

Fixed Asset Audit: Don't forget to....

Every controller and auditor knows that auditing the accuracy of fixed assets is integral to proper internal controls. The need is indisputable. The question is: what are the appropriate methods to employ to provide reasonable assurance that the ledgers are materially accurate without incurring unreasonable costs? Let's look closer at several factors.

The most important consideration and the one most influential on cost is the auditing technique. Depending on the data available you may choose from the following:

- Scan bar codes or RFID tags on each asset.
- Visually confirm asset tag numbers or serial numbers on each asset.
- Using printed data, confirm assets based on available descriptions.



The above approaches are shown in order of increasing cost and decreasing reliability. The key to improving accuracy is the elimination or reduction in human data collection errors. Equally important, the use of printed reports requires that the person performing the inventory be fully knowledgeable in the underlying assets to assure that the descriptions are interpreted properly.

Next, the frequency of audit needs to be considered. While there are some organizations that require complete annual inventories, this cannot be justified in most cases. The most common practice is to conduct inventories on a 3 to 5 year cycle. To make costs more predictable, many organizations will inventory a portion of their assets each year so that all assets are covered during the chosen cycle. Another variation is to perform complete annual inventories on volatile or high risk assets, for example tablets, laptops and other highly portable technology, and all other assets on a longer cycle.

Consideration also needs to be given to the scope of the inventory in at least two aspects. First, if the inventory is less than comprehensive, what is the minimum number of assets that need to be inventoried to provide reasonable assurance that records are materially accurate? This consideration is one of statistical inference and should be evaluated accordingly. The other is the practical consideration of what assets to audit and what information should be captured in the field. For example:

- Should only capital assets be inventoried?
- Will condition or status be evaluated or recorded?
- How detailed should the inventory be for assets that have been recorded in a group?
- What is the proper treatment of assets located in the field but not in the ledger for that location?
- Will assets discovered in the field be automatically recorded and added to the ledgers?

It is vital that these considerations be addressed before the inventory begins and consistently applied across all participants for the duration to assure consistent information.

Finally, the use of the audit results should be considered. Will ledgers be updated in a wholesale fashion based on field results? Will the scope be revised if ledgers are proven to be statistically inaccurate? Will assets not found be written off? How will added assets be recorded given that the cost or basis may be difficult to determine? It is important to be prepared at the conclusion of the inventory to make meaningful use of the results.

In practice, conducting fixed asset audits is often so onerous that it is either minimized or avoided completely. Neither should be tolerated given that fixed assets are often a large component of the Balance Sheet. It is incumbent on those responsible to approach the challenge with both pragmatism and tenacity. With proper planning, management and automation, reliable, cost effective results can be achieved in virtually any organization.

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Tales from the Front is a periodic publication of Asset Systems, Inc. that is designed to provide users and prospective implementers' insight and perspective on current trends and issues in asset management.