

Finders keepers

Does your organisation know where all its assets are and what they are worth? Probably not. Chloe Harlick outlines seven steps to better fixed asset management



ONE of the most crucial abilities in the skill-set of the internal auditor is

knowing which questions to ask. And sometimes the pertinent questions are the simplest and most obvious.

“Where is it?” is one such question. Certainly it must be asked about the documentation and computer records which are the raw materials of audit work. In most audits, for example, it is essential to examine and reconcile documents recording purchase orders, invoices and payments, and to understand and verify the processes around their production and use. But what of the items which have been purchased? Where are they?

Answering this apparently simple question is often surprisingly difficult. In fact, a study carried out by the research agency Gartner found that over 30% of organisations are in a “chaotic” state, meaning that they do not know what they own, where the assets are or who is using them. Not a very satisfactory situation for any internal auditor – or indeed for anyone concerned

with the profitability, security and efficiency of the organisation.

There are a number of reasons why it has become increasingly difficult for companies to keep track of their fixed assets. Not that long ago, a business’s fixed assets consisted primarily of buildings, office equipment and furniture, and perhaps factory machinery. None of these were likely to move around very frequently, and all were expected to have a life span measured in years. It was a fairly simple matter to keep track of the existence and value of such assets, work out depreciation, and produce statutory and management reports. When it came to fixed assets, the job of the internal auditor was pretty straightforward.

Transformed

The situation has transformed with the change in the number and type of assets owned by the average company. IT equipment is the most striking example of this trend. From mainframe to PC to laptop to handheld – the shift has been from a small number of high-value assets to a much larger number »

“30% of organisations do not know what they own, where their assets are, or who is using them”



Feature

» of lower value assets, but whose total worth can run into millions of pounds.

Compounding the problem is the fact that both assets and people have become much more mobile. Laptops, mobile phones and personal organisers are ubiquitous; teleworking and hot-desking have become commonplace. It is hugely more difficult for both the organisation and its auditors to know what assets exist, where they are, and what they are worth.

In many companies the situation is further exacerbated by the fact that the finance, IT and facilities management departments maintain and independently update their own asset registers. A damaged laptop will be repaired or replaced by the IT department and logged in its records. But the transaction also has financial implications. The item must be removed from the balance sheet and the cost of repair, or of disposal and replacement, must be calculated and recorded.

With duplicate systems, and typically very inadequate procedures in place for communication between them, the finance department's asset register – the one used for financial reporting – very rapidly becomes hopelessly inaccurate and out-of-date. Accounts and management reports are thus based on significantly erroneous figures.

No control

As a result, there is no control over many thousands or even millions of pounds worth of assets. The fixed assets figure on the balance sheet is a Pandora's box that there is no means of opening. It is impossible to get a clear audit trail. Equipment is "lost" because of lax security. Requirements for transparency, accountability and compliance become unattainable.

How can this very undesirable situation be resolved? The essential first step is to ensure that the data on the financial asset register is an accurate reflection of the assets physically present in the company. This means carrying out a physical asset audit

Seven steps

1 What is the scope of the audit?

Which departments, sections and/or buildings are to be included? What items are to be included or omitted? For example, do you include coat stands, waster paper bins, fire extinguishers?

2 What level of detail is to be recorded?

For example, is a PC one item, or does it consist of a CPU, hard disk, screen and keyboard?

3 Who will be using the results of the audit and for what purpose?

The original purpose of the audit may be to satisfy audit requirements. But the information provided by a physical asset audit is extremely valuable, and in our experience it ends up being used by many more people and for different purposes than originally intended. We strongly recommend being aware of and trying to anticipate this, as it will affect the scope of the audit and the kind of information which is collected.

4 How will items be identified and named?

How will the audit operatives identify and name technical and specialist equipment? Are different types of the same item to be differentiated – for example, is a visitor's chair the same as an office chair? (The use of a product catalogue can be invaluable for standardisation of naming).

5 How will you ensure that items are not omitted or counted twice?

Using a floor plan, working in pairs, ensuring the audit is carried out as rapidly as possible to minimise changes in the asset base – these are some of the ways in which the accuracy of the audit can be maximised.

6 Under whose authority is the asset audit being carried out?

Is there a clear point of contact, both in the organisation and in the auditing team? Do each have sufficient authority to manage the project effectively?

7 What are the quality assurance procedures?

How will you know that the audit has been completed to standard?

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– literally going round the organisation listing all assets, including items that fall below the capitalisation threshold.

There is no doubt that this is a major task, and usually best outsourced to a specialist provider. The task is eased if assets are barcoded, so that the audit operatives can use a laser scanner and handheld computer to collect asset information.

Unfortunately, it is quite possible to carry out an asset audit and find that it has not produced the desired results. To ensure the success of the asset audit, pre-planning is essential. For some of the most common issues that must be considered see *Seven steps*.

The end-product of an asset audit that has been correctly carried out will be a complete, accurate and

up-to-date financial asset register. The next and vital step is to ensure that the register stays that way.

At this stage, it is procedures that are important. To ensure that the asset register remains accurate and up-to-date, it is essential to have effective procedures for communication and exchange of information between the various parts of the organisation.

This is not always easy to achieve. Many department managers take a very proprietorial attitude to information about transactions and processes taking place in their department. The facilities management and IT departments in particular are often wary of sharing information with the finance department, which may be viewed as the department that holds back money from them.

Solution

The ideal solution is to have one enterprise-wide system that can be used for all aspects of asset management. Information about everything owned by the company – fixed assets, inventory items, IT assets – is held on a central database. Any changes or updates are made once only and are then available to all parts of the organisation. A system of optional

modules or filters allow all users – finance, facilities management, IT – to view the subset of data relevant to them and to build a custom solution for their particular needs.

Some companies have achieved this goal. By creating a single source of all asset data, they have streamlined many of the processes associated with improved accuracy and financial control. They find that the information required for both insurance and disaster recovery planning is available, consistent and trusted, significantly reducing business risk. The system provides a clear audit trail, and these companies have achieved real cost savings through improved security and better procurement.

For many companies, political and budgetary issues may put this ideal solution out of immediate reach, but it is certainly the direction in which all organisations should be moving. ●

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“Many department managers take a very proprietorial attitude to information”

