

Documentation of Capital Asset Management Policies and Procedures

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Many transactions take place over the useful lives of capital assets, from initial capital planning and budgeting to ultimate disposal. With capital assets typically representing the largest line item on an organization's balance sheet, organizations will benefit from creating and maintaining accurate capital asset management policies and procedures.

These policies and procedures enable organizations to establish internal controls, and support accounting and reporting requirements as well as any existing governance policies.

In the following discussion, policy is defined as "the principles or rules that are used to determine decisions and actions." A procedure is defined as "the course of action that must be followed to implement a policy consistently."

Reasoning and Purpose

Traditionally, accounting for capital assets was considered simple - perceived by auditors as low risk and with adequate internal controls, thus attracting only minor audit scrutiny. However, in recent years, internal and external regulatory guidelines, and thus auditor scrutiny, have increased significantly.

Organizations with well-documented and regularly reviewed capital asset management policies and procedures can ensure the institutional memory of prior processes for all transactions in the asset life cycle. This clarifies property management responsibilities and ensures accurate information is produced for financial reporting. Moreover, precise financial data allows for better organizational decision-making and helps mitigate the risks of accounting for assets incorrectly or investing in assets not required.

Maintaining comprehensive capital asset management policies and procedures ensures:

- Financial statements that are accurate, reliable and produced on time

- Compliance with accounting standards and asset management best practices
- Guidance for all transactions encountered through the asset life cycle
- Assignment of asset management responsibilities and job descriptions

Documentation of Capital Asset

- Training for new and existing employees
- Processes to safeguard capital assets

Documentation of Capital A

- Physical verification of capital assets through regularly scheduled inventories

Phases of the Capital Asset Life Cycle

Capital asset management policies and procedures should cover all phases of the asset life cycle:

- Planning and budgeting
- Acquisition
- Accounting
- Management
- Disposal

Next are some of the critical points to cover in each phase.

Planning and Budgeting

During the planning and budgeting phase, risks include unauthorized asset purchases and/or department managers who consistently overestimate their capital budget proposals. Creating clear and stringent policies and procedures for planning and budgeting review, and establishing a capitalization threshold defining the minimum cost to be reviewed, are critical. The review process should cover pre- and post-installation to see if the approved project or asset has generated the results predicted during budgeting.

Acquisition

Once capital purchases are approved, requisitioning and purchasing begins. This process involves the requisitioning department, purchasing, and finance as well as material management (if the organization has a central receiving area). Interactions between these departments require a clear set of policies and procedures. This will ensure:

- Capital budget allocation compliance
- Correct accounting for all acquisition methods (leases, transfers, bulk buy assets, donations, etc.)
- Capital threshold compliance to capitalize and expense accordingly
- Purchase order verification at central receiving
- Nonacceptance of incorrect quantity, incorrect variant and damaged assets
- Delivery of assets received to requisitioning department

Tagging of assets can take place during this phase, and is further discussed in the subsequent Management section.

Accounting

Best practices in capital asset accounting involve fully integrating the asset register into an enterprise resource planning system to ensure that any asset transactions are updated on a real-time basis and that data integrity is maintained between the fixed asset register and other systems including:

- General ledger
- Purchasing/accounts payable
- Project management
- Accounts receivable
- Asset management systems

Policies and procedures covering this phase of the asset life cycle should include detailed and clear capital asset categories, capitalization threshold, estimated useful life, included and excluded cost for capitalization, document retention and (under certain circumstances) construction and renovation componentization.

Management

The physical management of capital assets encompasses inventory, tagging, transfers, maintenance and capital works expenditure. In addition, it covers periodic evaluation of property review and fixed asset accounting database accuracy procedures. Policies and procedures should cover the use and movement of the assets accordingly to avoid assets becoming unverified due to unrecorded transfers, loss, damage, theft or destruction. If policies and procedures are lacking or incomplete at this phase, auditors will have difficulty verifying that the assets exist.

Disposal

Disposal, the ultimate phase of the asset life cycle, exposes the organization to significant risk whereby employees may attempt to sell assets, without senior management approval, for personal financial gain. This can have federal-level consequences depending on asset funding. Policies and procedures should have integrated senior management oversight and include an asset management strategy that links the disposal plan into a planning process for new or replacement assets. In addition, the disposal plan should include a performance evaluation to verify whether assets performed as intended.

Benefits

Organizations receive clear benefits from having a well-documented and structured set of capital asset management policies and procedures, namely:

- Institutional memory of prior business processes
- Senior management oversight and integration
- Auditor approval and trust
- Consistent and accurate adherence to best practices and accounting standards

It is important to note that organizations must have the resources to implement and adhere to the documented policies and procedures going forward. To maximize benefits, organizations should assess resources and tailor policies and procedures accordingly.

Conclusion

Investing the time and effort to create and implement capital asset management policies and procedures, and following these procedures with discipline and dedication, will help organizations achieve long-term success and minimize capital asset management missteps.

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