability purposes (including financial reporting) and for management purposes as a supplementary form of monitoring the status of assets.

2.80 The audit found that there was no other specific monitoring of assets to determine, among other things, whether any of the assets may need disposing of in the future. The ANAO considers that the status of assets should be monitored on a more regular basis than that provided for through stocktaking.

Estimated useful lives and net book values

2.81 An important aspect of effective asset management is the establishment, at the time of purchase, of the asset's estimated useful life, that is, the length of time over which the asset will provide economic benefit to the organisation. The estimated useful life enables an organisation to allocate the cost of the asset over the life of the asset (depreciation) and sets the timeframe for the organisation to consider disposing of the asset and/or replacing it.

2.82 Australian Accounting Standard *AAS 4 Depreciation*[29] governs the manner in which the cost (or where an asset has been revalued, the revalued amount) less any residual value of an asset is to be systematically allocated over the useful life of the asset. As a result, the net book value of an asset, that is, the original cost or revalued amount, less accumulated depreciation to date, reduces over the life of the asset, reducing to zero or the residual value at the end of the estimated useful life of the asset.

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29 Australian Accounting Standard *AAS 4 Depreciation,* CPA Australia and Institute of Chartered Accountants in Australia, as updated to June 2001.

2.83 The monitoring of assets that are at or nearing residual or zero net book value can assist in the identification of assets that may need disposal action. However, not all assets at residual or zero net book value will require disposal action as an asset continuing to provide useful service to an organisation may be legitimately recorded at such value.[30] In normal circumstances, however, such assets would represent only a small proportion of an organisation's total assets.

2.84 Paragraph 6.1 of AAS 4 requires depreciation rates to be reviewed annually and, if necessary, adjusted so that they will reflect the most recent assessments of the useful lives of the respective assets, having regard to such factors as asset usage and the rate of technical and commercial obsolescence. The commentary at paragraph 6.3.1 states:

> *Being a function of factors which cannot be determined with certainty, depreciation expenses necessarily contain an element of approximation. This emphasises the need to review those factors at least annually with adjustment, where necessary, to existing depreciation rates or methods.*[31]

2.85 ANAO analysis revealed that most of the organisations had a significant proportion of infrastructure, plant and equipment assets recorded in the asset accounting systems at zero net book value, indicating that the assets had reached or passed their estimated useful lives. Five of the organisations had in excess of 25 per cent of their assets recorded at zero net book value with one of these being over 40 per cent. In some cases, the assets were more than ten years past their estimated useful lives. One organisation had recently introduced monitoring of the number of zero net book value assets while the other seven performed no regular monitoring.

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30 For example, an organisation may have assets in a particular class ranging from say one to eight years old, on the basis that most remain useful for about six years, with some of the items lasting a little longer (seven or eight years) and others a little less (five years). The best estimate of useful life for the class would be six years, and the items at this age or older would be recorded at residual or zero net book value.

31 op. cit., Australian Accounting Standard *AAS 4 Depreciation.*

2.86 The audit found that the five organisations with a high proportion of fully depreciated assets had either not carried out a review as to whether the assets continued to provide useful service to the organisation and an annual review of the estimated useful lives of the assets, or in the ANAO's view, had not carried out the reviews properly. Accordingly, it was likely that some of the fully depreciated assets were no longer providing service to the organisations and should therefore be considered for disposal. In addition, it was highly likely that depreciation charges had not been allocated appropriately over the useful lives of certain of the fully depreciated assets in accordance with the requirements of *AAS 4 Depreciation*, and as a consequence, that the net book values of some of these assets had been understated.

2.87 The issue of the percentage of assets with a zero net book value had also been raised in the 1999–2000 financial statement audits of a number of the organisations. While in each case the ANAO viewed the matter as not being material for financial statement reporting purposes, there are clear business implications for cost allocations, asset replacement timing and disposal action. In view of the findings from this audit, the ANAO considers that organisations should be looking at this matter closely from both the financial reporting and asset management perspective.

2.88 The ANAO considers that proper completion of the <u>annual</u> reassessment of useful lives in accordance with *AAS 4 Depreciation*, and adjustment where necessary, provides one mechanism to identify assets for disposal consideration. However, to further assist in the process of identifying assets for disposal, organisations should conduct ongoing monitoring of assets nearing the end of their useful lives.

Identification

2.89 Assets not being used by an organisation should be identified for disposal consideration before, or at the latest, as soon as, they become non-operational, obsolete or surplus to requirements. Alternatively, assets may be identified for disposal at a much earlier stage, where an organisation's policy is to dispose of an item at the optimal price; for example, motor vehicles are commonly disposed of after two years or 40 000 kilometres, whichever occurs first. No matter what the disposal policy, early identification should lead to a more efficient and cost effective result.

2.90 The ANAO found that apart from assets with significant market value (including motor vehicles), most items that were no longer required and/or obsolete were identified during stocktaking. In many organisations, stocktakes were undertaken at year-end to facilitate the verification of the existence of the assets for financial statement purposes. As a result, the majority of disposals often occurred in the last months of the financial year, suggesting that both the stocktake and disposal action were more closely linked to statutory financial reporting than to efficient and effective asset management. Consequently, some assets were likely to have been obsolete, non-operational or no longer required for a considerable time prior to the stocktaking being conducted. This was especially the case where stocktakes were infrequent.

2.91 There was no other systematic reporting or review to identify those assets reaching the end of their useful lives in any of the organisations examined. Identification essentially relied upon officers using the assets bringing them to attention by recommending disposal. While this was an appropriate procedure that worked well in relation to assets with a potentially high disposal value, eg. motor vehicles, it did not generally work for lower value assets.

2.92 Earlier identification of items requiring disposal, or at least identification on a more regular basis, would enable greater financial returns to be achieved on disposal actions. It would also reduce the costs involved in holding and storing unused assets.

Management controls—conclusion

2.93 There is a strong need for management to monitor the status of assets on a regular basis to assess their continuing contribution to operations and to promptly identify those requiring disposal consideration so that better returns on disposal can be achieved and holding costs can be reduced.

Authorisation controls—summary table

2.94 The following table summarises the audit review of authorisation controls.

Table 10
Authorisation controls

Principle	The disposal of assets is appropriately authorised and actioned through efficient and secure processes.
Audit evaluation criteria	For each individual disposal transaction (or group of transactions), the organisation would be expected to have specific controls for: • evaluating alternative disposal options and recommending disposal action; • authorising the disposal action; and • preparing and safeguarding the assets prior to disposal.
Audit findings	In relation to the eight organisations reviewed, the audit found the following: • there was little evidence of alternative options for disposal being considered; • disposals were properly approved in most organisations; • there was limited supporting documentation for most authorised disposals and for actions taken in preparing items for disposal; and • segregation of duties could be improved in some instances.
Sound and better practices	The audit noted the following in at least one of the organisations examined: • officers responsible for the management of particular assets personally recommended disposal action on the request for disposal; • assets were dismantled for spare parts where the complete asset had no market value; • assets were safeguarded/secured prior to disposal; and • disposal forms provided for certification that the disposal had been actioned in accordance with the approval provided.

Authorisation controls—detailed findings

Recommendation and approval

2.95 All disposals of assets need to be approved by a properly delegated or authorised officer, usually on the basis of a recommendation by another officer(s). In approving disposals, the authorised officer should be satisfied that the organisation's objectives and policies are being adhered to.

2.96 All organisations normally used a disposal form for approval of each asset or group of assets. In a few instances other documentary evidence was used. Most forms provided for the signatures/certificates of the officer recommending/requesting the disposal and the approving officer. A few of the organisations had forms providing for additional signatures such as a certificate of disposal and initialling boxes to indicate the adjustment of the asset records had been completed.

2.97 ANAO testing indicated that, in the majority of organisations, disposals were regularly being approved by properly authorised officers. However, in two of the organisations, there was a number of 'approvals' that were not provided by the appropriate delegate or authorised officer. There were also cases where there was no documentation to support the approval, including the approved disposal form, as it had either not been retained or its whereabouts was unknown.

2.98 There was very little space on most disposal forms to outline reasons for disposal or consideration of disposal options, and consequently, the contents of this part of the form were often very brief. Further, the disposal forms were the only form of documentation in almost all instances examined. Accordingly, there was little evidence of alternative methods of disposal being considered, nor of costs of disposal being assessed. In addition, the method of disposal was not always evident.

2.99 Disposal decisions should be supported by an analysis of the disposal options with relevant documentation being maintained. The absence of documents supporting the decision for disposal and why a particular method was chosen, makes it difficult to properly analyse the process of asset disposal as a whole. Ideally, the reasons for the disposal should be prepared by officers with responsibility for the assets or with expertise in the type of asset and/or disposal processes. In addition, where practicable, the officers responsible for the assets should be party to the recommendation for disposal, thereby placing some responsibility on them and providing additional assurance to the delegate or authorised officer. This practice was in place in at least one organisation.

2.100 Further, in many cases, the requesting/recommending officer also executed the disposal action. The ANAO considers that, where practicable, the role of execution should be separated from the requesting/recommending officer. In other instances, there was no information available as to which staff were responsible for actioning the disposal. The approval or responsibility arrangements should make it clear who is to complete the relevant disposal action.

Disposal process

2.101 The main options for disposing of assets are:

- where items are considered to have a continuing life for other users and/or market value—dispose of by auction, public tender or trade-in; transfer to other parts of the organisation; transfer or sell to other Commonwealth organisations; or donate to public institutions; and
- where items are of little or no recognisable market value—cannibalise (use for parts), donate, dump or engage a contractor to remove the specific items.

2.102 The ANAO observed cases of each of the types described above. The most common method of selling items was by auction. This action normally occurred after a reasonable quantity of suitable assets had been accumulated. The ANAO observed that security over assets awaiting disposal was generally satisfactory.

2.103 Preparations for disposal, such as the sanitising of computer hard disks or removal of hazardous materials should be documented (or certified) prior to disposal taking place. The disposal of hard disks used for the processing of classified information requires destruction or clearing in accordance with protective security procedures.

2.104 During examination of computer disposals, the ANAO did not find evidence in the disposal records to demonstrate that sanitising of hard disks had been carried out. While staff provided assurance that the process had been done, appropriate evidence should be documented prior to disposal taking place.

2.105 In a number of instances, there was inadequate segregation of the various duties associated with the disposal process. In a few instances one officer was responsible for virtually all the duties, that is, identifying items for disposal, providing or arranging approval, managing the sale and receiving the proceeds. The ANAO considers that as far as is practicable, there should be some segregation in the roles of disposal activity—in particular, the receipting function should be separated from other roles.

Authorisation controls—conclusion

2.106 The ANAO considers that, while most disposals were properly approved by authorised officers, there is a strong need for wider consideration of options for disposal and for improved documentation of the decision making process. Increased attention to this area would enhance accountability and provide suitable background information for future disposal decisions.

Accounting controls—summary table

2.107 The following table summarises the audit review of accounting controls.

Table 11
Accounting controls

Principle	Disposals are properly accounted for and actioned on a timely basis (*completeness, accuracy* and *timeliness*).
Audit evaluation criteria	The organisation would be expected to have specific controls for: • adjusting the asset records; • receiving the proceeds; and • reconciling proceeds from the disposal.
Audit findings	In relation to the eight organisations reviewed, the audit found the following: • most organisations were not properly accounting for write-offs in their financial statements; • some organisations had provided system access for the deletion of assets from the records to staff that did not require such access; • proceeds were not always recorded in the asset accounting system; • few organisations were separately recording the costs of disposal; and • two organisations experienced breakdowns in asset recording, such as disposed assets not being in the asset records, and disposals being recorded 12 months after the transactions had taken place.
Sound and better practices	The audit noted the following in at least one of the organisations examined: • write-offs were properly recorded and disclosed in the annual financial statements; • access to the asset accounting system was properly controlled by the system administrator; and • reconciliations were performed and checked by management on a monthly basis.

Accounting controls—detailed findings

Recording

2.108 Some organisations recorded information centrally. This normally involved all documentation being sent to a central recording unit where the records were used for updating the asset accounting system. One of these organisations maintained a register of all forms received and filed the forms in an accessible manner. Another organisation did not file the disposal forms while another was unable to locate some of its forms.

2.109 Other organisations processed the disposal transactions through the operational business areas responsible for using and managing the assets. These areas had direct access to the asset accounting system.

2.110 Most of the disposals examined were properly actioned on the asset accounting systems in a reasonable time frame. However, in one organisation, the ANAO observed that some of the disposed assets were not in the asset records while in another organisation some disposals were not recorded in the asset records until one year after the disposal action had taken place.

Write-offs

2.111 Most organisations actioned all retirements of assets as 'disposals' without distinguishing 'write-offs', ie. where items are retired as either lost, damaged or missing following a stocktaking process, from disposals, ie. where items are intentionally retired through sale, destruction or other means. As a result, these organisations were not disclosing write-offs in the asset reconciliation table in the annual financial statements as provided for in the Finance Minister's Orders[32]. The separate reporting is also useful for management purposes by providing retirement data that may be used for future planning and changes in internal control.

System access

2.112 Access to delete assets from the accounting system should be restricted to the minimum number of officers necessary. This control prevents unauthorised officers from deleting assets from the system either accidentally or intentionally.

2.113 Access to retire or delete an asset from the system was well controlled in most organisations. However, access was available to a higher number of users than considered necessary in a few of the organisations, including some with centralised records.

Proceeds

2.114 Disposal proceeds were not always processed through the asset register (however, in each case the proceeds were accounted for through the organisation's general ledger). This makes generation of accurate asset information difficult and increases the risk of incorrect decisions being made. Also, in cases where there was no supporting documentation, it was unclear whether or not proceeds should have been received from the disposal action.

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32 The Finance Minister's Orders—Requirements and Guidance for the Preparation of Financial Statements of Commonwealth Agencies and Authorities for the Financial Year 2000–2001. These Guidelines apply to FMA and CAC organisations. Previous years' guidelines had similar requirements for the reporting of write-offs.

Costs of disposal

2.115 Commission and other costs of disposal, as well as the Goods and Services Tax (GST) from 1 July 2000, should be properly recorded in the accounting records. Cost information is helpful in assessing the performance of the disposal action and in planning for future disposals.

2.116 Most organisations did not separately record the cost of disposals in the asset accounting system. These organisations recorded the net proceeds either in the asset accounting system or the general ledger, which is all they required for financial reporting purposes. However, most of the asset accounting systems contained a field for costs and were therefore capable of recording the costs.

2.117 The ANAO examined a small number of disposals in some organisations that were actioned after 1 July 2000; the GST was properly recorded in each case.

Reconciliations

2.118 Periodic reconciliations between the asset accounting records and the general ledger are necessary to ensure the completeness and accuracy of both records. The reconciliation process should highlight any discrepancies requiring corrective action.

2.119 Asset reconciliations were generally conducted on a monthly basis by most of the organisations. In some instances the reconciliations were not up-to-date or not reviewed or checked by a second officer.

Accounting controls—conclusion

2.120 The accounting controls for disposal transactions were generally satisfactory in most organisations except for the inclusion of write-offs resulting from loss and damage as ‘disposals’. In the process, however, the ANAO noted that several organisations had experienced difficulty in maintaining up-to-date and complete asset accounting records, eg. some organisations took more than six months to update the records for the revaluation of assets as required by the Finance Minister’s Orders.

Conclusion—control activities

2.121 The ANAO concluded that there was a need in most organisations to improve the specific controls relating to disposal processes. In particular, there needs to be a systematic means of identifying assets for disposal consideration, appropriate procedures for documenting the various steps in the disposal process, and proper accountability over transactions including the separate reporting of asset write-offs arising from loss and damage.

Recommendation No.4—Management controls

2.122 The ANAO *recommends* that organisations:

- prepare, on a regular basis, a report identifying assets nearing the end of their estimated useful lives so as to assist in monitoring assets which may require disposal consideration and/or action, or alternatively, reassessment of estimated useful life; and
- conduct stocktakes periodically, which, among other things, review the condition and status of assets.

Recommendation No.5—Authorisation controls

2.123 The ANAO *recommends* that, in approving assets for disposal, organisations:

- consider alternative methods and costs of disposal where items have a disposal value;
- prepare and retain all documents supporting asset disposal decisions;
- arrange for any special preparations for disposal to be documented in the disposal records, eg. the clearing of assets containing classified information / hazardous materials; and
- arrange for appropriate segregation of duties across the elements of the disposal process, ie. recommendation, authorisation, execution and accounting.

Recommendation No.6—Accounting controls

2.124 The ANAO *recommends* that organisations:

- distinguish asset write-offs from disposals in the accounting records and in the annual financial statements;
- record proceeds arising from, and costs associated with, disposals, in the asset accounting records; and
- restrict system access for retiring or deleting assets from the records to the minimum number of staff necessary.

Information and communication

Introduction

2.125 Information and communication are critical for decision making and performance reporting, both within the organisation and externally, and for the achievement of strategic objectives. Transactional and performance information needs to be identified, captured, analysed and communicated on a timely basis. It needs to be in a form that enables people to carry out their responsibilities simply and with confidence. Accordingly, information systems (both computer and manual) need to be in place to capture and process data in meaningful ways.

2.126 Organisations need to maintain disposal records for all items reported as assets in the financial statements. This is done on asset accounting records which are usually part of an organisation's financial management information system. Additional performance information may be obtained in other forms.

Business benefits of effective information and communication

2.127 Effective information and communication helps organisations establish whether resources are being directed towards the achievement of desired outputs and outcomes in the most efficient, effective and ethical way. It also enables organisations to fulfil their accountability obligations in providing data for financial and other reporting obligations.

2.128 Performance reporting assists organisations understand whether the disposal of assets function is meeting the needs of the organisation. It contributes to continuous improvement and enables staff to undertake and monitor their own operational activities, which can further be used as a tool in building staff confidence and morale.

Audit findings and comment

Summary table

2.129 The following table summarises the audit review of information and communication.

Table 12

Information and communication

Principle	Information systems provide relevant information for financial and management reporting purposes to the right people at the right time.
Audit evaluation criteria	The organisation would be expected to have: • systems/reports in place for identifying assets for disposal consideration and capturing and reporting budgeted and actual disposal proceeds, with close links between the general ledger and asset accounting systems, so as to enable good decision making in relation to disposals; and • regular two-way information flows between the staff responsible for disposal actions and those responsible for managing the relevant assets.
Audit findings	In relation to the eight organisations reviewed, the audit found the following: • reporting was generally limited to the results of disposal transactions as required for financial reporting purposes; • many organisations could improve their use of the FMIS for management reporting purposes; and • most organisations could provide disposal information to higher levels of management on a more regular basis.
Sound and better practices	The audit noted the following in at least one of the organisations examined: • accounting systems were suitable for financial reporting and reconciliation processes; and • reports on disposal activity were provided to management on a monthly basis or on request.

Detailed findings

Financial reporting

2.130 The FMISs used by the organisations provided some standard reports on disposal transactions. The information was mainly for financial reporting purposes, and, in particular, for the preparation of the annual financial statements. Accordingly, the information recorded in the systems needs to be both reliable and accurate.

2.131 The asset accounting modules of the organisations' FMISs were the only systems used for the recording of asset information. Typically, the systems provided a report on actual disposals, listing asset number, acquisition and disposal dates, description, retiring depreciation, retiring book value, and losses / gains on sale. Some systems recorded the cost of disposals, which is also valuable for management purposes. Most reports did not distinguish between disposals and write-offs, nor indicate the method of disposal, eg. sale by auction or destroyed. The systems also provided reconciliation reports for reconciling the general ledger and the asset accounting records.

Management reporting

2.132 The ANAO considers that, where feasible, the asset accounting module of an organisation should be used for management purposes, as well as for financial reporting. For example, in relation to disposals, management could make use of reports identifying assets for disposal consideration (ie. those assets nearing the end of their useful lives) and comparing the cost of disposals with proceeds from disposal. Ideally, such reports would rely on information recorded in the system rather than the development of a supplementary system. One organisation with a commonly used FMIS indicated that such reporting was possible. Where the relevant information can not be provided through asset system reports, it may be able to be extracted / down-loaded from the system into another reporting form. The development of additional management reporting may require enhancement of the asset systems.

2.133 The ANAO considers that a report identifying assets nearing the end of their estimated useful lives or those that have been fully written down to their residual values would be beneficial in that it would enable planning of disposals (or alternatively, where disposal is not warranted, a reassessment of estimated useful lives). Under current arrangements in most of the organisations examined, identification of assets for disposal relies upon the users or the stocktake process.

Information flows

2.134 Management should be provided with regular reports on disposal activity / performance as part of the information flow on asset management. Management needs this information to ensure accountability and to assess any changes that might be required in the internal controls.

2.135 The asset accounting systems of most organisations provided suitable financial reports on disposal for users to check that the disposals had been properly accounted for. However, there was no regular reporting to senior management in these organisations on disposal activity. In some organisations, reports were provided, but usually only when requested. Reports should be provided to cost centre managers, asset coordinating managers and appropriate higher-level management, on a regular basis.

2.136 Information on disposals also needs to be shared between operational areas and the accounting area, particularly where the accounting function is centrally controlled. For example, disposal approval forms need to be sent to the accounting area for processing. The receipt and proper processing of this information are vital to the accuracy and completeness of the asset accounting records. Some delays and breakdowns in the provision of such information were observed.

Conclusion—information and communication

2.137 The ANAO considers that organisations should explore opportunities for improving asset and disposal reporting to management for decision making and performance measurement purposes. Furthermore, organisations should ensure that reports are provided to appropriate levels of management on a regular basis.

Recommendation No.7

2.138 The ANAO *recommends* that organisations:

- make greater use of the asset accounting system and other disposal information for asset management purposes. In particular, reports should identify assets requiring disposal consideration / planning and the costs of each disposal; and
- implement regular reporting to senior management on the results of disposal activity.

Senior management would include cost centre managers, and an asset coordinating manager, where such a position exists.

Monitoring and review

Introduction

2.139 Monitoring and review is the final component of an effective control framework. It is a key element of an organisation's continuous improvement process that ensures the organisation implements effective processes and tools to monitor and review relevant data. An effective monitoring and review environment includes use of both periodic reviews, such as those undertaken by internal audit and external consultants, as well as in-built review mechanisms.

2.140 Performance measurement is widely recognised as a key tool by which organisations can monitor performance. One of the main advantages of performance measurement is that it enables organisations to express the results of a business process in quantitative, not qualitative, terms.

2.141 By providing reliable, quantifiable data to evaluate business processes, performance measurement allows organisations to provide feedback about current performance and to set relevant, identifiable goals (targets) for future improvement. Moreover, it has long been acknowledged that, in general, 'what gets measured gets done'. That is, the practice of simply measuring a task or activity focuses direct attention on it, and as a result, people will naturally strive to improve the result. It is therefore integral to any continuous improvement environment. Furthermore, performance measurement is also integral to the internal control environment as it helps an organisation identify process problems as they occur, often well before the problems adversely affect outputs and outcomes.

Business benefits of monitoring and review

2.142 Monitoring and review provides assurance and feedback on whether program objectives are being achieved efficiently and effectively. The component also provides an on-going check on the effectiveness of the internal control framework. Activity in this area significantly impacts continuous improvement. Periodic monitoring and review is often aligned with the sharing of ideas, both across the organisation and externally. This is associated with the benefits of obtaining independent and objective views. In-built monitoring and review mechanisms encourage ownership of controls as well as enhancing the internal control framework.

Audit findings and comment

Summary table

2.143 The following table summarises the audit of monitoring and review.

Table 13

Monitoring and review

Principle	Monitoring and review takes place on an appropriate periodic basis that enables the organisation to check the internal control framework and ensure the organisation's strategic objectives are being achieved.
Audit evaluation criteria	The organisation would be expected to have regular monitoring and review processes to ensure that policies and procedures are adhered to and properly applied, and to identify changes and weaknesses in the operating environment; this might be achieved by reporting against performance measures and through internal checking processes and/or internal audit review. The results from the monitoring and review of the disposals process need to be fed back into the next planning / risk management cycle.
Audit findings	In relation to the eight organisations reviewed, the audit found the following: • none of the organisations monitored performance measurement data other than for financial reporting purposes; • organisations had not established performance indicators for disposal activity; and • internal audits of disposals and other asset management activities have been undertaken by some organisations.
Sound and better practices	The audit noted the following in at least one of the organisations examined: • monthly reporting of gains/losses on disposal; and • trial evaluation of an alternative asset replacement timing policy.

Detailed findings

Monitoring and review of disposal activity

2.144 Management should monitor disposal activity to ensure its disposal policies and procedures are working effectively. Appropriate performance indicators need to be established for this purpose.

2.145 The Annual Reporting Guidelines for FMA organisations now require an assessment of the effectiveness of asset management to be reported where asset management (including assets of which the day to day management has been outsourced) is a significant aspect of the strategic business of the organisation.[33] This requirement came about as a result of the recommendations of the JCPAA Report No.363, *Asset Management by Commonwealth Agencies.*[34]

2.146 Three of the four FMA organisations covered by the audit reported on asset management in 1999–2000 in accordance with the new annual report requirement. Two of the organisations provided mainly a general commentary on their asset management arrangements. The third organisation (which had the most significant asset portfolio of the four) made reference to asset management performance indicators. None of the indicators related to disposals.

2.147 The only monitoring of disposal activity observed within any of the organisations examined was for financial reporting purposes (including quarterly and monthly reports in some organisations). This reporting was usually at the plant and equipment asset level and was limited to proceeds and gains/losses. In some cases both actual and budgeted proceeds were reported. There was generally no analysis of the information or of gains/losses on sale for each category of 'plant and equipment' assets disposed of.

2.148 The ANAO considers that organisations should implement additional disposal performance measures for better management. These might include:

- comparison between actual ages of disposed assets and estimated useful lives. This measure is closely linked with depreciation;
- the number and proportion of items for which no proceeds were received;
- comparison of budgeted and actual costs; and
- comparison of the results achieved from varying disposal methods, eg. sale by auction, trade-in or tender.

The comparisons could be done by asset class or asset category.

Internal audit

2.149 Internal audit undertakes independent reviews and evaluations in all of the organisations included in the audit.

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33 Annual Report Requirements, Department of the Prime Minister and Cabinet, May 2000 and June 2001. The requirement was introduced from 1999–2000 and is continued for 2000–01.

34 op. cit., para 3.47, p. 32.

2.150 There had been limited relevant internal audit coverage relating to the disposal of assets in recent times, primarily because the topic has been assessed as low risk. However, those audits that had been completed, included the following matters:

- disposal approvals needed to be given in writing;
- disposal options should be evaluated;
- proceeds should be recorded in the asset register;
- asset management policies should be revised/updated; and
- portable and attractive assets should be properly controlled.

Each of these matters was also noted by the ANAO in at least some of the organisations examined.

Conclusion—monitoring and review

2.151 The ANAO considers that organisations should establish appropriate performance indicators, and assess disposal performance, at least annually, or more frequently where circumstances require it. This should be done in conjunction with performance information covering all aspects of asset management and incorporated into asset management planning. While the measures need to be practicable, and mainly for internal management purposes, a selection of them could also be used for external reporting. Accordingly, FMA organisations should link their performance assessments with the reporting of asset management effectiveness in their annual reports.

Recommendation No.8

2.152 The ANAO *recommends* that organisations:

- establish appropriate performance indicators for asset disposal and other asset management activities as part of their asset management plan;
- provide performance information on assets and disposal activity in monthly management reports; and
- implement regular monitoring and review procedures to measure performance against the indicators set.

Canberra ACT
9 August 2001

P.J. Barrett
Auditor-General

Appendices

Appendix 1

About the audit

Assurance and Control Assessment audits

1. Assurance and Control Assessment (ACA) audits are undertaken under the general performance audit provisions of the *Auditor-General Act 1997*[35]. They examine the internal control frameworks supporting common business support activities and processes that are not specifically covered by financial statement or other performance audits. Audit evaluation criteria are based on the five interrelated components of the internal control framework[36]; namely:

- risk assessment;
- control environment;
- control activities;
- management information and communication processes; and
- monitoring and review processes.

2. The audits are planned and managed by the Assurance Audit Services Group.

Performance information

Timeframe

3. Planning for the audit of *Disposal of Infrastructure, Plant and Equipment* commenced in September 2000. The other phases of the audit were undertaken as follows:

- pilot study in one organisation—September and October 2000;
- in-depth fieldwork at the other seven organisations—October 2000 to March 2001;
- development of management reports and recommendations for each organisation—February to May 2001; and
- preparation of the Parliamentary report and letters to Ministers responsible for the audited organisations—May, June 2001.

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35 *Auditor-General Act 1997*, section 18.

36 op. cit., ANAO *Controlling Performance and Outcomes*.

4. The elapsed time from the commencement of the audit to finalisation of this report was 10 months which was two months longer than originally planned. The additional time resulted from limited resource availability at particular stages within both the ANAO and some of the audited organisations.

Benefits

5. The reports to the organisations examined included a total of 57 recommendations (ie. an average of seven per organisation). Fifty-one of the recommendations (89 per cent) were agreed or agreed with qualification.

6. The recommendations were mainly aimed at improving asset management controls in relation to the disposal of assets, and accordingly, did not identify any quantifiable savings. Nevertheless, implementation of the recommendations should result in quantitative gains in terms of higher returns on disposal, together with cost savings from not holding assets past their service potential, as well as qualitative improvements in the overall management and control of assets and the disposal thereof.

Resource utilisation

7. The audit was undertaken mainly by staff within the Assurance Audit Services Group, with some additional resources being contracted-in as part of the audit team.

8. The total cost of the audit was $340 000 which was slightly less than originally budgeted ($344 000). The average cost of the field work and reporting undertaken at each of the eight organisations was approximately $30 000. The remaining costs of about $100 000 comprised planning of the overall audit, reporting to Ministers and the preparation and printing of this report.

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