

Audit Reports Summaries

Audit Report No. 27 1995-96

Tabled 17 June 1996

Summary

ASSET MANAGEMENT

Financial Control and Administration Audit

Scope and focus

1. The audit of asset management encompassed all forms of Commonwealth agency with the exception of Government Business Enterprises and Departmental Commercial Undertakings.
2. The subject of the audit was non-current physical assets, categorised as property, plant and equipment in the Minister for Finance Guidelines for Financial Statements.
3. The following chart indicates the proportion of non-current assets of the Commonwealth (at depreciated values) which were subject to audit and within this category the proportions of each type of asset.



Audit objectives

4. The objectives of the audit were to assess how well agencies are managing their assets to produce better outcomes and to identify or develop better practice in asset management.

Audit opinion

5. On the basis of the review it is concluded:
 - sound principles of asset management dealing with strategic planning, acquisition, operation and disposal are not being applied in most agencies and, where they are, they can be significantly improved; and

- in relation to management control and monitoring of assets, agencies have generally developed basic asset policies and procedures and implemented adequate asset accounting systems.

Major findings

6. In relation to the first conclusion, it was observed that:

- most agencies would benefit from the development of comprehensive asset management strategies. Where elements of such strategies exist they need to be better integrated into strategic planning processes;
- greater consideration of the alternatives to asset acquisition and replacement is generally required;
- whole of life-cycle costing methodologies need to be introduced;
- improved asset management would result from the effective attribution of costs for the use and consumption of assets to the program level. This would assist in establishing the full cost of program delivery; and
- asset disposal decisions need to be made within a management framework which includes the regular monitoring of the condition and performance of assets and planning for replacement, and to maximise the return to the Commonwealth.

7. Apropos the conclusion on management control and monitoring of assets, the most significant progress was observed to have been made as a result of the adoption of accrual reporting in annual financial statements by 1994-95. Further improvement can be made:

- by reinforcing assets are acquired, used and disposed of to support program delivery;
- to ensure management of assets encompasses all aspects of the asset life-cycle; and
- by enhancing the non-financial information held on assets in corporate databases.

Major recommendations

8. On the basis of the above findings it is recommended that agencies:

- compare and assess their asset management practices against the principles contained in this report (see Appendix 1);
- review arrangements for establishing accountability for the use of assets at the program level;
- review asset policy and procedure manuals to ensure that they address all aspects of the asset life-cycle; and
- have regard to the non-financial asset management information required to effectively monitor and control assets from a life-cycle perspective.

9. The asset management principles referred to in the above recommendations have been developed following review of the principles adopted at other levels of government and in the private sector. They were also influenced by principles detailed in the Management Advisory Board and its Management Improvement Advisory Committee (MAB/MIAC) Report - Improving Asset Management in the Public Sector - Report No.1, May 1991 (see Bibliography). The principles are further discussed in the separately available [Asset](#)

[Management Handbook](#) which accompanies the [Better Practice Guide](#) issued as a result of this audit.

Matters for consideration

10. Analysis of underlying causes of the above findings, and a review of asset management frameworks adopted in State and Local Government, raises the following issues for consideration:

- the need for provision of central guidance on the application of asset management principles; and
- the need for external mechanisms (incentives or penalties) to encourage improvement in asset management; particularly by agencies which operate on a non-commercial basis.

11. These matters are discussed in Chapter 2 of this report. The next steps canvassed and suggested have the capability of moving asset management from its current emphasis on accounting and operational issues to a more holistic and strategic approach.