

## MODULE 4 - ASSET MANAGEMENT

### Real life story

I worked for the NGO “DALITMUNDIA” as a team leader for several projects located in a small country in Africa. Over a number of years, the NGO had managed several successive EU-funded projects in the country, requiring a large number of vehicles.

To reduce costs, most of the project vehicles were acquired locally, some of them bought second-hand.

During a check on one of our projects, auditors hired by the Contracting Authority found that some of the second-hand vehicles had been financed under earlier EU-funded projects managed by the NGO. These were vehicles which had been donated to local beneficiaries, who subsequently resold them to us without it being noticed.

The audit also found that some of the local drivers whom we employed for the projects were in fact using the project vehicles as cabs outside their hours of duty. This problem went unnoticed because the logbooks used were not precise.

The auditors reported these findings, which caused significant embarrassment at NGO management level.

**Lesson learnt:** Our project team had not detected these issues because of poor asset management procedures. Had our procedures been better, these problems would not have arisen.



### WHY IS ASSET MANAGEMENT A KEY FINANCIAL MANAGEMENT AREA?

**Key Message:**

Project assets should be kept safe and used for their intended purposes.

In projects involving grants and programme estimates, valuable assets may be acquired.

It is important to the ultimate beneficiaries of the project that these assets are used for their intended purposes and are kept safe so that they can continue to produce benefits over a long period.

It is essential to manage project assets properly, both to ensure sound financial management and to prevent improprieties or fraud.

This module explains the specific measures used to manage assets. Procedures for acquiring these assets (procurement) are discussed in Module 3.

#### Content of this module

- ▶ Minimum contractual conditions.
- ▶ What could go wrong? Key control measures.
- ▶ Basic tips.
- ▶ Tools and templates.



### MINIMUM CONTRACTUAL CONDITIONS

**Key Message:**

**Understand the Contractual Conditions.**

The following summarises the main contractual requirements for asset management in EU-funded external actions managed through grants, service contracts and programme estimates.

• Grant Contracts



The general conditions of grant contracts specify that:

- ▶ If the Recipient does not have its headquarters in the country where the project is implemented, the equipment, vehicles and supplies financed by the project budget must be transferred to local partners and/or to the beneficiaries at the end of the project. The proof of this transfer must be kept (Article 7).
- ▶ To be eligible, the costs must comply with the requirements of sound financial management, in particular regarding economy and efficiency (Article 14(1)(e)).  
If a Recipient does not check that its project assets are kept safe and properly used, the above conditions may not be met.
- ▶ Purchases of land or buildings are ineligible, unless necessary to implement the project. In that case, ownership must be transferred to the final beneficiaries or to local partners at the end of the action (Article 14(6)).
- ▶ A fixed asset register must be kept. For vehicles, records of mileage and fuel/oil consumption must be kept (Article 16(3)).



• Service Contracts



Service contracts do not usually involve assets. However, should this be the case, the Contractor will need to consult the Contract for the rules to follow.



### MINIMUM CONTRACTUAL CONDITIONS (continued)

- Programme Estimates  The Practical Guide for Programme Estimates requires recipients to:
  - ▶ keep a permanent inventory of investment and capital goods (see “Financial monitoring documents”, section 4.1.4);
  - ▶ keep records proving the running costs of vehicles and monitor the cost for each vehicle, e.g. by means of log books (see Annex 11, under “Cost of vehicles”);
  - ▶ transfer materials and equipment to the relevant administration in the beneficiary country when the programme is closed – this transfer must be documented (see “Transfers of materials and equipment”, section 4.1.10);
  - ▶ use the materials and equipment only to carry out the activities of the programme (same section).
  
- Other contract types  If the action is financed by means of some other type of contract, the Recipient should refer to its provisions.

### WHAT COULD GO WRONG? KEY CONTROL MEASURES.

#### What could go wrong?

- The asset register may be inadequate or nonexistent.

Without a proper asset register, it may be impossible to find out where the project assets are located, whether they still exist, and what they are used for.



#### Key control measures

- Keep an up-to-date, clear asset register which tallies with the accounting records and which allows easy identification of the physical assets concerned.

- Physical checks of the assets may not be performed regularly.

As a result, it may become impossible to find out whether the assets still exist and are still in working condition. In addition, thefts or losses may go unnoticed.



- Inspect the assets regularly.

It is widely accepted practice to perform a complete physical inventory of all assets at least once a year.

- The assets may not be clearly identified as project assets.

As a consequence, the project assets may get mixed up with other assets and it may become impossible to retrieve them.



- Ensure that all project assets are duly and physically identified (e.g. by stickers, tag numbers, etc.).

- The use of the assets may not be properly supervised.

For example, vehicle log books may not be maintained, or the use of consumables may not be monitored, which means the assets could be misused or stolen.



- Ensure that proper tools are in place to monitor the use of project assets, including consumables (see Tools and Templates for suggested ready-to-use tools).



### BASIC TIPS

**Key Message:**

Different asset types require different control measures.

The risks to project assets may be high or low, depending on what the assets are. So Recipients need to identify the main risks affecting their assets to determine the best way of protecting them.

Examples of different risks by asset class include the following:

- ▶ **Movable equipment**, for example computers, office equipment and vehicles, have a higher risk of improper use.

To protect against this type of risk, set up an accurate, up-to-date investment register. For vehicles, provide mileage logbooks.

- ▶ **Consumables**, for example gasoline, oil, seeds, small tools and repair parts, have a high risk of theft.

To protect them, set up a solid inventory system.

- ▶ **Infrastructure** (normally only included in Programme Estimates), for example buildings, roads and irrigation infrastructure, are at less risk of theft. However they risk being damaged if not maintained. They are also at risk of being poorly used or not being used by the final beneficiaries.

To protect this type of asset, set up a good maintenance system together with a physical inspection system.

### BASIC TIPS (continued)

**Key Message:**

A register of investment assets is a vital control tool.

To be effective, a register of investment assets should contain enough information to enable each asset listed to be traced back to the accounting records and to the physical asset in question.

This information includes:

- ▶ the identification number and description of the asset (e.g. type, model, serial number)
- ▶ the cost of the asset, which must tally with the project's accounts
- ▶ the date of acquisition, and the reference to the relevant entry in the bookkeeping records (e.g. the reference number of the vendor's invoice)
- ▶ the identification number of the asset in the project records (this number should also be stated on a tag fixed to the asset so it can be identified)
- ▶ the location of the asset (and for movable equipment, the place where it is based)
- ▶ the person and/or department responsible for the asset.

A ready-to-use asset register template is provided in the Tools and Templates for use with this toolkit.

To ensure that the register remains reliable, Recipients should regularly check that it tallies both with the accounting records and with the physical assets concerned.

### BASIC TIPS (continued)

**Key Message:**

Investment assets need to be physically identifiable for checking.

For retrieval, each asset item should be assigned an identification number (internal to the project).

This identification number should be noted on a tag physically affixed to the item. It should also be stated in the asset register.

This will help reconcile the register with the physical asset and vice versa.

It will also facilitate physical checks later.

**Key Message:**

Control of assets means regular inspection.

Inspect all project assets regularly to ensure that they still exist, are in suitable working condition and are still used for the project.

It is generally accepted financial practice to perform a 100% inventory check of all project assets at least once a year.

Consumables, which are more prone to error, may need to be inspected more frequently.



### BASIC TIPS (continued)

**Key Message:**

Permanent inventory records are necessary to control consumable goods.

Certain projects may possess large quantities of consumables, for example gasoline, repair parts, and small tools.

As these are fungible items, an investment register is less appropriate. The best way to control consumables is to keep a permanent inventory.

To allow proper controls, permanent inventory records need to give a description of the item, and record the quantity held and any movements in (purchases) or out (usage or distribution).

A ready-to-use template for permanent inventory records is provided in the Tools and Templates.

To ensure that permanent inventory records remain reliable, regular inspections should be held.

**Key Message:**

Differences need to be investigated and resolved immediately!

Inspections of the investment assets and/or consumables inventory may reveal discrepancies.

Recipients are strongly encouraged to investigate any discrepancies immediately.

This will increase the chance of identifying the cause and retrieving the assets in question.

If the investigation is not successful, the Recipient will need to adjust the project records to reflect the loss of the asset(s).

Recipients are encouraged to record asset losses/thefts in an account dedicated for that purpose and to disclose them in the financial report.

Such write-off entries should be approved by the relevant project's management.



### BASIC TIPS (continued)

#### Key Message:

Control of the use of assets is vital.

Good management requires that Recipients take measures to ensure that assets are used effectively and only for the project.

Failure to check that assets are used effectively may expose the project to the risk of fraudulent use of its assets.

If assets are used for a purpose unrelated to the project, the costs incurred may be declared ineligible.

#### Possible checks on the use of assets include:

- ▶ For vehicles, a log book can be kept for each vehicle to record mileage and reviewed regularly.

A ready-to-use log book template is provided in the Tools and Templates.

- ▶ For goods intended for distribution, receipts can be obtained from the ultimate recipients to ensure that the goods are used only for their intended purpose.
- ▶ For infrastructure assets in Programme Estimates, regular inspection visits can be made to ensure that they are in effective use.

#### Key Message:

Leased assets also need to be controlled!

Certain projects lease assets instead of buying them. For example, they may lease vehicles, equipment or premises.

If the project is responsible for the use of these assets, it is good practice to supervise their use in the same way as the project supervises the use of its own assets.

#### Checks on the use of leased assets include:

- ▶ For rented vehicles, a log can be kept of the trips the leased vehicles are used for.
- ▶ For a large project renting several buildings to house short-term staff, a register of the rented buildings can be kept and the location and use of the buildings recorded, together with the rental dates.

### BASIC TIPS (continued)

**Key Message:**

Unclear or unsound arrangements should be avoided.

A Recipient that enters into a suspect transaction may be exposed to fraud. Therefore, prudence commands to avoid entering transactions unless they are fully sound.

Examples of points for attention include:

**Second-hand assets:** If second-hand equipment is purchased for the project, its ownership history should be checked to avoid acquiring equipment originally financed under a previous EU funded external action project.

This precaution is of special importance for local purchases of second-hand vehicles.

It is also best to check the history of second-hand rented vehicles.

**Recipient assets rented to the project:**

Because of the inherent conflict of interest, equipment belonging to a Recipient should not be leased to the project. The Contracting Authority will generally consider the cost of using this equipment to be covered by the flat rate agreed for indirect costs for grants or by the fee rate for services.

For grants, in exceptional cases, the depreciation costs of using the Recipient's own equipment may be accepted as an eligible cost. This exception needs to be duly reflected in the contract.

In that case, the Recipient should be able to demonstrate that the rent does not involve any profit.

### BASIC TIPS (continued)

**Key Message:**

**Asset transfers must be duly proven.**

In certain cases, the Contract will require the Recipient to transfer equipment, vehicles and supplies financed by the project budget to local partners or to other recipients in the beneficiary country.

Such transfers must be made, at the latest, by the end of the implementation period of the project.

In these cases, the transfers should be documented and the evidence retained with the project documentation.

For grants, copies of the proof of transfer of assets, equipment and vehicles that cost more than EUR 5000 per item must also be attached to the final report.

An example template for asset transfers is provided in the Tools and Templates.

### TOOLS AND TEMPLATES

The following tool can be downloaded from the EuropeAid website at:

[http://ec.europa.eu/europeaid/financial\\_management\\_toolkit/](http://ec.europa.eu/europeaid/financial_management_toolkit/)

FMT - MODULE 4 - TEMPLATE FOR ASSET TRANSFER

FMT - MODULE 4 - TEMPLATE FOR ASSET REGISTER

FMT - MODULE 4 - TEMPLATE FOR PERMANENT INVENTORY RECORDS

FMT - MODULE 4 - TEMPLATE FOR VEHICLE LOG BOOK

These templates are indicative, non-compulsory examples which Recipients may adapt as they see fit.