

Smart interactive talk, February 9, 2021
Strengthening fixed asset management through public sector accounting

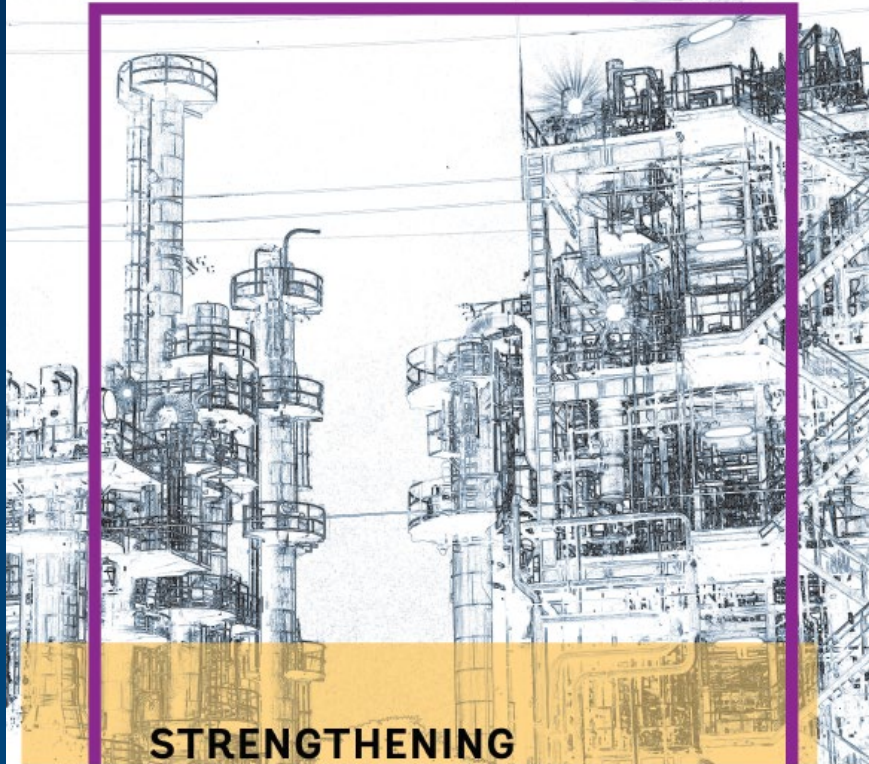
Fixed asset management: main reflections

Introduction to the PULSAR knowledge product



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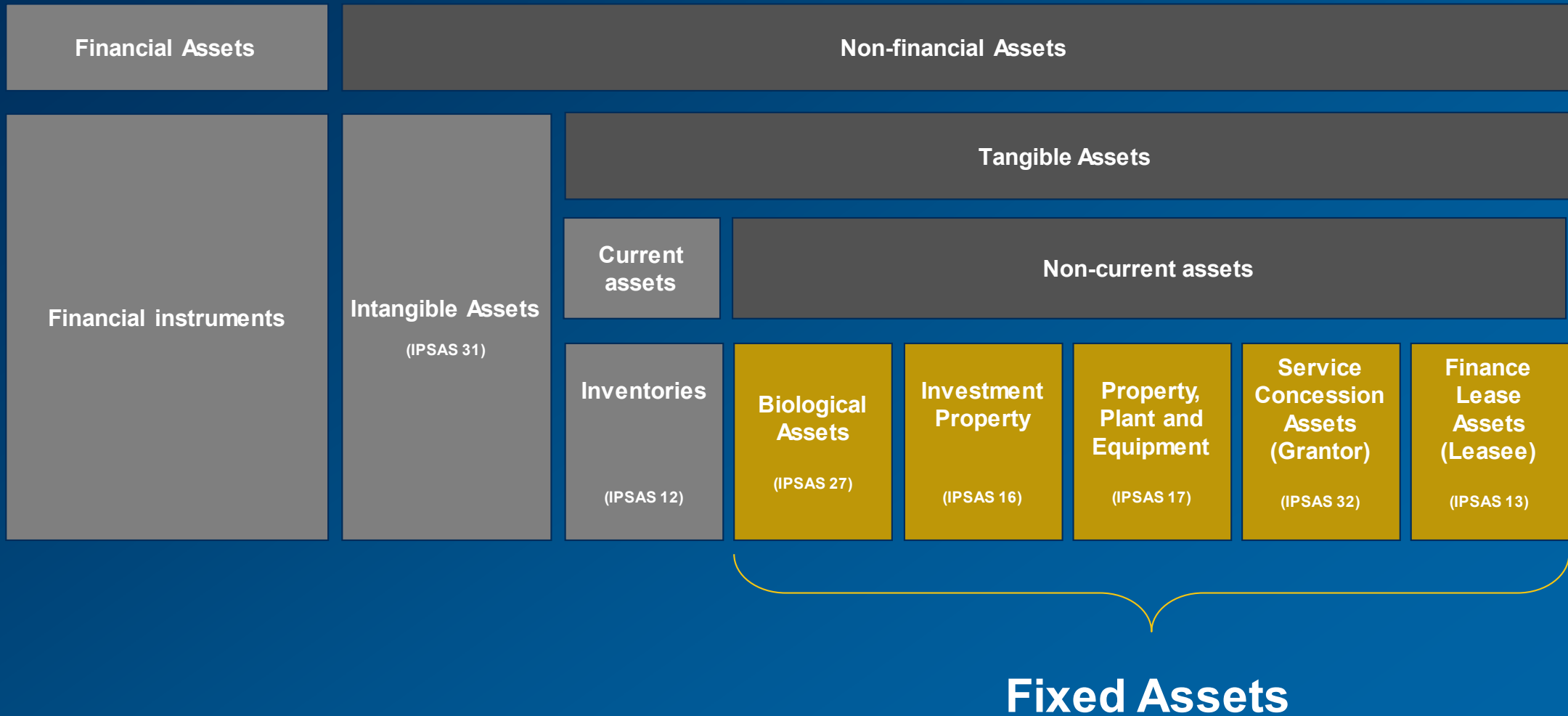
PERSPECTIVES FOR
THE FUTURE



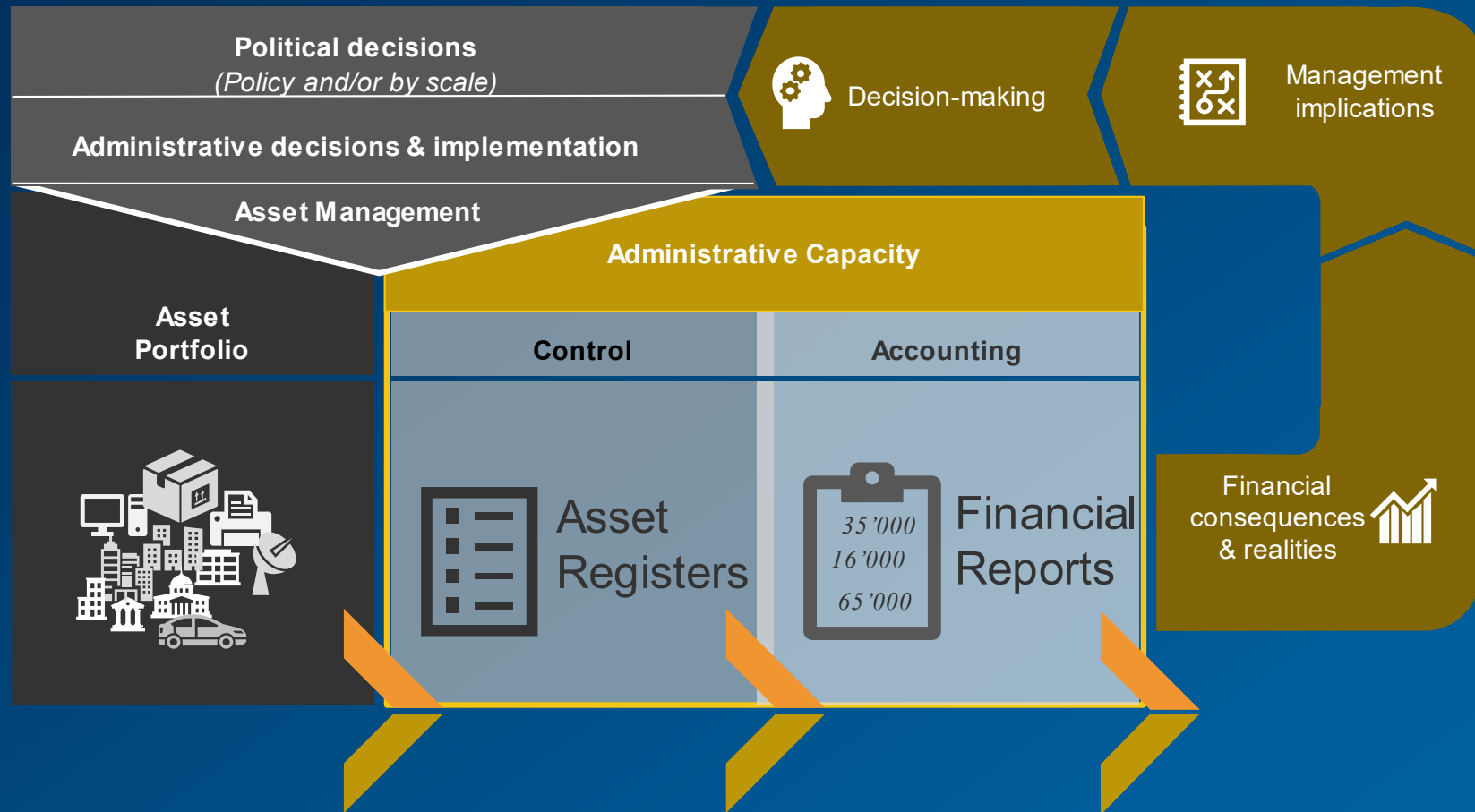
**STRENGTHENING
FIXED ASSET MANAGEMENT
THROUGH PUBLIC SECTOR
ACCOUNTING**

**How can
Public Sector Accounting
strengthen the management
of fixed assets?**

Scope



Big picture and main mechanism






How to set up and maintain asset registers?

How to capture financial information on assets and bring it into financial reports?

How to make use of asset information?

How to set up and maintain asset registers?

Asset registers	
 Technical Information	Location, function, type, purpose, age and condition, useful life
 Legal Information	Ownership/control structures and underlying contractual arrangements, purpose of assets
 Information on value	Acquisition costs or replacement costs




Input for financial accounting and reporting

How to capture financial information on assets and bring it into financial reports?

↳ What should actually be captured?

- Public sector entities possess some low value items that do not have a service potential of more than one year.
- Their capitalization would neither be practicable nor appropriate considering the necessary effort
- IPSAS conceptual framework (IPSAS CF) provides overarching guidelines for the development of capitalization thresholds
 - Faithful representation (IPSAS CF 3.10-3.16)
 - Comparability (IPSAS CF 3.21-3.25)
 - Materiality (IPSAS CF 3.32-3.34)
 - Cost-benefit (IPSAS CF 3.35-3.40)

How to capture financial information on assets and bring it into financial reports?

Country	Approach	Capitalization Thresholds	
Australia 	Unified capitalization threshold for certain types of assets and professional judgement on materiality	Acquisition expenditures for buildings, leasehold improvements and computer software (if they form not part of a group of similar items / group of assets which are significant in total)	> AUD 5,000 (approx. USD 3,460)
		Other assets	Application of materiality considerations
New Zealand 	Differentiated mainly according to nature of assets	Tangible Assets (PPE):	> NZD 5,000 (approx. USD 3,250)
		Intangible Assets:	> NZD 50,000 (approx. USD 32,250)
Switzerland (federal level) 	Differentiated according to asset classes	Intangible Assets	> 100,000 CHF (≈USD)
		Buildings, Infrastructure Assets	> 1,000,000 CHF (≈USD)
		Furniture, fixtures, office equipment, motor vehicles	> 5,000 CHF (≈USD)

How to capture financial information on assets and bring it into financial reports?

- To respond to current demands and future-proof service delivery capacity of public sector assets, **entities must have reliable and valid information on the condition of assets**
- The economic fact that the use of a fixed asset leaves some **wear and tear** over time **is reflected** under accrual accounting **with yearly depreciation charges** in surplus or deficit.
- In **determining the depreciation amount**, IPSAS requires determining the future economic benefits embodied in an asset and to **estimate its useful life**
- Guiding principles in determining the useful life, are among others (IPSAS 17.72):
 - Expected usage of the asset (e.g., expected capacity);
 - Expected physical wear and tear (e.g., depending on operational factors and maintenance);
 - Technical or commercial obsolescence;
 - Legal limitations and the like (e.g., expiry dates).

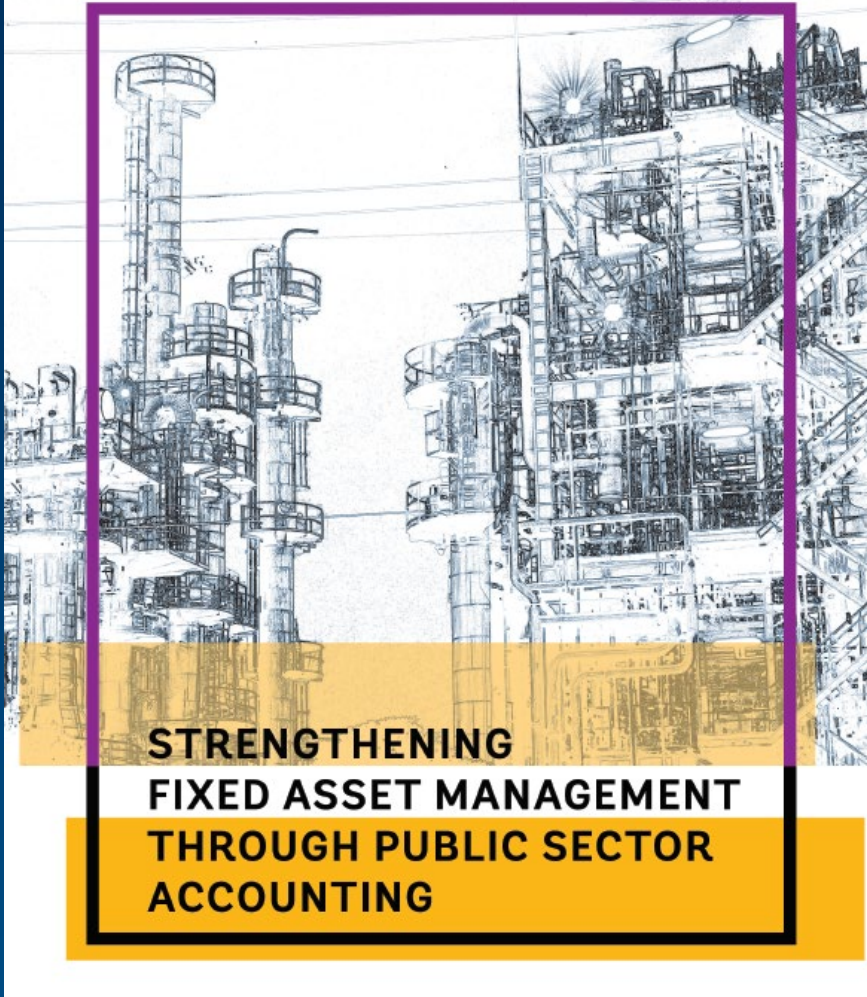
How to make use of asset information?

↳ Leverage asset information to strengthen the basis for decision-making with respect to asset lifecycles or project stages

- Enrich existing management instruments and systems (e.g., maintenance and/or investment plans, performance budgets) with relevant key performance indicators (e.g., costs per service unit, return on investment).
- Adjust internal planning templates and guidelines so that current management information on assets is considered by default/automatically.
- Combine financial and non-financial asset information to understand how the physical condition of an asset correlates with financial revenues or costs for service delivery
- Communicate financial information in an adequate form, aligned to different policy levels, information needs, and levels of financial literacy

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What else is in the knowledge product?

- Summary of key IPSAS stipulations for recognition, measurement and disclosure of fixed assets
- Practical guidance for advancing to valid accounting estimates
- Generic processes to institutionalize asset registers and impairment testing
- Potential avenues to increase or support decision-making relevance of information

Thank you.

