

PSAB/Asset Management

NEWSLETTER NO. 13

Implementation Plan for PSAB 3150 and the Capital Asset Management

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Introduction

The new standards for Tangible Capital Assets (TCA) are fast approaching. By 2009, municipalities will be required to include Tangible Capital assets (TCA) in their financial reports and there will also be changes required to the presentation of budgets. The implementation of this significant accounting change will be one of the most challenging municipalities will face and requires a clear plan that will involve Finance as well as all operating departments with tangible capital assets.

While a significant undertaking, the implementation of TCA also provides an opportunity to further improve on existing information available within municipalities to drive good decision making and the prepare a sustainable capital asset management strategy.

As stated in a recent bulletin prepared by the Municipal Finance Officer's Association of Ontario: "At MFOA, we will be encouraging municipalities to design their asset databases in such a way that they will serve dual purpose: to allow PSAB compliance as well as act as the foundation for a comprehensive asset management plan. An important opportunity will be lost if a municipality does the bare minimum to comply with PSAB and continues to have little or poor information about its assets for the purpose of long-term financial planning. As a result, we will be linking PSAB compliance with the broader issue of asset management and will encourage municipalities to put in place information systems with regard to assets that will assist senior management and Council to build and maintain assets in a planned and systematic fashion."

The focus of this bulletin is to assist municipalities in planning for the implementation of PSAB 3150 and the development of a comprehensive asset management plan.

Implementation Steps

Step 1 – Education

It is essential, early in the process, for staff to become informed and know what is required to meet the requirements of PSAB 3150. There are some excellent resource materials already available from the [OMBI initiative](#), the [Public Sector Accounting Group Implementation Guide](#), as well as related sections of the PSA Handbook, such as: PS1000, 1100 and 1200.

There are also a number of workshops/information sessions that are being held across Ontario that will assist staff in becoming more knowledgeable about the specific issues that will need to be addressed as part of the implementation plan as well as providing an opportunity to network with other municipalities to share ideas, approaches and strategies.

Step 2 – Get Buy-In

TCA accounting presents an opportunity to develop a complete asset management system. It is not only knowing the true cost of providing services to the community, but also understanding what will be required to maintain the services in perpetuity. Achieving the return on investment that is potentially available requires assistance throughout the organization. This is not just an accounting exercise. An information session with Department managers should be conducted to stress the importance and magnitude of the project and develop a corporate-wide vision for asset management. Without a clear vision and buy-in across the organization, the asset management plan will potentially lack both direction and focus. Council should also be informed, early in the process, of the nature and breadth of the change and potential budget implications for the project.

A project team should be established with a project manager and team leader for each department. The role of the project team is to assist in gathering inventories, developing the supporting policies, identifying issues/concerns, possible workload impacts and resource needs.

Get your auditors on board; the earlier the better. This will help define the level of effort required to maintain a clean audit report.

Step 3 – Readiness Assessment

A review should be conducted to compare where the organization is in terms of its readiness to meet the PSAB 3150 requirements as well as where it is in asset management planning. The review should identify gaps, which is critical for establishing the most appropriate strategies and building the asset management plan.

The readiness assessment should focus on six main themes:



Attention to continuous quality improvement in all six themes is required to provide a substantial and measurable return on investment in asset management.

Step 4 – Prepare Project Plan and Schedule

Prepare a project plan and a multi-year timetable for the project. The plan should include specific plans for how, when and what:

- Policies will be required;
- Changes will be required to the financial records; and
- Sources of information will be needed to prepare the asset inventories.

The following table provides some key areas to consider when developing an implementation plan and determining the associated financial and personnel resource requirements.

Activity
• Project planning
• Training/education/awareness
• Policy development
• IT requirements/upgrades
• Recording of assets
• Inventory and valuation
• Documentation
• Meeting audit requirements
• Commenting on project plans by Auditors
• Commenting on capital policies by Auditors
• Auditing inventory and valuations
• Reviewing financial processes/software
• Auditing new reporting requirements

Determine what resources are available and what resources will be required for a successful implementation. The gap could be filled by additional staff, contract staff or consultants. Project planning also involves the creation of an implementation budget up to and including 2009.

Step 5 – Policy Development

Develop the necessary tangible capital policies to position your municipality towards its asset management vision.

The following is a checklist of the broad areas where capital asset policies will be needed:

- Authority, purpose and scope;
- Asset definition;
- Asset categories;
- Single asset versus component approach (segmentation);
- Asset valuation (cost, contributed or donated assets, grants or donations, etc.);
- Capitalization policies (buildings, library books, computer software, land and land improvements);
- Recognition thresholds;
- Capitalization of carrying costs;
- Betterment versus maintenance;
- Amortization methodology and rates;
- Reviews of estimated useful life and write-down for impairment;
- Capital leases;
- Asset ledgers (content, maintenance, periodic inventories);

- Control (asset inventory, maintaining records and documentation);
- Construction-in-progress (when to start amortizing);
- Surplus assets;
- Asset disposal (sale, abandonment, demolition, trade-in); and
- Risk management, health and safety issues and environmental issues.

Review the proposed policies with your auditor.

Step 6 – Asset Inventory

Building inventories for PSAB compliance without using those inventories for forward looking asset management is a waste of an opportunity. It is therefore recommended that the inventory created to meet PSAB requirements also be expanded to provide sufficient information to develop asset management plans and supporting capital financing strategies.

Steps in the inventory process include:

- Determining how each asset will be identified for future reference; for example by location, bar code, or unit number;
- Determining if the asset data will be collected manually or electronically establish how the data will be transferred to the software system; and
- Testing your inventory process and forms by taking one or two assets in each major class from ‘cradle to grave’

Begin by identifying potential data sources such as insurance records, GIS mapping, maintenance and warranty records, etc. Identify the data set required for each asset, for example:

- Description of asset;
- Department responsible;
- Other unique identifiers;
- Date of purchase/construction/placed into service;
- Manufacturer or supplier;
- Historical cost – actual or estimated;
- Residual value;
- Useful and remaining life; and
- Disposal value.

Develop inventory forms based on the information needs to train staff on how to gather the relevant information in a format that will facilitate data management. Prepare to coach, assist and follow-up with staff throughout the asset inventory.

Step 7 – Valuation, Useful and Remaining Life, Residual Value and Amortization

The choice of valuation method will differ between major asset classes and will also depend on the amount of financial data available in existing asset records. In the planning process it should be kept in mind that where the historical cost information is not available, estimates are acceptable. However, the approach must also be valid from the auditor's perspective.

Start the process by determining the various sources of actual historical cost information. Identify which assets will predominately require an estimated historical cost and develop the valuation method to be used. Develop the criteria and method to determine useful and remaining life and residual value.

Determine which amortization method will be applied for each major asset class and if some assets within the respective major class will require a different amortization method.

The auditor should be consulted to determine if there is an adequate audit trail, verification of valuation calculations and useful remaining life.

Step 8 – Assess Software Requirements

It is important to ensure that technology is able to meet reporting needs. Consider your accounting system capabilities and requirements. When assessing software needs, consideration should be given to the following:

- Will you use a standalone database?
- Will you need to upgrade existing software, develop a new product or interface existing systems?
- Do you need to integrate asset management activities with capital asset accounting?
- What are the reporting capabilities, can they be expanded and what upgrades are scheduled?

The existing general ledger chart of accounts will require additional accounts to record major and minor asset classification, accumulated amortization and the annual amortization expense.

Step 9 – “Go Forward Policies”

How will the responsibilities for the ongoing maintenance and updating of the capital asset accounting system be distributed? New policies and procedures are required to establish the accountabilities for the various aspects of TCA and the necessary changes required to business practices in all departments. These will include budget, purchasing and periodic inventory counts.

Your plan should include steps to ensure that assets are recorded in the future as acquired or disposed of. Policies should also be developed to ensure that asset conditions assessment are

conducted on a timely basis and adjustments are made to the remaining useful life and amortization methods.

While accounting for and reporting information in accordance with the PSAB requirements provides a useful starting point, it does not report sufficient information to:

- Understand the condition of tangible capital assets;
- Assess the performance of tangible capital assets;
- Anticipate the needs for replacements in the short and long term; and
- Assess the cost and sustainability of existing programs;

Tangible capital asset management and condition assessment is an ongoing, long-term process. Maintenance and replacement policies must focus on the long-term, system-wide requirements.

Long-term strategic plans must be developed not only to address the current issues of deferred maintenance and renewal, but also to plan for the ongoing maintenance and replacement needs of the existing stock of tangible assets and for future growth.

As always, we invite you to let us know if there is an issue that you would like to see addressed in the Newsletters. We are also interested in having our members submit anything that you come across with regard to tangible capital assets, financial reporting, asset management or long-term financial planning including any reports or presentations that you have given or prepared that could be of use to others.

For more information and resources regarding tangible asset management, go to [PSAB/Asset Management](#), or contact:

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