VICTORIA UNIVERSITY
MELBOURNE AUSTRALIA

POLICY AND PROCEDURES

POLICY NUMBER:	POF111114000
PREVIOUS POLICY NUMBERS:	POF110502000 *(amended 14/11/11 via minor amendments)* POF080912000 *(amended 02/05/11 via minor amendments)*
POLICY NAME:	Fixed Assets
DATE APPROVED:	14 November 2011
POLICY TYPE AND CATEGORY:	General (Resourcing and Finances)
RESPONSIBLE OFFICER:	Director, Shared Finance Services
FIRST EFFECTIVE DATE:	29 September 2008

1.0 PURPOSE

The purpose of this policy is to establish and maintain an effective framework, under which the University safeguards, manages, controls and provides accurate financial information with regards to fixed assets.

2.0 BACKGROUND

As a Public Sector Agency, the University must implement and maintain an effective internal control framework for asset management to ensure that assets are identified, recorded accurately and accounted for in accordance with Australian Accounting Standards. This policy documents current practice.

3.0 DEFINITIONS

- Asset – for the purpose of this policy any reference to an asset is a reference to a Fixed Asset. Refer to the definition of a Fixed Asset.

- Assets Accountant, Finance – The staff member in Finance with the responsibility of maintaining the University Fixed Assets Register and Notebook Register.

- Asset Liaison Officer – A Finance or Administrative Officer appointed within each Organisation Unit to implement the Fixed Assets policy within that Organisation Unit.

- Asset Take On Report - Is a summary sheet containing all the relevant information of the asset entered into the fixed asset register. The information includes asset number, contact details, barcode and serial number, description, department, campus and room number, asset cost details etc.

- Attractive Items - Are non-consumable items that are priced under the $5,000 capitalisation threshold for fixed assets (GST exclusive) and have a life expectancy of more than one year. These items are expensed in the year that the expenditure was incurred. Attractive items include but are not limited to: computer equipment (excluding laptops), furniture, software and other general office, scientific and teaching equipment. Attractive items exclude Works of Art and Library Collections. Refer to Finance Procedure FPr09 – Attractive Items.

- Capital Expenditure – Expenditure directly attributable on the acquisition of a fixed asset or expenditure which extends the life or value of an existing fixed asset.

- Capitalisation Threshold – The dollar limit at and above which the University records an item as a fixed asset in the asset register. Current threshold of $5,000 for plant, property or equipment assets, $100,000 for intangible assets, $0 for artworks and library collections. Refer to Appendix 2 - *Guidance on Application of Asset Capitalisation Threshold*.

- Depreciation - Is the fixed asset's future economic benefit, which is consumed, lost or "used up" over the asset's useful life. The depreciation calculation process is performed monthly by the Assets Accountant.

- Disposal of Fixed Assets - Any fixed asset disposed of by way of sale, trade-in or write off (obsolesce, theft etc) authorised in accordance with section 6.4 of this policy.

- Fixed Asset – For the purpose of this policy a fixed asset (also known as a non-current asset) is;
  - any item of plant, property or equipment which has an individual value of $5,000 (GST exclusive) or more, and a life expectancy (i.e. usage period) greater than one year;
  - any intangible asset which has an individual value of $100,000 (GST exclusive) or more, e.g. computer software; and
  - all works of art and library collections regardless of value.

  Items with a life expectancy of one year or less are considered to be consumable items and are not fixed assets.

- Fixed Assets Register - The University's central register that records fixed assets for financial reporting requirements.

- Head of Organisation Unit – Are for the purpose of this policy the Heads of Department, Heads of Schools, Heads of Research Centres, Heads of Branches and General Managers within Administrative Departments.

- Operating Expense – An expense required to restore an asset to its previous safe operating condition but not to replace it or significantly improve it. Refer Appendix 1.

- Organisation Unit - includes, but is not limited to, Faculties, Schools, Departments, Institutes and the VU College

- University - Victoria University.

4.0 KEY WORDS

- Asset
- Capital
- Depreciation
- Disposal
- Financial Delegation
- Financial Management Act
- Purchase
- Register
- Sale
- Sell

5.0 POLICY

All assets purchased from funds administered by the University are the property of the University, except where an agreement to the contrary is part of the conditions associated with a particular grant or contract. Each Organisation Unit is responsible for the assets it has acquired and must ensure those assets are kept in safe custody and are only used for authorised University purposes.

The Assets Accountant in Finance Department maintains a record of all University Fixed Assets using the Asset Management module of Finance One.

A record of assets is required to:

- Provide information to the Organisation Units on what assets are under their control
- Provide information for decision making purposes
- Provide information for external reporting purposes (e.g. statutory reporting)
- Provide information for insurance purposes
- Enable the University to comply with statutory requirements

5.1 ASSET REGISTERS

The University maintains the following asset registers:

- Fixed Assets Register: The Finance Department keeps a register of all fixed assets with an individual cost of $5,000 or greater (excl. GST). It includes details such as asset description, location, cost, depreciation charge, and written down value. The Fixed Assets Register will be administered and maintained by the Assets Accountant within the Finance Department.

- Notebooks Register: The Finance Department keeps a central record of all notebooks / laptops regardless of value.

- Attractive Items Register: Non-consumable items that are priced under the $5,000 capitalisation for fixed assets (GST exclusive). These items are expensed in the year that the expenditure is incurred. Organisation Units are responsible for recording, maintaining and monitoring their attractive items in accordance with Finance Procedure FPr09 – Attractive Items

- Artworks Register: The University Librarian maintains a separate database of the University's artwork collection. Any artwork acquired by the University must be recorded and the details communicated by staff to the University Librarian to update the artworks register.

5.2 RESPONSIBILITIES

5.2.1 Staff

All University staff must take responsibility for protecting the fixed assets in secure custody and ensure that the assets are used for authorised purposes only in accordance with University's Staff Code of Conduct Policy and Fraud Prevention Policy.

5.2.2 Asset Liaison Officer

- Ensure that all necessary action is taken to protect the fixed assets in the custody of the organisation unit.
- Ensure that upon receipt of the Asset Take On Reports that all details such as serial numbers, asset cost, department code, location code and contact person are verified, barcode stickers are affixed to the assets if practicable and notify the Assets Accountant in Finance Department of any amendments required to details shown on the Asset Take On Reports.
- Complete an Asset Disposal / Transfer form for all fixed assets leaving the organisational units and forward to Assets Accountant in Finance Department.
- Ensure that the attractive items within the organisational units are accurately recorded, maintained and monitored.

5.2.3 Assets Accountant

- Manage and maintain the University's Fixed Asset Register and Notebook Register.
- Provide advice on the process of transfers, sales and disposals of assets and notebooks
- Provide advice on the classification of expenditure, as capital or operating, and related issues.
- Co-ordinate annual Asset Stocktake by the organisational units for the entire University.
- Prepare monthly and annual assets reconciliation and data for the financial reporting.

5.3 CLASSIFICATION OF EXPENDITURE

The University is required to classify all expenditure as either operating expenditure or capital expenditure (CAPEX).

Operating expenditure (OPEX) is required throughout the life of an item of equipment in order to keep it in safe operating condition. It does not significantly increase the future economic benefit of the asset item. Examples of operating expenses includes, but not limited to: maintenance cost, preventative repair cost, minor improvement cost and relocation cost.

Capital expenditure is for the complete acquisition, development or replacement of an asset item. The characteristics of such expenditure are:

- It's a cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The benefit derived from the capital expenditure incurred is expected to last for more than twelve months.
- Materially add to the residual value of the item.
- Significantly extend the productive life of the item.
- Substantially increase the efficiency of the item.
- $5,000 and greater in value.

Initial repair cost, set-up / extraneous work cost, improvements cost and legislative costs are the examples of the expenditure which are of a capital nature therefore should be capitalised. For more details, please refer to Appendix 1 "Capital Expenditure vs. Operating Expenditure".

5.4 CLASSIFICATION OF ASSETS

For the purpose of financial reporting, all assets are classified under the following categories:

- Land
- Buildings
- Leasehold Improvement
- Motor Vehicles
- Artworks
- Plant and equipment
  - Furniture and fittings
  - Computer equipment
  - Other plant and equipment
- Library collections
  - Books
  - Serials
  - Audio visual
- Intangibles

5.5 MEASUREMENT OF ASSETS

In accordance with Australian Accounting Standards the initial recognition of an asset is measured at cost. Where a Fixed Asset is acquired at no cost, or for a nominal cost, the cost is its fair value as at the date it is acquired.

Subsequent to the initial recognition, the Fixed Asset is to be measured at its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. This measurement method is known as the "revaluation model".

Fixed Assets under construction or development are to be carried at cost less any accumulated depreciation and subsequent accumulated impairment losses.

5.6 DEPRECIATION OF ASSETS

Depreciation expense is calculated on all fixed assets except for land and artworks and is allocated to organisational units. The depreciation calculation is based on the straight-line method over the asset's estimated useful life. Depreciation is calculated from the date of purchase or, with respect to buildings under construction, from the time they are made ready for use. The "Depreciation Rate" for each Asset Class is reviewed annually by the Assets Accountant. The current depreciation rates are as follows: -

Asset Class	*Useful Life (years)*	*Depreciation Rate*
Buildings & Infrastructure**	40	2.5%
Building Components **	N/A	Assessed individually
Leasehold Improvement	Term of the lease	Various
Furniture & Fittings	10	10%
Computer Equipment	4	25%
Other Equipment (< $100K)	8	12.5%
Other Equipment (>= $100K)	N/A	Assessed individually

Library Collections • Books • Serials • Audio Visual	 10 5 4	 10% 20% 25%
Motor Vehicles	5	20%
Artwork	N/A	Nil
Land	N/A	Nil

** Any items under Buildings & Infrastructure with a cost that is significant in relation to the total cost of the building are to be depreciated separately, these are referred to as "Separate Asset Components". As a general rule, for all building projects greater than $5 million a quantity surveyor report will be obtained prior to the completion of the project to identify the separate building asset components. For additional guidance for identifying components refer to the following link.

5.7 REVALUATION

The University's policy on revaluation of non-current assets reflects the requirements stipulated under Australian Accounting Standard AASB 116 Property, Plant and Equipment and Victorian Government Policy FRD 103D Non-Current Physical Assets. This is to ensure a consistent and accurate approach in the revaluation of non-current physical assets is applied.

Revaluations of buildings, land and infrastructure are to be performed by a professionally qualified valuer to determine fair value. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the financial reporting date. All revaluations must be sufficiently documented and changes in values approved by the CFO or his delegate.

An annual assessment as to whether there is evidence of material movement in values of land and buildings since the last revaluation will be performed based on indices provided by the Valuer-General's Office or any other suitable source of information.

5.8 ASSETS STOCKTAKE

To ensure that the assets are recorded accurately in the assets register, the University conducts an assets stocktake from June to September annually. All Organisation Units are to be captured at least once by a stocktake over a five-year cycle.

5.9 CONTINGENT ASSETS

Organisational Units are to maintain records and details in relation to contingent assets as required for the University's operational needs, and to satisfy accounting standards and disclosure requirements. The Finance Department will request such records from Organisation Units when preparing the University's annual financial statements.

6.0 PROCEDURES

All fixed asset purchases, disposals and record keeping will operate in accordance with the following procedures:

6.1 FIXED ASSET ACQUISITIONS

The authority to make expenditure up to a set limit on behalf of the University is vested in delegated officers who have been approved pursuant to the University's Financial Delegations policy to hold and exercise a financial delegation as set out in the Schedule of Financial Delegation. In addition, to the University's Financial Delegations policy, the University's Purchasing policy outlines the purchasing requirements that must be followed depending on the level of expenditure involved, namely the quotation requirements, the exceptions to quotations/tender requirements and the purchase requisition approval process.

6.2 FIXED ASSET RECOGNITION & CAPITALISATION

The University recognises an asset at its cost. The capitalised cost of an asset comprises:

- Its purchase price, including import duties after deducting trade discounts and rebates;
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- Initial estimate of the costs of dismantling and removing the item and restoring the site on which the asset is located (but only if there is an obligation to do so).

Costs such as site preparation, initial delivery and handling costs, installation and assembly costs, costs of testing whether the asset is functioning properly are the examples of directly attributable costs.

In respect to capital works, expenditure such as architect's fees, engineering fees, surveying fees, other consulting fees, employee benefit costs, costs associated with obtaining the necessary building approvals and the cost of foundation excavations are all part of the costs of the capital works.

6.2.1 Fixed Asset Donations

From time to time the University may receive a donated asset that exceeds the capitalisation threshold limit for an asset. It is important to advise the Assets Accountant of the donation as soon as it has been received as this allows for early recognition of the asset. A memo to the Assets Accountant advising of the donation is necessary.

The donated asset needs to be valued at the time of receipt. An asset can be valued in a number of different ways;

- With computers and equipment, contact a recognised supplier and obtain a quote for a similar item or obtain an estimate in writing from the University I.T staff;
- With a work of art, have a recognised art dealer value the item;
- With library collections, have a valuer with experience with library collections value the items; and
- With building or land, have a recognised independent valuer value the building and land.

6.3 FIXED ASSET ACCOUNTING

6.3.1 Capital Works & Asset Development Projects

All Capital Works or Asset Development Projects must be accounted for using a Fund 70 cost centre.

6.3.2 Natural Account Codes – Asset Purchases and Capital Expenditure

Approved purchase orders are required for the acquisition of assets as outlined in the University's Purchasing Policy. Purchase requisitions / orders for asset purchases and capital expenditure are to be coded to the following natural account codes:

- For Asset Purchases *(e.g. Property, Plant & Equipment)*

Natural Account	Description
5750	Capex – Artwork
5715	Capex - Building Purchase
5730	Capex - Computers >=$5,000
5725	Capex - Other Equipment >=$5,000
5735	Capex - Furniture & Fittings >=$5,000
5705	Capex – Land
5720	Capex - Motor Vehicles >=$5,000
5755	Capex - Software >=$100,000

- For Capital Expenditure associated with Capital Works or Asset Development Projects *(e.g. Building Projects >=$5,000, Software Projects >=$100,000, or IT Infrastructure Projects >$5,000)*

Natural Account	Description
5710	Capex - Building Projects - Fees - Other
5711	Capex - Building Contracts (Other Contractors)
5713	Capex - Building Contracts (Main Contractor)
5714	Capex - Consultants - Building Projects
5761	Capex - Leasehold Improvement Under Construction
5766	Capex - Project Components < $5,000
5776	Capex - Payroll Tax
5777	Capex – WorkCover
5778	Capex – Super
5779	Capex - Staff Related Costs (Fringe Benefits)
5780	Capex - Salaries
5781	Capex - Consultants - IT Services
5784	Capex - Professional Services
5785	Capex - Software License Fee
5786	Capex - Other Miscellaneous
5787	Capex - Freight
5788	Capex - Telecommunications

- For Library Department Collection Purchases

Natural Account	Description
5771	Capex - Books & Publications
5772	Capex - Serials Print & Micro
5773	Capex - Audio Visual /CD ROM Expenses

The above natural account codes may change from time to time, for the most current account codes refer to the Natural Account Codes listing on the Finance Intranet site.

6.3.3 Fixed Asset Additions

At the end of each month the Assets Accountant identifies new assets purchased through the purchase order approval and payment process and updates the fixed asset register and notebook register as part of the monthly operational processes within the Finance Department.

Barcode labels and 'Asset Take On Reports' are produced for all new assets entered into the fixed assets register and notebook register during the month and forwarded to the organisation unit to affix the barcode label to the asset and confirm the details on the 'Asset Take On Reports'.

The Assets Accountant must be notified by the organisation unit of any amendments required to the details on the 'Asset Take On Reports'.

6.4 DISPOSAL / TRANSFER PROCESS

The University is required to ensure that the procedure for disposal of assets achieves the best value for money and is conducted in an efficient, effective and transparent manner. Asset disposals must always be adequately documented and approved by an officer with the appropriate financial delegation in respect of the asset's current written down value

Responsibility for the use, maintenance, custody and disposal of plant and equipment resides with the Organisation Unit. Organisation Units must ensure that all items being disposed of do not contain software, University information or logos etc.

The disposal or transfer of a fixed asset must be documented via the completion of the Asset Disposal / Transfer form. Once completed the form must be sent to the Assets Accountant - Finance who will remove the item from the Fixed Assets Register or Notebook Register.

If the asset is an Attractive Item (original cost less than $5,000 except notebooks & artworks) you will to refer to the Finance Procedure FPr09 – Attractive Items complete the Attractive Items Disposal / Transfer form. This form for the attractive items disposals is to be retained by the Organisation Units and a copy provided to the Asset Liaison Officer to update the Attractive Items Register.

6.4.1 Natural Account Codes for Disposals

The natural income accounts for recording the disposal of an asset are:
1705 – Attractive Items; or
1707 – Fixed Assets.

For internal transfers to another Organisational Unit of the University, a general journal is posted to the following natural account codes:
Dr Natural account 4999 of the receiving Organisation Unit
Cr Natural account 1999 of the selling Organisation Unit

6.4.2 Approval to dispose of an asset

The decision to dispose of an asset, and the method of disposal, **must be authorised prior to disposal by a University officer with an appropriate financial delegation** in accordance with the Financial Delegation Policy. The value used to determine the appropriate level of financial delegation required by the approving University officer is the current written down value of the asset, or group of assets, that are being disposed. To identify the current written down value of the asset you can contact the Assets Accountant within Finance.

The Organisation Unit must identify and certify the reason for the disposal of the asset or group of assets. Reasons for disposal can include:

- Surplus to current or immediately foreseeable needs,
- Unserviceable or beyond economical repair,
- Technologically obsolete and operationally inefficient.

The approval of the decision to dispose of an asset and the method of disposal must be documented in writing (a memo or email) and kept on file by the organisation unit.

6.4.3 Obsolete, unserviceable or beyond economical repair assets that cannot be sold

Assets that are obsolete, unserviceable or beyond economical repair and cannot be sold should be written off. Organisational Units must destroy or dispose of the item in an appropriate manner, considering the nature of the goods and potential environmental impacts. Both the OH&S Unit and Facilities Management office should be contacted for assistance with regard to items with environmental and OH&S considerations.

6.4.4 Trade-in of Assets

Where trade-in of an existing asset is included in the acquisition of a new asset, the external requisition and purchase order must separately show details of the asset being acquired and its cost, details of the asset being traded in, the trade-in value and the net amount of the order. The cost of the asset being purchased excluding trade-in should be charged to the appropriate CAPEX account class. To record the sale a debtor's invoice should be raised and the trade-in value should be credited to the appropriate sale of asset income account. The invoice number needs to be notified to the Assets Accountant to create a general journal to clear the debtor's account.

6.4.5 Sale of Assets (Method and Price)

Approval for the method of sale must be obtained as required by section 6.4.2. The sale method chosen and approved must be the method that would produce the maximum benefit for the University. The Organisation Unit must determine the most appropriate method of sale of the asset considering the following options:

1. Internal transfer to another Organisation Unit of the University;
2. Sale to an external organisation or individual;
3. Sale to staff within the University; or
4. Donation to schools, charities or non-profit organizations (refer section 6.4.6).

<u>The sale price of the asset must be the current market value of the asset taking into consideration the age, condition and remaining use for life of the asset.</u> Evidence of the determination of the current market value should be documented and kept on file.

The Head of the Organisational Unit must ensure that sale is by a competitive process through advertisement, public auction or seeking written quotes from prospective buyers. For high value items the calling of tenders for the sale of the asset is recommended.

The Head of the Organisational Unit is responsible for ensuring that there is an arm's length transaction between the seller and the buyer. While staff may bid or tender they may not authorise a sale to themselves, associated entities, or members of an associated company or trust, or an immediate relative, nor may they establish a reserve price for an item which they, an immediate relative, associated company or trust, or member of an associated company or trust wish to bid or tender. The buyer cannot be either the contact officer or the authorising officer for the sale. <u>There must be no perceived conflict of interest in the sale of the asset as explained in the University Staff Code of Conduct.</u>

For internal transfers to another Organisational Unit of the University, a general journal transfer is to be arranged by the Organisational Unit selling the asset. Refer to section 6.4.1 for the relevant natural account codes to be used.

For all sales, payment must be made before the goods can be released – the issue of a debtor's invoice is not a payment. Organisational Units must complete a Deposit Slip which should be attached to the payment. The payment can be deposited via the Student Service Centres by cash, electronic funds transfer, credit card or bank cheque and an official University receipt will be issued to the purchaser if required. Upon production of an original official receipt the Organisational Unit can then release the asset to the purchaser.

6.4.6 Donations to schools, charities or non-profit organizations

If no acceptable offers are received for serviceable items under sections 6.4.5 of this policy or it is deemed more appropriate to donate the items being disposed, then the asset or group of assets may be donated to charities, schools or colleges or community/non-profit organizations only. Where a donation is made the following documentation must be obtained and attached to the Asset Disposal / Transfer form:

- A memo from the VU Officer with the appropriate Financial Delegation as required in section 6.4.2 outlining the reason for the decision to donate and a contact name and phone number of the organisation in receipt of the assets donated; and
- Written acknowledgement from the organization in receipt of the donation.

6.4.7 Movement of assets

The Assets Accountant must be advised by the completion of an Asset Disposal / Transfer form of any asset movement to another location, for example within the Organisation Unit or transfer to another Organisation Unit. This procedure ensures appropriate internal controls are in place to track and identify assets at any given point in time.

6.5 ANNUAL ASSETS STOCKTAKE

Asset control will be supported by an annual physical stocktake of Fixed Assets on a sample of Organisation Units to verify the assets are accurately recorded in the University's central asset register and to ensure that any variations identified are reported to the Assets Accountant - Finance.

The Organisation Units are required to nominate an Asset Liaison Officer to liaise with the Assets Accountant in Finance and carry out the stocktake process.

This process will involve, physical verification, to ensure assets and notebooks have been properly registered and barcoded and to ensure Organisation Units are safeguarding their assets and notebooks from misappropriation.

Once all the items on the Department Assets Stocktake Report have been verified or explained, the officer with appropriate financial delegation within the Organisation Unit signs a declaration approving assets identified to be written off and declares that all other assets have been accounted for. These authorised reports should then be returned to the Assets Accountant - Finance who will make any necessary adjustments to the University Fixed Asset Register. The signed declaration on the Stocktake report is sufficient authority to update the asset register, completion of an Asset Disposal / Transfer form is not required.

6.6 MONTH END PROCESS

The Fixed Asset Register for all classes of assets is reconciled to general ledger accounts on a monthly basis. The Asset Accountant will review expenditure on asset purchases and expenditure in capital project cost centres and post any adjusting journal entries necessary to the CAPEX natural accounts. Depreciation expense is calculated on all fixed assets except for land and artworks and is allocated to organisational units.

6.7 ANNUAL IMPAIRMENT LOSS ASSESSEMENT

The impairment loss is assessed annually. If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying amount exceeds its recoverable amount, the difference is to be written-off by a charge to the income statement, except to the extent that the write-down can be debited to a revaluation reserve amount applicable to that class of asset.

The recoverable amount for most assets is measured at the higher of fair value less costs to sell and value in use. Recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

In assessing whether there is any indication that an asset may be impaired, the following indications, as a minimum, are considered:

<u>External sources of information</u>

(a) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;

(b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;

(c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;

(d) the carrying amount of the net assets of the entity is more than its market capitalisation;

<u>Internal sources of information</u>

(a) evidence is available of obsolescence or physical damage of an asset;

(b) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite; and

(c) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

6.8 SECURITY OF ASSETS

6.8.1 Assets held or removed off campus

For any assets required to be stored at a location other than University campuses, written permission must be obtained and signed off by the Head of Organisation Unit. An adequate record of the location of the asset, asset details (e.g. barcode, serial number) and details of the responsible officer must be maintained by the Organisation Unit.

When employees who are responsible for off campus assets terminate their employment, all assets held by the employee off campus are to be returned to the Organisation Unit.

All University assets are to be used for authorized University business purposes only.

6.8.2 Theft of assets

When University assets are stolen immediate action should be taken as follows:

- On campus: Contact Facilities on extension 6666. Facilities will contact the Police to report the theft and complete and incident report.
- Off campus: Notify the Police directly.

As soon as possible:

- Notify the Head of Organisation Unit.
- Notify Assets Accountant and enquire about forms to lodge any insurance claim.
- Complete Asset Disposal / Transfer Form and forward it to Assets Accountant to update the Fixed Asset register.

7.0 CONGRUENCE WITH LEGISLATION AND RELATED POLICIES

AASB 116: Property, Plant and Equipment
F.R.D 103D: Non-Current Physical Assets
Victoria University policies and procedures:

- Financial Delegations - FU07
- Purchasing Policy - FU05
- Insurance Procedure - FPr04
- GST (Goods & Services Tax) - FU12
- Fringe Benefits Tax (FBT) Policy
- Fraud Prevention - FU06
- Staff Code of Conduct

8.0 ACKNOWLEDGEMENT

None.

9.0 CONSULTATION

Senior staff within the Finance Department have been involved in the development of this policy which included discussions with staff from other departments. The policy was circulated through Finance & Infrastructure Committee for comments and feedback.

10.0 REVIEW

This procedure will be reviewed no later than 31 December 2014.

11.0 ACCOUNTABILITIES

11.1 Responsibility

The CFO – Finance has senior management responsibility for this policy.

The Director Shared Finance Services is responsible for the implementation and maintenance of this policy.

11.2 Implementation Plan

As this policy documents current practice, no implementation plan is required.

11.3 Compliance

Compliance reviews will be periodically conducted to assess the level of compliance with this policy. The results of the review will be forwarded to the Director Shared Finance Services for appropriate follow up action.

If matters remain unresolved the non-compliance issues will be forwarded to the CFO – Finance.

If, in the opinion of the CFO - Finance, there is a deliberate non-compliance with this policy, the CFO - Finance will recommend to the Vice-Chancellor and President that sanctions be invoked against the non-complying officer. Sanctions include, but are not limited to, the withdrawal of the officer's financial delegation and/or withdrawal of access to the University's finance system.

12.0 FORMS

Asset Disposal / Transfer form
Attractive Items Transfer/Disposal form

13.0 APPENDICES

Appendix 1 - Capital Expenditure (CAPEX) vs. Operating Expenditure (OPEX)

Appendix 2 - Guidance on Application of Asset Capitalisation Threshold (e.g. >$5,000)

Appendix 1 - Capital Expenditure (CAPEX) vs. Operating Expenditure (OPEX)

1.1 Objective

To provide guidance to assist organisational units in determining whether the item or the work done to property should be expensed or capitalised.

1.2 Background

There can be a fine line between what can be classed as repairs and maintenance and therefore expensed, and what can be classed as an improvement therefore should be capitalised.

1.3 Definitions

- Capital Improvements - Upgrades or additions to existing fixed assets need to be capitalised providing that, the upgrade or addition extends the useful life of the existing fixed asset by one or more years and its purchase price exceeds the asset capitalisation threshold of $5,000 and greater.

- Current Equivalent Replacement Cost - A component used as a replacement that differs from the original due to technological improvement since the date of acquiring the item.

- Demolition Cost - Cost incurred in demolishing leasehold improvement assets for the purpose of either vacating or refurbishing leased premises, including the removal of fixtures and fittings and disconnection services, a form of capital expenditure.

- Initial Repair Cost - Any repair initially incurred to remedy a defect that existed prior to acquisition and remedied the item incapable of the commercial use for which it was purchased, a form of capital expenditure.

- Maintenance Cost - The normal upkeep of an item of plant or equipment to keep it in efficient operating condition, a form of operating expenditure.

- Minor Improvement Cost - An improvement or replacement of components carried out in the course of repair work which is separately identifiable by invoiced cost, and restores a previous function or restores the efficiency of the previous function, a form of operating expenditure.

- Preventative Repair Cost - A repair carried out in anticipation of it becoming necessary in the near future, a form of operating expenditure.

- Relocation Cost – Cost incurred in moving previously installed plant and equipment between University premises and / or storage for the purpose of re-installation and further use, a form of operating expenditure.

- Repair Cost - A repair can be either the restoration of an item to its original condition or the replacement of one or more components with the same material, or the current equivalent without replacing the whole item, a form of operating expenditure.

- Statutory Work – An improvement carried out solely to satisfy a statutory requirement, such as occupational health, fire regulations etc, a form of capital expenditure.

- Set-up / Extraneous Work Cost – Work carried out in addition to the cost of an asset. For example, installation or site preparation costs prior to construction of a building etc, a form of capital expenditure.

1.4 Classification

Capital Expenditure:

The expenditure is considered to be ``capital expenditure" if any of the following apply:

(1) the expenditure is incurred in establishing, acquiring, constructing, replacing or enlarging the University asset;
(2) the expenditure is for work that is a renewal in the sense of a reconstruction of the entirety of an existing asset; or
(3) the expenditure is incurred in putting in order property bought for use as a capital asset in the University.

Capitalised expenditure comprises:

(a) the purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

(c) initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located (but only if there is an obligation to do so)

Examples of "*directly attributable*" costs are:

- Costs incurred in preparing the site
- Initial delivery, freight and handling charges
- Installation and assembly costs
- Costs of testing whether the asset is functioning properly
- Professional fees e.g. consultants; and
- Employee benefit costs (salaries & on-costs) arising directly from the construction or acquisition of the item of property, plant and equipment

These categories of capital expenditure are further discussed below:

(1) expenditure on improvements;
(2) expenditure on additions and alterations; and
(3) expenditure on initial repairs.

Operating Expenditure:

Operating Expenditure is the expense that is necessary in carrying on the University business operations and that is not of a capital nature.

Incidental costs are not included in the capitalised cost of property, plant and equipment, some examples of incidental costs are:

- Administration and other general overhead costs (costs necessary for operations but not directly necessary for developing/constructing an asset)
- Costs of opening a new facility (e.g. opening party)
- Costs of introducing a new product or service (advertising and promotional costs)
- Costs of conducting a business in a new location (relocation cost) or with a new class of customer (including costs of staff training);

These categories of Operating Expenditure are further discussed below:

- Repairs;
- Maintenance.

1.5 Discussions

1.5.1 Meaning of "repair"

Repair ordinarily means the remedying or making good of defects in, damage to, or deterioration of, property to be repaired (being defects, damage or deterioration in a mechanical and physical sense) and contemplates the continued existence of the property.

It involves restoration of a thing to a condition it formerly had without changing its character. Examples of repairs are:

- replacing broken or missing roof tiles, worn flashings and rusting gutters and downpipes;
- resealing a leaking window or skylight by removing and replacing the putty and painting the frame;
- replacing part of a wall which has collapsed with new bricks and mortar;
- removing worn carpets in a rental property and polishing existing floorboards;
- replacing worn parts of a machine; and
- replacing broken or worn parts in a motor vehicle, such as brake pads, the clutch, the exhaust system and tyres.

1.5.2 Meaning of "maintenance"

Maintenance means the work needed to maintain an asset in a condition that enables it to reach its service potential. It does not extend an asset's useful life. Such as oiling, brushing or cleaning something that is in good working condition in order to prevent future defects is maintenance work.

Some preventive maintenance work also involves actual repair work. For example, painting business premises to rectify existing deterioration and to prevent further deterioration.

1.5.3 Repair vs. Improvement

Repairs generally improve the condition of the property and a minor or incidental degree of improvement may be done. However an improvement involves bringing a thing or structure into a more valuable or desirable form, state or condition than a mere repair would do. It makes the property or item significantly functionally better.

The factors which may be significant in determining if the work is an improvement rather than repairs include whether:

- the thing replaced was an important part of the structure of the property or item;
- the work has resulted in an increase in the value of the property or item;
- the work extended the property's expected life and/or income-producing ability;
- the work did more than meet the need for restoration of functional efficiency; and
- the work substantially reduces the likelihood of further repairs.

Examples of improvements such as:

- The replacement of a dilapidated ceiling with an entirely new and better ceiling;
- The replacement of cupboards as part of the refurbishment of the whole kitchen;
- The replacement of a rotten wooden floor in a block of flats with a better, longer-lasting and more moisture resistant concrete floor.

Use of different material does not necessarily prevent the work from being a repair provided the work merely restores a previous function to the property or restores the efficiency of the previous function. Even if the work done using different material may result in a minor and incidental degree of improvement in the property, the work may still constitute a repair.

For example: replacing rotten timbers in a wall and cladding the wall with “Celluform” instead of painting it. Sometimes, a more modern material or substance which is more or less equivalent to the original may be used and to use the original material may have been more expensive or the original material may no longer be available.

As a general proposition, the greater the degree of technological advancement involved in work done to property, the more it is likely the work goes beyond a ``repair''. This is so because it is more likely the work does more than restore the property to its original efficiency of function.

1.5.4 Repair vs. renewal or reconstruction – what is meant by the “entirety”

Repair is restoration by renewal or replacement of subsidiary parts of a whole. Renewal or reconstruction, as distinguished from repair, is restoration of the entirety.

Property is more likely to be an entirety if:
- the property is separately identifiable as a principal item of capital equipment; or
- the thing or structure is an integral part, but only a part, of entire premises and is capable of providing a useful function without regard to any other part of the premises; or
- the thing or structure is a separate and distinct item of plant in itself from the thing or structure which it serves

Property is more likely to be a subsidiary part rather than an entirety if:
- it is an integral part of some larger item of plant; or
- the property is physically, commercially and functionally an inseparable part of something else.

Examples of property that constitute an entirety are a bridge giving access to the driveway of a garage; a factory drainage system comprising an underground system of concrete storm water drains. Examples of property that do not constitute an entirety are the insulation and lining for a cool room and a window in a factory; something that is part of a building, e.g., a roof or wall, is just that and no more. The building itself is the entirety. However, work done to a part of a building, though not amounting to a replacement or reconstruction of an entirety, may still be capital expenditure, for example, because it amounts to an improvement.

1.5.5 Initial Repair Principle

Initial repair refers to a repair that remedies some defect in property or makes good damage to, or deterioration of, property being a defect, damage or deterioration:

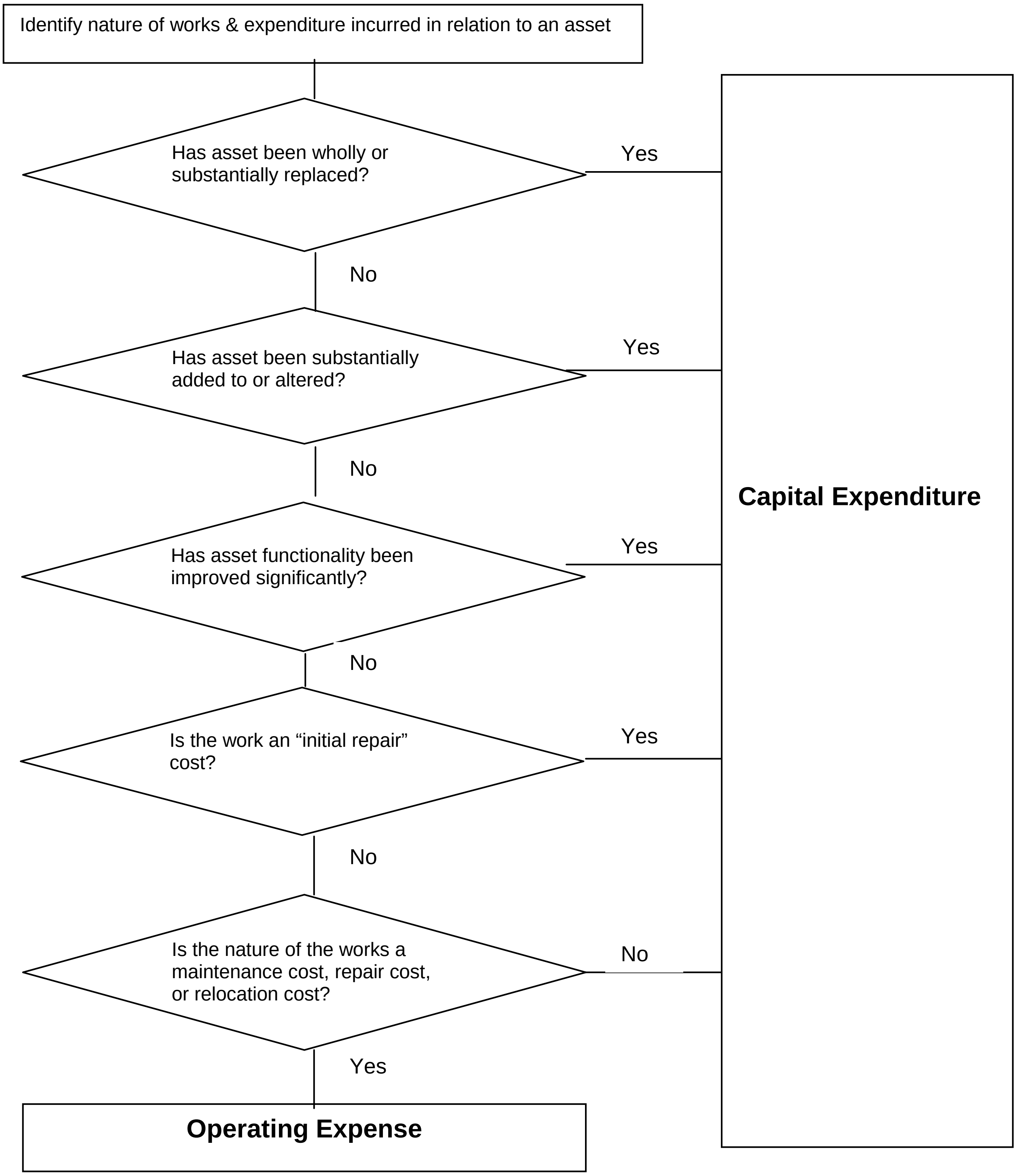
(a) existing when the property was acquired from another person (whether by purchase, lease or licence); and
(b) not arising from the operations of the University who incurs the repair expenditure.

The cost of initial repairs is of a capital nature – Initial Repair Principle.

The initial repair principle only applies where the asset is acquired with defects. It is immaterial that the University does not know of the defects when acquiring the asset; it is also immaterial whether the purchase price (or lease rentals) reflected the need for repairs.

1.6 Flow Chart – Capital Expenditure vs. Operating Expenditure

The following flow chart is to be used as a guide to assist Organisation Units classify works are capital or operating expenditure.



Appendix 2 - Guidance on Application of Asset Capitalisation Threshold (e.g. >$5,000)[1]

Recording of assets should generally be on an asset-by-asset basis. In some cases, however, it may be more appropriate to record a single asset record for a group of interrelated assets, or for a large number of homogeneous assets

Grouping of assets (interrelated assets)

In some cases, it may be more appropriate to record a group of interrelated assets (of which some or all of the components may have a value below the recording threshold). Examples include a major piece of machinery with a number of sub-assemblies, or an infrastructure asset such as a services network. The asset register should record the grouped asset, and identify the individual components.

Unlike assets that are aggregated for convenience (see below), a group of assets attracts particular value because it represents a complete collection (e.g. a suite of furniture, a set of crockery, or a services network). Loss or removal of one item would significantly diminish the value of the group or collection by making it incomplete. This would apply even if the value of the particular item were relatively low. (This contrasts with an aggregation of assets where the loss or removal of one item may have negligible effect on the total value of the aggregated assets.)

Aggregation of assets (homogeneous assets)

Some entities have large numbers of homogeneous assets (i.e. of the same or similar in nature or kind) which have complementary values (such as library books, or a collection of scientific material). In such cases, the assets may be recorded in aggregate. As for assets that are grouped (see above), this approach will be useful where the value of the components of an individual asset may fall under the recording threshold, but the aggregate value of the ‘asset’ is above the threshold. Aggregation should not be used for assets that have fundamentally different characteristics as this will result in inconsistent assumptions about useful life and depreciation.

[1] Extract from Department of Treasury and Finance Asset Management Series