

Fetakgomo Tubatse Municipality

ASSET MANAGEMENT POLICY

PERIOD: 2018/2019 fy

ABSTRACT

The aim of this policy is to enhance the management of assets by encouraging 'whole of life' and 'whole of organisation' approaches and effective mitigation and management of risks associated with ownership and use of assets. It encourages a long-term view of asset management and requires all stakeholder's to understand and then meet the impacts of operational change in ways that ensure sustainable use of physical and financial resources.



Resolution No.SC51/2018

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1. GENERAL INFORMATION

1.1 Introduction

The purpose of the Asset Management Policy is to govern the management of assets controlled by the Municipality to ensure that they are procured, managed, controlled, safeguarded and used in an efficient and effective manner.

Asset Management encompasses planning/demand management, acquisitions, use, repairs and maintenance, and disposal of assets. The Municipality shall use assets to effect efficient and effective service delivery to the community within the Municipality.

This policy provides guidance to Management and officials of the Municipality on asset related issues and to ensure consistent, effective and efficient asset management principles.

1.2 Objectives

The objectives of the Asset Management Policy are:

- 1.2.1. To ensure that a formal set of procedures are implemented to ensure that efficient and effective management of fixed assets is achieved in compliance with the MFMA.
- 1.2.2. To prescribe the accounting treatment of assets acquired and used in accordance with the applicable accounting standards approved by National Treasury.
- 1.2.3. To prescribe the administrative guidelines and internal control procedures to be followed by persons in control of assets with regard to management of those assets.
- 1.2.4. To ensure the effective and efficient control, utilization, optimization of usage, safeguarding and management of The Municipality's assets.
- 1.2.5. To ensure that all responsible parties are aware of their roles and responsibilities regarding the assets of the municipality.
- 1.2.6. To emphasize a culture of accountability over fixed assets.
- 1.2.7. To ensure accuracy of the depreciation charge.
- 1.2.8. To ensure the accurate recording of asset movements.
- 1.2.9. To ensure accurate recording of asset information.
- 1.2.10. To ensure compliance with Council's Insurance Policy, Supply Chain Management Policy.
- 1.2.11. To comply with current legislation.
- 1.2.12. To ensure that fixed assets are not written off and disposed of without proper authorization.
- 1.2.13. To ensure that preventative measures are in place to eliminate theft, loss and misuse.
- 1.2.14. To establish the procedures that must be followed before expenditure can be incurred on acquisition of assets.
- 1.2.15. To establish the criteria that must be met before capital expenditure can be capitalised as an asset in the Balance Sheet.
- 1.2.16. To classify the different categories of assets according to the asset's nature, use and location.
- 1.2.17. To set rules for establishing the useful life of the category of assets.
- 1.2.18. To set criteria for the future revaluation of assets.

Failure to comply with this policy will result in the institution of disciplinary procedures in terms of the stipulated conditions of employment of The Municipality.

1.3 Glossary of terms

AC:	Standard reference for South African Generally Recognised Accounting Statement
AMP:	Asset Management Policy
AM:	Asset Manager
AO:	Accounting Officer (i.e. Municipal Manager)
CFO:	Chief Financial Officer
GRAP:	Generally Recognised Accounting Practice
HOD:	Head of Department
IAS	International Accounting Practice
MFMA:	Municipal Finance Management Act (No. 56 of 2003)
MM:	Municipal Manager (i.e. Accounting Officer)
MSA:	Municipal Systems Act (No. 32 of 2000)
PPE:	Property, Plant and Equipment
SAPS:	South African Police Service

1.4 Regulatory requirements

The Municipality is required to comply with the MFMA, MSA, and circulars, memorandum and other guidelines issued by National Treasury.

Effective standards of GRAP relating to Assets are to be complied with by all municipalities. The financial statements should be prepared in compliance with the standards of GRAP.

ISO 55000 provides additional guidance to facilitate for the management of fixed Assets controlled by the Municipality.

1.5 Updating the policy

This policy replaces / supersedes all asset management policy instructions that have previously been issued, drafted, approved and communicated.

The CFO and the Budget and Treasury Division: Asset Management is responsible for updating this policy on an annual basis. All departments are welcome to submit requests to change, enhance or improve the existing policy.

Requests should be submitted to the Asset Management division throughout the year. The requests will be evaluated by the Manager: Assets on an annual basis and any changes deemed desirable will be effected by the Asset Management Division and presented to the Council for approval on an annual basis.

Advice on recommended internal control procedures and interpretation of this document may be obtained from the Asset Management Division. All changes made to the policy and procedures are to be properly and timeously communicated to all staff members.

2. POLICY AUTHORITY AND RESPONSIBILITY

Any departures from the approved policies stated in this policy will require the prior written approval from the following authority and persons:

MOTIVATION BY: MANAGER: ASSETS
 RECCOMENDATION BY: CHIEF FINANCIAL OFFICER
 APPROVAL BY: MUNICIPAL MANAGER
 OVERSIGHT BY: FINANCE PORTFOLIO AND COUNCIL

3. ACCOUNTING POLICY

3.1 Definitions

Consistent definitions are essential for good asset management and reporting. These definitions were taken from the GRAP standards and guidelines regarding assets:

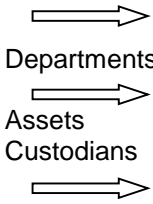
TERM	STANDARD	DETAILS
Asset	GRAP 1 and 3	An asset is defined in terms of GRAP 1.06 and GRAP 3.04 as follows: “Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.” The Framework provides the following explanations. <ul style="list-style-type: none"> •Future economic benefits: The potential to contribute, directly or indirectly, to the flow of cash equivalents of the operating activities. •Control: The ability to control the benefits which are expected to flow. It’s not limited to legal title.
Asset Management	Not applicable	Asset Management encompasses planning/demand management, acquisitions, use, repairs and maintenance, and disposal of assets.
Biological assets	GRAP 27	A biological asset is a living animal or plant.
Carrying amount	GRAP 17	Carrying amount is the amount at which an asset is included in the Balance Sheet after deducting any accumulated depreciation and any impairment losses thereon.
Community Assets	Not applicable	Community assets that contribute to the community’s well-being. Examples are parks, libraries and fire stations, taxi ranks, etc.

Cost	GRAP 17	Cost is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction.
Depreciable amount	GRAP 17	Depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.
Depreciation	GRAP 17	Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.
Development	GRAP 31	Development is the application of research findings or other knowledge to a plan or design for the production of new substantially improved materials, devices products, processes or services prior to the commencement of commercial production or use. Development will only constitute a capital expense if it can be linked to an asset.
Fair value	GRAP 17	Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.
Finance Lease	GRAP 13	Finance lease is a lease which in effect transfers substantially all the risks and rewards associated with ownership of an asset from the lessor to the lessee.
Head of Department	Not applicable	All incumbents of post level 1 in the different directorates.
Heritage Assets	GRAP 103	Heritage Assets are cultural significant resources. Examples are works of art, historical buildings and statutes.
Infrastructure Assets	GRAP 17	Infrastructure assets are part of a network of similar assets. Examples are roads, water reticulation schemes sewerage purification works.
Investment property	GRAP 16	Investment property is property (land or a building-or part of a building-or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) Sale in the ordinary course of business.
Owner-occupied property	GRAP 17	Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes
Property, Plant and Equipment	GRAP 17	PPE are tangible assets that are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one reporting period. A fixed asset is thus an asset, either movable or immovable, under the control of the municipality, and from which the municipality reasonably expects to derive economic benefits,

		or reasonably expects to use in service delivery, over a period extending beyond one financial year.
Recoverable amount	GRAP 21 & 26	<p>Cash generating asset</p> <p>The recoverable amount is the higher of its fair value less costs to sell and its value in use.</p> <p>Non-cash generating asset</p> <p>Recoverable amount is the amount that the entity expects to recover from the future use of an asset, including residual value on disposal.</p>
Research	GRAP 31	<p>Is an original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding</p> <p>Research will only constitute a capital expense when it can be linked to an asset.</p>
Residual value	GRAP 17	Residual value is the net amount which the entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.
Useful life	GRAP 17	<p>Useful life is either:</p> <p>(a) the period of time over which an asset is expected to be used by the entity, or</p> <p>(b) The number of production or similar units expected to be obtained from the asset by the entity.</p>

3.2 Roles and Responsibilities

3.2.1 Overview

Responsibilities	Municipal Manager (Accounting Officer)		
	Asset Management Division	Supports	All other Department and /or Divisions
	<ul style="list-style-type: none"> Responsible for Asset Management Technical Department supports Assets Management Division with expertise and implementation IT Departments provides expertise and inputs to Assets Management Division regarding IT related assets. 	 Departments Assets Custodians	<ul style="list-style-type: none"> Implements the Asset Management Policy. Assets Manager oversees the execution of the Asset Management Policy by all other departments.

The diagram above depicts an overview of the key role players involved in asset management. The Technical Department supports Budget and Treasury: Asset Management Division. All departments are accountable to Budget and Treasury for execution of the Asset Management Policy. Each department is supported by Asset Custodians in various divisions, locations, sites and offices.

3.2.2 Municipal Manager

Responsibilities

The MM is the AO of the Municipality in terms of section 60 of the MFMA is the ultimate authority for Asset management. Section 63 of the MFMA prescribes the following responsibilities for the AO:

3.2.2.1. Safeguarding and maintenance of assets.

3.2.2.2. Implementation of an information system that accounts for the assets.

3.2.2.3. Ensuring that assets are valued in terms of generally recognised accounting practice.

3.2.2.4. Maintaining a system of internal control of assets (e.g. an asset register).

Delegations

The Accounting Officer may delegate to a member of the municipality's top management (Chief Financial Officer; Senior Managers responsible for managing votes; other senior officials) or any other official of the municipality in terms of section 79 (1) (b) of the MFMA:

Any powers or duties assigned to an AO in terms of the Act relating to Asset Management are henceforth delegated to the CFO by this policy.

3.2.3 Chief Financial Officer

The CFO shall be the asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date asset register is maintained.

No amendments, deletions or additions to the asset register shall be made other than by the CFO or by an official acting under the instruction of the CFO.

The following duties are delegated to the CFO by this policy:

- To ensure that Council assets are accounted for in accordance with generally recognised accounting practice.
- To ensure that the general ledger is reconciled to the asset register.
- To review the reconciliation between the general ledger and the asset register
- To provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the general ledger.
- To manage and provide guidance to Asset Management Division staff.

3.2.4 Heads of Department

This policy prescribes the following duties of responsibility for senior managers (also referred to as HOD's) relating to asset management.

"Each senior manager of the municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure –

- 3.2.4.1. That the assets of the municipality are managed effectively and that assets are safeguarded and maintained to the extent necessary;
- 3.2.4.2. That all information required for compliance with the provisions of this policy is timeously submitted to the Chief Financial Officer.; and
- 3.2.4.3. That all provisions of this policy, to the extent applicable to the respective department, are complied with.

The HOD's are responsible to ensure that all employees within their respective department adhere to this Asset Management Policy and Procedures.

3.2.5 Assets Manager

The Assets Manager is responsible for the Asset Management Division within the Budget and Treasury Department and shall assist the CFO in carrying out the duties listed above. The Asset Manager shall:

- 3.2.5.1. Manage, update and maintain municipal assets to ensure compliance with this policy.
- 3.2.5.2. Coordinate asset verification monthly and annually and prepare reconciliation between asset register and trial balance.
- 3.2.5.3. Manage moveable and immoveable assets.

- 3.2.5.4. Manage and control specific accounting procedures associated with acquisition, movement and disposal of municipal assets.
- 3.2.5.5. Ensure that the Municipal Assets register is up to date and the valuation and depreciation recording complies with MFMA and GRAP.
- 3.2.5.6. Ensure that assets are adequately secured and insured after acquisition.
- 3.2.5.6. Develop and maintain the municipal strategic asset management plan.
- 3.2.5.7. Develop asset need assessment, acquisition management, operation and disposal plans.
- 3.2.5.8. Control the key performance areas and critical outputs of personnel within the Asset Management Unit.

3.2.6 Asset Custodians

The Assets Division shall ensure that adequate procedures for regular independent checks of fixed assets are in place to monitor changes in the status of the Assets. Each employee shall implement and maintain asset control in each office, location or area. For each office, location or area, the Asset Division must be notified and record at least one as the “Assets Custodian” for that particular office, location or area.

It is the responsibility of the Asset Custodians to ensure that all changes in the status of the fixed assets under their custodianship are promptly communicated to the Assets Division **at the earliest possible opportunity to do so.**

The Asset Custodian shall ensure that:

- 3.2.6.1. All information needed by the Assets Division to compile and update the Asset Register, is communicated to the Asset Management Division.
- 3.2.6.2. The Assets Division is notified of any changes in the status of the assets under the control of the Custodian at the earliest possible opportunity to do so (e.g. asset transfers, asset impairments, losses and asset disposals, etc.).
- 3.2.6.3. All transfers/movement of assets are signed off by the Assets Division before such a transfer or movement takes place.**
- 3.2.6.4. Any change in the status of a fixed asset under their custodianship is updated on the inventory control sheet and signed off by an Asset Management Division official.
- 3.2.6.5. The inventory and/or assets of the Municipality are not used for private purposes and gain by any employee/Councilor.
- 3.2.6.6. Control is exercised over the assets under his/her custodianship and shall report any enhancement/improvement, damage, loss, transfer or disposal of the assets to the Assets Division.
- 3.2.6.7. Relevant reports on damage/breakage and the theft/loss of any asset under his/her custodianship are submitted to the Assets Division **within two (2) working days of the incident.**
- 3.2.6.8. Any discrepancies in the asset stock take report are followed up.
- 3.2.6.9. All assets within under his/her custodianship are recorded on the inventory list and are bar coded.

3.3 Accounting Policy Framework

3.3.1 Format of the Asset Register

The asset register shall be maintained in the format determined by the CFO. The format must comply with the requirements of GRAP, and any other applicable accounting requirements.

3.3.2 Classification of Assets

The CFO must ensure that all assets are, as prescribed by the current standards, classified under the following headings in the asset register and Statement of Financial Position:

3.3.2.1. PPE (Infrastructure, Land, Building, IT Equipment, etc.)

3.3.2.2. Investment property

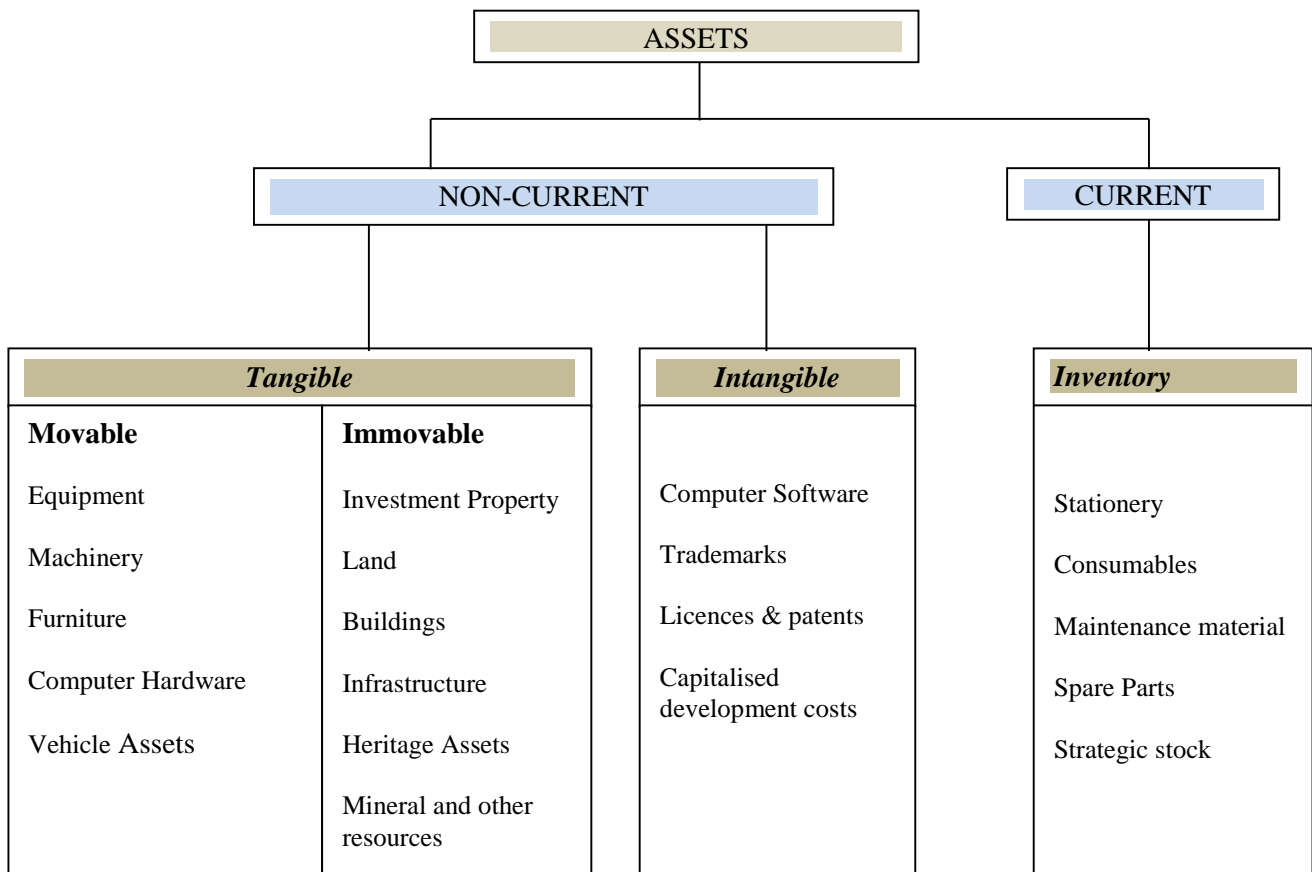
3.3.2.3. Inventory

3.3.2.4. Intangible Assets

3.3.2.5. Heritage Assets

3.3.2.6. Biological Assets

The classification of Assets shall be further sub-classified as follows:



3.3.3 Property, Plant and Equipment treated as Inventory

Any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included as either PPE or investment property in the municipality's Statement of Financial Position.

3.3.4 Property, Plant and Equipment

3.3.4.1 Recognition criteria

PPE shall be recognised as an asset when:

3.3.4.1.1. It is probable that future economic benefits or service potential associated with the asset will flow to the entity, and

3.3.4.2.2. The cost or fair value of the asset can be measured reliably.

3.3.4.2 Initial measurement

Purchased assets

An item of PPE which qualifies for recognition as an asset shall initially be measured at its cost.

Donated assets

Where an asset is acquired at no cost, or for a nominal cost, its deemed cost is its fair value as at the date of acquisition, if it not possible to obtain such a fair value, the carrying amount of a similar item of a similar age and condition may be used as the deemed cost of the donated asset.

3.3.4.3 Capitalisation exemptions

Capitalisation threshold shall be as follows.

All assets of the municipality meeting the definition of an asset as per the various GRAP standards shall be recorded in the asset register. The following exemptions shall apply and any cost related to these items shall be expensed to printing and stationary votes:

- (a) Letter trays or similar items.
- (b) Staplers.
- (c) Punchers.
- (d) Calculators
- (e) Any other item issued through stores as an inventory item.

3.3.4.4 Components of Cost/Valuation of assets

General

The cost of an item of PPE comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use.

Any trade discounts and rebates are deducted in arriving at the purchase price.

Examples of directly attributable costs are:

- (a) The cost of site preparation,
- (b) Initial delivery and handling costs,
- (c) Installation costs,
- (d) Professional fees such as for architects and engineers, and
- (e) The estimated cost of dismantling the asset and restoring the site, to the extent that it is recognised as a provision. Guidance on accounting for provisions is found in GRAP on Provisions, Contingent liabilities and Contingent assets.

Administration and other general overhead costs are not a component of the cost of PPE unless they can be directly attributed to the acquisition of the asset or bringing the asset to its working condition. Similarly, start-up and similar costs do not form part of the cost of an asset unless they are necessary to bring the asset to its working condition. Initial operating losses incurred prior to an asset achieving planned performance are recognised as an expense. **Recoverable indirect costs** (e.g. VAT etc.) are not a component of the cost of PPE.

Self-constructed assets

The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of producing the assets for sale (refer to GRAP 12 on Inventories). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour or other resources incurred in the production of a self-constructed asset is not included in the cost of the asset.

Repairs and Improvements to fixed assets

Where improvement costs are incurred to improve a specific asset (i.e. the improvement will increase capacity or extend the useful life of the assets), the cost of the improvement must be capitalised against the fixed asset affected, and written off over the remaining life of the asset.

Where repairs and maintenance expenses are incurred to repair or service a specific asset and it does not extend the life span or increase the capacity of an asset, the cost thereof are expensed to repairs and maintenance in the income statement.

Finance lease assets

At the commencement of the lease term, the municipality shall recognise assets acquired under finance leases as assets and the associated lease obligations as liabilities in their statement of financial position. The assets and liabilities shall be recognised at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the municipality's incremental borrowing rate shall be used. Any initial direct costs of the municipality are added to the amount recognised as an asset.

Deferred payments

When payment for an item of PPE is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as an interest expense over the period of credit.

3.3.4.5 Exchange of assets

In accordance with GRAP 17 the accounting treatment relating to the exchange of dissimilar and similar assets as follows:

Dissimilar exchange

PPE may be acquired in **exchange or part exchange for a dissimilar item of PPE or other asset**. The cost is measured at the fair value of the asset received which is equivalent to the fair value of the asset given up adjusted by the amount of any cash or cash equivalents transferred.

Similar exchange

PPE may be **acquired in exchange for a similar asset** that has a similar use in the same line of operations and which has a similar fair value.

The cost of the new asset is the carrying amount of the asset given up.

The fair value of the asset received may provide evidence of impairment in the asset given up. Therefore, the asset given up is written down and this written-down value is assigned to the new asset

If other assets such as cash are included as parts of the exchange transaction this may indicate that the items exchanged do not have a similar value.

3.3.4.6 Subsequent expenditure

Subsequent expenditure relating to PPE should be added to the carrying amount of the asset when it is probable that:

- (a) Future economic benefits or service potential
- (b) Over the total life of the asset
- (c) In excess of the most recently assessed standard of performance of the existing asset, will flow to the entity.

Otherwise, all other subsequent expenditure not meeting the definition above will be accounted for as repairs and maintenance expense.

Major components of some items of PPE that require replacement at regular intervals must be accounted for as separate assets as they have different useful lives. Therefore, the expenditure incurred in replacing or renewing the component should be accounted for as an acquisition of a separate asset and the replaced asset should be written off.

For example, a reservoir may require relining after a specified number of hours of usage or components of a sewerage purification works may need replacing during the lifetime of the works, or a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of usage.

3.3.4.7 Measurement subsequent to initial recognition

Subsequent to the initial recognition as an asset, and item of PPE shall be measured as follows in terms of GRAP 17.

PPE (excluding Land)	Land(Excluding quarries and landfill sites)
Carried at its cost less any accumulated depreciation and any accumulated impairment losses.	Carried at cost.

3.3.4.8 Depreciation

All depreciable PPE shall be depreciated.

In accordance with the GRAP 17 the accounting treatment of depreciation is summarised below.

Depreciation method

The CFO shall depreciate all depreciable assets on the straight-line method of depreciation over the assessed useful operating life of the asset in question. (See useful lives in **Appendix A**)

Commencement date

Depreciation shall be calculated from the day in which an asset is acquired for moveable assets (i.e. the invoice date). The Municipality will calculate depreciation from the beginning of the month following the month in which the asset was completed for constructed/immovable assets such as roads, buildings and infrastructure assets.

Useful life

The Manager: Assets shall assign a useful life to each depreciable asset recorded on the municipality's asset register. In determining such a useful life the Manager: Assets shall adhere to the useful lives set out in the **Appendix A** to this document.

In the case of a fixed asset which is not listed in **Appendix A**, the Manager: Assets shall determine a useful life, if necessary in consultation with the HOD who shall use the asset in question, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

Lost, stolen or irreparable damaged assets must be fully written off when the event occurs.

Review of the useful life

The useful life of an item of PPE shall be reviewed periodically. Where the expectations are significantly different from previous estimates, the depreciation charge for the current and future periods shall be adjusted.

The useful life must be amended where assets are materially impaired, improperly maintained or any event occurs affecting the rate at which economic benefits or service potential is consumed. Depreciation shall be calculated starting from the beginning of the year using the reviewed useful life as determined at year end. The change shall be treated as a change in estimate.

Review of the depreciation method

The depreciation method applied to PPE shall be reviewed periodically and, if there has been a significant change in the expected pattern of economic benefits or service potential from those assets, the method shall be changed to reflect the changed pattern. When such a change in depreciation method is necessary, depreciation shall be calculated starting from the beginning of the year using the new depreciation method. The change shall be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods shall be adjusted.

Accounting treatment

Depreciation shall generally take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed.

Land and buildings

Land and buildings are dealt with separately for accounting purposes even when they are acquired together. Land normally has an unlimited lifespan and will not be depreciated. Buildings have a limited life and are depreciated.

3.3.4.9 Impairment losses

The following procedures need to be performed to determine whether a cash-generating asset and a non-cash generating asset are impaired. GRAP 26 (Impairment of assets) shall be applied to cash-generating assets and GRAP 21 shall be applied to non-cash generating assets.

Cash-generating assets

GRAP 26 (Impairment of assets) shall be applied to determine whether a cash generating asset is impaired.

A cash generating asset (unit) is the smallest identifiable group of assets that generates cash flows that are independent of the cash inflows from other assets or group of assets.

The cash generating asset is impaired if its carrying amount is higher than its recoverable amount.

Recoverable amount

The recoverable amount is the higher of its fair value less costs to sell and its value in use.

- (a) *Fair value less costs to sell*: Amount obtainable in an arm's length transaction less costs of disposal.
- (b) *Value in use*: Discounted future net cash flows from the continuing use and ultimate disposal of the asset.

Frequency of impairment test

An annual impairment test should be performed to determine whether the carrying amount exceeds the recoverable amount by assessing the indicators of impairment at each reporting date.

Reversal of impairment

The reversal of the impairment should be recognised in the Statement of Financial Performance unless the asset is carried at the revalued amount when there are indicators that the asset may no longer be impaired.

Non-cash generating asset

In accordance with GRAP standard relating to instances where non-cash generating assets are impaired is as follows:

- (a) The non-cash generating asset is impaired if its carrying amount is higher than its recoverable amount.
- (b) The carrying amount shall be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount.

Accounting treatment

The amount of the reduction shall be recognised as an expense immediately, unless it reverses a previous revaluation in which case it shall be charged to the non-distributable reserve headed "Revaluation Surplus".

3.3.4.10 Retirements and disposals

In accordance with GRAP 17 PPE shall be eliminated from the Statement of Financial Position on disposal or when the asset is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Any gains or losses from the retirement or disposal of an item of PPE are calculated as follows:

Gain/loss = Estimated net disposal proceeds – carrying amount of the asset.

The gain or (loss) shall be included in the statement of financial performance as an item of revenue or (expense), whichever is applicable.

PPE retired from active use and held for disposal should be recorded at its carrying amount at the date it is retired from active use. At each reporting date the asset must be tested for impairment and record any impairment loss in terms of **section 3.3.4.9**

3.3.5 Heritage Assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

In order to meet the definition of an asset, it must be controlled by the municipality as a result of past events and future economic benefits or service potential are expected to flow to the entity from holding it..

A heritage asset shall be recognised as an asset if, and only if:

- (a) It is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and
- (b) The cost or fair value of the asset can be measured reliably.

If the municipality holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.

3.3.6 Investment Property

Investment property shall be accounted for in terms of GRAP 16 and shall not be classified as PPE for purposes of preparing the municipality's Statement of Financial Position.

The following are examples of investment property:

- (a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations. For example, land held by a hospital for capital appreciation which may be sold at a beneficial time in the future;
- (b) Land held for a currently undetermined future use. (If an entity has not determined that it will use the land either as owner-occupied property, including occupation to provide services such as those provided by national parks to current and future generations, or for short-term sale in the ordinary course of operations, the land is considered to be held for capital appreciation.);
- (c) A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases on a commercial basis. For example, a university may own a building that it leases on a commercial basis to external parties;
- (d) A property owned by the entity and leased out at a below market rental; and
- (e) Property that is being constructed or developed for future use as investment property.

Recognition criteria

GRAP 16 states that investment property shall be recognised as an asset when and only when:

- (a) It is **probable** that the **future economic benefits** that are associated with the investment property will flow to the entity; and
- (b) The **cost** of the investment property **can be measured reliably**.

Measurement at initial recognition

GRAP 16 states that:

An investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement).

Where an investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.

Measurement subsequent to initial recognition

All investment property shall be measured at its fair value. Investment property shall not be depreciated, but shall be annually valued on balance sheet date to determine their fair (market) value.

Investment assets shall be recorded in the balance sheet at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.

A qualified valuer, with knowledge of local conditions and experience in valuing similar types of assets, shall be engaged by the municipality to undertake such valuations.

If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as an ordinary fixed asset until it is ready for its intended use – where after it shall be reclassified as an investment asset.

3.3.7 Inventory

Recognition of spare parts and servicing equipment

GRAP 17 states that most spare parts and servicing equipment are usually carried as inventory and recognised as an expense as consumed. However, major spare parts and stand-by equipment qualify as PPE when the entity expects to use them during more than one period or when their use is expected to be irregular.

Spare parts and land/property held for sale are accounted for as inventory in terms of GRAP 12 unless the spare parts meet the requirements to be recognised as PPE in terms of GRAP 17.

Depreciation of spare parts and stand-by equipment qualifying as PPE

Depreciation will be over the time period not exceeding the useful life of the related asset.

3.3.8. Biological Assets

Accounting for biological assets (living animals or plants) shall take place in accordance with the requirements of GRAP 27.

The CFO, in consultation with the head(s) of department concerned, shall ensure that all biological assets, such as livestock and crops, are valued at 30 June each year at fair value less estimated point-of-sales costs.

Any losses on such valuation shall be debited to the department or vote concerned as an operating expense, and any increase in the valuation shall be credited to the department or vote concerned as operating revenue.

If any biological asset is lost, stolen or destroyed, the matter – if material – shall be reported in writing by the HOD concerned in exactly the same manner as though the asset were an ordinary asset.

Records of the details of biological assets shall be kept in a separate section of the asset register or in a separate accounting record altogether and such details shall reflect the information which the CFO, in consultation with the HOD concerned and the internal auditor, deems necessary for accounting and control purposes.

The CFO shall annually insure the municipality's biological assets, in consultation with the HOD's concerned, provided the Council of the municipality considers such insurance desirable and affordable.

3.3.9. Research and development

Accounting for expenditure incurred on research and development shall take place in accordance with the requirements of GRAP 31.

Research or development expenditure that:

- (a) Relates to an in-process research or development project acquired separately and recognised as an intangible asset; and
- (b) is incurred after the acquisition of that project shall be accounted for in accordance with paragraphs .49 to .58 of GRAP 31.

Applying the requirements in paragraphs .49 to .58 means that subsequent expenditure on an in-process research or development project acquired separately and recognised as an intangible asset is:

- (a) recognised as an expense when incurred if it is research expenditure;
- (b) recognised as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph .52; and
- © added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition criteria in paragraph .52.

3.3.10 Disclosures

3.3.10.1 **Property, plant and equipment**

GRAP standards details the disclosure requirements for accounting purposes relating to various types of Assets covered by such standards. In general, the following aspects need to be disclosed:

- (a) The measurement bases.
- (b) Depreciation method/(s) used.
- (c) Useful lives or depreciation rates.
- (d) Gross carrying amount and accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.
- (e) Reconciliation of the carrying amount at the beginning and end of the period showing:
 - additions,
 - disposals,
 - acquisitions through business combinations,
 - increases or decreases during the period resulting from revaluations,
 - reductions in the carrying amount (impairment losses),
 - impairment losses (if any) reversed,
 - depreciation, and
 - other movements.
- (f) Existence and amounts of restrictions on the title for PPE pledged as security for liabilities.
- (g) The amount of commitments for the acquisition of PPE.
- (h) The accounting policy for estimated costs of restoring the site of PPE.
- (i) When property is stated at revalued amount, the following shall be disclosed:
 - the basis used to revalue property,
 - the effective date of the revaluation,
 - whether an independent valuer was involved,
 - the nature of any indices used to determine replacement cost, and
 - the revaluation surplus, indicating the movement for the period.

3.3.10.2 *Investment property*

GRAP 16 details the disclosure requirements for accounting purposes relating to investment property.

4 ACCOUNTING POLICY IMPLEMENTATION GUIDE

4.1 Format of the Asset Register

The asset register shall reflect the following information:

- (a) Description of each asset
- (b) Date of acquisition/brought into use
- (c) Unique asset number (barcode)
- (d) Title deed number (for property)
- (e) Erf and portion number (for property)
- (f) Location of asset (e.g. physical address, GPRS co-ordinates and description, unique location number)
- (g) Original cost
- (h) Revalue amount (if applicable)
- (i) Fair value (if no costs are available)
- (j) Last revaluation date of assets subject to revaluation
- (k) Who performed the last valuation?
- (l) Accumulated depreciation to the beginning of the current year
- (m) Depreciation charge for the current year
- (n) Accumulated depreciation at year end
- (o) Carrying value of the asset
- (p) Method and rate of depreciation.
- (q) Impairment losses incurred during the financial year (and reversal of such losses, where applicable)
- (r) Department(s) or vote(s) within which the assets will be used
- (s) Source of financing
- (t) Current insurance arrangements
- (u) Use of the asset e.g. to perform basic municipal services
- (v) Nature and duration of assets secured for debt and other encumbrances
- (w) Disposal date/date of retirement from use
- (x) Disposal price (proceeds)
- (y) Responsible official
- (z) Condition of the Asset
- (aa) Status of the Asset

Investment property shall be recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.

PPE treated as inventories shall be recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.

Major spare parts and stand-by equipment should be bar-coded and recorded in the asset register.

An asset shall be capitalised, that is, recorded in the asset register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately classified an asset. An asset shall remain in the asset register for as long as it is in physical existence.

4.2 Classification of Assets

The CFO must ensure that all assets are, as prescribed by the current standards, classified under the following headings in the asset register.

4.2.1 Property, plant and equipment

PPE shall be classified as follows:

Classification	Description	Example
Infrastructure assets	<p>Infrastructure assets are any assets that are part of a network of similar assets.</p> <p>Some assets are commonly described as infrastructure assets. While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:</p> <p>(a) They are part of a system or network, (b) They are specialised in nature and do not have alternative uses, (c) They are immovable, and/or (d) They may be subject to constraints on disposal.</p>	Roads, water and reticulation schemes, sewerage purification, electricity assets and trunk mains.
Buildings	Assets that that require to be constructed.	Offices, libraries and fire stations.
Heritage assets	Heritage assets are culturally significant resources.	Works of art, historical buildings and statues.
Land	Land that is controlled by the municipality for use by the municipality, whether there are structures thereon or not.	Land on which the municipal offices lie on.

Other assets	Other assets are assets utilised in operations except for assets referred to in section 3.3.3.	Plant and equipment, motor vehicles and furniture and fittings. Property classified as investment property.
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Where the municipality acts as agents and construct assets on behalf of Provincial Government, and such assets are not under the control of The Municipality, such costs are expensed. Only the infrastructure that will be under the control of the municipality will be capitalised.

4.2.2 Investment property

Investment property shall be accounted for in terms of GRAP 16 and shall not be classified as PPE for purposes of preparing the municipality's Statement of Financial Position. Refer to **section 3.3.6.**

4.2.3 Inventory

Major spare parts and stand-by equipment qualify as PPE when the entity expects to use them during more than one period or when their use is expected to be irregular in terms of GRAP 17. Refer to **section 3.3.7.**

4.2.4 Intangible assets

Accounting for intangible shall take place in accordance with the requirements of GRAP 31.

4.3 Property, Plant and Equipment

4.3.1 Components of Cost/Valuation of assets

Deferred payments

Where the municipality defer payment for an asset, such deferred payment shall be accounted for in terms of GRAP 17

4.3.2 Subsequent expenditure

In accordance with GRAP the requirements relating to subsequent expenditure are as follows:

Recognising subsequent expenditure as an asset

- (a) Subsequent expenditure on PPE is only recognised as an asset when the expenditure improves the condition of the asset, measured over its total life, beyond its most recently assessed standard of performance.

Examples of improvements that result in increased future economic benefits or service potential include the following:

- (a) Modification of an item of plant to extend its useful life, including an increase in its capacity,
- (b) Upgrading machine parts to achieve a substantial improvement in the quality of output, and
- (c) Rehabilitation of a road enabling a substantial reduction in previously assessed maintenance costs.

Recognising subsequent expenditure as an expense

Expenditure related to repairs or maintenance of PPE are made to restore or maintain the future economic benefits or service potential that an entity can expect from the most recently assessed standard of performance of the asset.

Therefore, they are usually recognised as an expense when incurred.

The cost of servicing or overhauling plant and equipment is usually an expense since it restores, rather than increases, the most recently assessed standard of performance.

Other considerations

GRAP 17 states that:

The **appropriate accounting treatment** for **expenditure incurred subsequent to the acquisition** of an item of property, plant and equipment **depends on the circumstances**, which were **taken into account** on the **initial measurement and recognition** of the related item of property, plant and equipment **and whether** the subsequent **expenditure is recoverable**.

For instance, **when** the **carrying amount** of the item of property, plant and equipment already **takes into account a loss in economic benefits or service potential**, the **subsequent expenditure to restore** the future economic benefits or service potential expected from the asset **is capitalised, provided** that the **carrying amount does not exceed the total economic benefits or service potential** that the entity expects to recover from the continued use and ultimate disposal of the item.

This is also the case when the purchase price of an asset already reflects the entity's obligation to incur expenditure in the future, which is necessary to bring the asset to its working condition.

An example of this might be the acquisition of a building requiring renovation. In such circumstances, the subsequent expenditure is added to the carrying amount of the asset to the extent that it can be recovered from future use of the asset.

4.3.3 Revaluations of land and buildings

Determination of the fair value

For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land and non-specialised buildings.

Frequency of revaluations

The frequency of revaluations depends upon the purpose for revaluation. The CFO and the Manager Assets shall use their discretion and judgment to determine the frequency of the valuation.

Classes of property

A class is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:

- (a) Land,
- (b) Operational buildings,
- (c) Office buildings,
- (d) Roads,
- (e) Machinery,
- (f) Electricity transmission networks,
- (g) Motor vehicles,
- (h) Furniture and fixtures, and
- (i) Office equipment.

The CFO and the Manager assets shall apply their professional judgment to determine which classes to include in the Fixed Assets Register and are not necessarily confined to the list above.

4.3.4 Depreciation

In addition to the definition of depreciation explained in **section 3.1**, depreciation is also understood to be the monetary quantification of the extent to which PPE is used or consumed in the provision of economic benefits or the delivery of services.

Useful life

The useful life of an asset is defined in terms of the asset's expected utility to the entity. It reflects the amount of time the municipality is expecting to consume economic benefits or service potential embodied in the asset.

Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of an item of property, plant and equipment is a matter of judgement based on the experience of the municipality with similar assets.

4.3.5 Impairment losses

Indicators of impairment for cash-generating assets

Internal indicators	External indicators
<ul style="list-style-type: none"> • Evidence of obsolescence or physical damage • Discontinuance, disposal or restructuring plans 	<ul style="list-style-type: none"> • Significant decline in the market value • Changes in technological, market, economic or legal environment • Changes in interest rates

<ul style="list-style-type: none"> • Declining asset performance 	<ul style="list-style-type: none"> • Low market capitalisation
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Indicators of a reversal of the impairment for cash-generating assets

The reversal of impairment may occur due to the following:

Internal indicators	External indicators
<ul style="list-style-type: none"> • Changes in the way the asset is used or expected to be used • Evidence from internal reporting indicates that economic performance of the asset will be better than expected 	<ul style="list-style-type: none"> • Significant increase in market value • Changes in technological, market, economic or legal environment • Changes in interest rates • Market interest rates have decreased

4.4 Heritage Assets

<p>Examples of heritage assets</p> <p>Include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.</p> <p>Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):</p> <ul style="list-style-type: none"> (a) Their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price, (b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale, (c) They are often irreplaceable and their value may increase over time even if their physical condition deteriorates, and (d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

5 ASSET MANAGEMENT PROCEDURES

5.1 Summary of asset management responsibilities

The table below summarises the departments, specific employee designations and structure's referred to (explicitly or implied) in the various sections.

Department	Human Resources	Technical	Budget & Treasury	All departments	HOD	CFO	MM	Council
5.2 Budget process		✓	✓	✓	✓	✓	✓	✓
5.3 Acquisition of assets			✓	✓	✓	✓	✓	
5.4 Methodology of Valuation of assets		✓	✓		✓	✓	✓	
5.5 Disposal of assets		✓	✓	✓	✓	✓	✓	✓
5.6 Departmental transfers of assets		✓	✓	✓	✓			
5.7 Resignations	✓		✓	✓	✓			
5.8 Identification of assets			✓	✓	✓	✓	✓	✓
5.9 Verification of assets		✓	✓	✓				
5.10 Safekeeping of assets				✓	✓			
5.11 Alienation of assets	✓	✓	✓	✓	✓	✓	✓	✓
5.12 Reporting write-offs of assets			✓		✓	✓		
5.13 Maintenance			✓		✓		✓	
5.14 Private use of municipal assets				✓	✓			
5.15 Replacement norms			✓	✓	✓	✓	✓	
5.16 Insurance of assets			✓	✓		✓	✓	
5.17 Disposal of fire arms			✓	✓				
5.18 Biological assets					✓	✓		

5.2 Budget Process

Each HOD, acting in consultation with the Budget Manager and Manager: Assets, shall:

- (a) Prepare an annual budget for the acquisition of assets and the maintenance of assets under their departments.
- (b) Ensure that reasonable budgetary provision is made annually for the depreciation of all applicable assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.
- (c) Ensure that the Asset Management Plan that outlines the Assets to be acquired and/or maintained, the estimated costs and the timing of such acquisition and/or maintenance, and the votes funding the acquisition or the maintenance includes assets under their department and is in line the budget.

5.3 Acquisition of Assets

All assets to be purchased should be in terms of the approved budget. Depending on the type of the asset to be purchased and after the necessary authorisation has been obtained the following procedure for purchasing an asset must be followed:

Moveable Assets

- (a) The user/user department shall submit a request for acquisition of an asset to the Assets Division. The Asset Manager shall confirm that the acquisition is in line with the Asset Management Plan.
- (b) The Asset Manager confirms that the acquisition is as per Asset Management Plan or is necessary for continued operations of the municipality and proceeds with the process to acquire the asset(s).
- (c) Requisition form is completed by the Asset Manager and submitted for authorization.
- (d) Quotations must be obtained in terms of the Supply Chain Management Policy.
- (e) The bidding process procedures will apply in terms of the MFMA Municipal SCM Regulations and the municipality SCM Policy where the amount of the asset will likely exceed the three quotation threshold.
- (f) The Assets Division receives the asset and together with the user department inspect the asset. Once satisfied that the asset received is as per the specification requested, endorse the delivery note or invoice and forward it to the Creditors Office for payment. If not satisfied delivery of the asset is rejected and returned.
- (g) The Asset Division barcodes the asset, updates the Asset Register and transfer the Asset to the user department.
- (h) The Asset Division ensures that the Insurers provides immediate insurance cover for the asset.

- (i) The recipient's asset inventory list is updated and a signed copy be kept by the Assets Division.
- (j) The invoice should be endorsed with the bar code number before payment can be made to the supplier.
- (k) The Assets Division conducts a quarterly verification report to the CFO on asset movements. The report must also include the following:
 - (a) Donations.
 - (b) Loss or damage.
 - (c) Transfers.
 - (d) Write-offs.
 - (e) Additions.
 - (f) Depreciation

Immoveable Assets

The user/user department shall submit a request for acquisition of an asset to the Supply Chain Division. The Supply Chain Manager shall confirm with the Asset Manager that the acquisition is in line with the Asset Management Plan. The Supply Chain Manager will then proceed with the acquisition in accordance with the Council's Supply Chain Management Policy and Manual and Procedures. This user department together with the technical department shall be responsible for the specification, monitoring and inspection of construction of the asset.

Progress certificates shall be provided to the Asset division on a monthly basis for purposes of updating the Fixed Assets Register during the construction stage of the Asset. Once the construction is complete, a copy of the completion certificate shall be provided to the Asset Management Division for inclusion in the Fixed Asset Register.

The Assets Manager shall ensure through confirmation of a budget stamp that:

- (a) At all times that there are enough funds in the budget before approval of any requisitions for both moveable and immoveable assets.
- (b) That the correct vote and descriptions are being used before authorization of the requisition.

5.4 Methodology of Valuation of Assets

The municipality may consider the following methods of valuation when updating the asset register.

Historical Depreciable Net Book Value Calculation

The starting point will be to determine a depreciable net (historical) book value of an asset and adjust this to reflect

- (a) its current market price or
- (b) its current replacement cost

The asset record should reflect what has been spent on an asset (i.e. historical records) in terms of

- (a) The original cost of buying or constructing the asset;
- (b) Any maintenance cost to date; and
- © Any improvements or additions to the asset to date.

This analysis will help the municipality determine whether for example assumptions relating to the life of the asset are still applicable. Lack of maintenance might mean adjusting the original life of the asset and this would affect the future depreciation and depreciable net book value of the asset.

Any additional maintenance or improvements might lengthen the original life of the asset, and therefore, the future depreciation calculations would have to reflect this.

Proxy Method

In the case of the municipality, this method might be useful if some historical data is not available. The idea is to base the value of the asset on a similar asset as maintained by the municipality or another utility if such other utility has been keeping proper records. The adoption of the proxy method entails benchmarking against a similar asset as maintained by complete records.

Replacement Cost Method

In rare circumstances and should historical figures not be available, the municipality may have to resort to valuing an asset based on what it would take to buy or construct a similar asset. This method might work for some assets such as buildings if the methodology to construct a dam has remained almost the same except for prices of material such as cement. It is, therefore, highly unlikely that Replacement Cost Method would be used in this regard though it is very important to reflect it.

Market Value of an Asset

Buildings or any other assets that have a market value will be valued at market values if such value differs significantly from the depreciable historical net book value.

5.5 Disposal of Assets

All assets are to be disposed of in one of the following ways:

Asset Management Policy	Link to Supply Chain Management Policy (Disposal Management)
1. By dumping at a landfill site after approval by Council concerned if the item is damaged beyond repair	<ul style="list-style-type: none"> • Destroying the asset
2. Public tender for the disposal of property or letting of assets (including unserviceable, redundant or obsolete assets subject to section 14 and 90 of the MFMA) after approval by Council	<ul style="list-style-type: none"> • Selling the asset
3. Auctioning after approval by Council	<ul style="list-style-type: none"> • Selling the asset
4. Donation after approval by Council	<ul style="list-style-type: none"> • Transferring the asset to another organ of state in terms of a provision of the Act enabling the transfer of assets • Transferring the asset to another organ of state at market related value or, when appropriate, free of charge

The Manager: Assets in conjunction with the Supply Chain Manager should direct the disposal process.

5.5.1. Regards must be had for the following provisions of the Municipal Finance Management Act requirements for the disposal of capital assets

The **disposal of capital assets**, in terms of section 14 of Municipal Finance Management Act (No. 56 of 2003), specify the following requirements:

- 1) Capital assets needed to provide the minimum level of basic municipal services may not be disposed of.
- 2) Capital assets (other than those mentioned in 1) may only be disposed of after the municipal council in a meeting open to the public:
 - a. Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal service, and
 - b. Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- 3) Any decision made by the municipal council that the specific capital asset is not needed to provide the minimum level of basic municipal service may not be reversed by the municipality after the asset has been disposed of.
- 4) The municipal council may delegate its power to make the decision in 2(a) and (b) for movable capital assets to the MM subject to limits (e.g. R5 000) prescribed by the municipal council.
- 5) Any transfer of ownership (disposal) must be fair, equitable, transparent, competitive and consistent with the supply chain management policy.

- 6) The above does not apply to transfers of capital assets to another municipality, municipal entity, national or provincial organ of state provided that the transfers are in accordance with the prescribed framework.

5.5.2. Disposal procedures

The following procedure for disposing of an asset must be followed:

Disposal procedure	Type of disposal
(a) The Assets Division identifies the asset(s) to be disposed of (obsolete, redundant, damaged beyond repair, etc.) and recommends to the CFO to submit the list to the Accounting Officer for disposal.	All
(b) The Accounting Officer should inspect/delegate the inspection of the redundant items and provide recommendations to Council to approve the disposal.	All
© The Council approves the disposal and write-off of the concerned items from the asset register.	All
(d) The asset disposal form must be attached to a memorandum signed by the Accounting Officer and forwarded to Budget and Treasury for processing.	All
(e) Manager Assets consider the means of disposal and recommend method for approval by the CFO.	All
(f) If the method of disposal approved by the CFO is donation or dumping, identified beneficiaries shall be informed to come select the items to be donated. Items not selected for donation shall be dumped at the landfill site.	Disposal of unserviceable, redundant, obsolete and damaged assets by donation/dumping.
(g) If the method of disposal approved by the CFO auction, a public notice in the local newspaper is made inviting the public to the auction.	Disposal by auction
(h) If deemed necessary the Supply Chain processes shall be followed to appoint an Auctioneer.	Disposal by auction
(i) If disposal of unserviceable, redundant, obsolete and damaged assets by donation or sale is deemed impossible due to the nature of the assets or the extent of the damage/redundancy of the concerned assets, the assets may be dumped at a landfill site.	Dumping at a landfill site

Beneficiaries to be invited for donation shall be identified Municipal Manager in consultation with the Mayor for non-profit organisations within the borders of the municipality.

5.5.3. The following additional disposal procedures shall apply in the case of land and buildings.

Land and Buildings shall be auctioned at the reserved prevailing market prices as indicated by the valuers at the time of disposal.

The Council shall give fourteen (14) days' notice in the newspaper circulating within its area. Notice shall be both in English and North Sotho. Such notice shall also be affixed to all Notice Boards at the Council's office and website.

Council may resolve to donate any of its assets to organisations / individuals and persons within its area of jurisdiction. It may decide from within itself to establish a committee or delegate the donation and establishment of the disposal committee function to the Accounting Officer to make proposals.

5.5.4. Disposal Committee.

The disposal committee will be responsible for the following:

5.5.4.1. To be the central point for all requests to dispose of assets.

5.5.4.2. To evaluate all requests to dispose of assets.

5.5.4.3. To prepare a memorandum to the Municipal Manager indicating the status of the item and the proposed method for disposal.

5.5.4.4. To ensure that the asset disposal forms are signed by relevant parties (requesting officials, HOD, chairperson of the Disposal Committee and the Municipal Manager)

5.6 Transfers/movement of assets

The HOD's shall approve all asset movements, which relate to the transfer of assets from one department to the other or within the department.

When a directorate or department transfers an asset or an inventory item interdepartmentally or within its department, the Asset Transfer Form (**see appendices**) must be forwarded to the Assets division for authorization of the movement. A signed copy of this form is to remain with the Asset Division for the update of the asset register.

Where a department no longer requires the use of an asset it should be transferred to the Asset Division's safe house for storage until it is required by another department. The Asset Transfer Form must be completed and forwarded to the Asset Division.

A signed Asset Transfer Form must be obtained from the Asset Division by the department/division transferring the asset and returned by the department/location receiving the asset to the Assets Division after satisfying themselves that the asset is in good working condition.

No asset of the municipality is to be removed from its location without an Asset Transfer Form signed by an Asset Division staff. Security at all Municipal entry points are to be informed that all Municipal Assets leaving or entering municipal premises are accompanied by a duly completed Asset Transfer Form signed by the Asset Division.

5.7 Resignations

At the resignation of an employee the applicable Director or his/her duly delegated representative must complete the relevant asset form and forward it to the Human Resources Department for their further attention. This form is a statement that the inventory and asset items entrusted to the employee to execute his/her daily duties are in good order and handed in where necessary (refer to **Asset Clearance Form in Appendices**).

5.8 Identification of Assets

The following applies relating to the identification of assets:

- 5.8.1. The MM is responsible for ensuring that the municipality maintains an asset identification system.
- 5.8.2. The fixed asset identification system should operate in conjunction with the asset register.
- 5.8.3. The MM in consultation with the CFO and manager: Assets should prescribe the identification system.
- 5.8.4. The identification system should comply with any legal prescriptions and recommendations of the Auditor-General.
- 5.8.5. The CFO and Manager: Assets should ensure that the asset identification system is applied.

5.9 Verification of Assets

Listing of assets

The Assets Division must distribute to each Asset Custodian an asset register/listing of all assets under his/her custodianship. All assets must be recorded on the standard Asset Record form, which shall be used for reporting purposes and updating asset register.

The Assets Division shall:

- 5.9.1. Perform quarterly counts of all municipal assets.
- 5.9.2. Provide the CFO with a monthly report on movements, condition and status of all Assets belonging to the municipality.
- 5.9.3. Ensure that the existence of items recorded on the inventory lists is verified and any amendments which are made to the Asset record form are processed in the Asset Register.
- 5.9.4. In consultation with the CFO, ensure that the asset register of the Council is reconciled with the trial balance of the Municipality on a monthly basis.

Listing of assets

Every employee shall:

Report the presence of personal assets that are kept in their offices for personal use to the Asset division.

Complete a Personal Asset Declaration form (**see appendices**) and submit the form to assets division.

This clause does not apply to cosmetic products, items that are regularly carried in handbags/pockets by all employees such as cellphones. However the discretion of whether an item must be declared or not remains with the Manager: Assets.

5.10 Safekeeping of Assets

Every Custodian shall be directly responsible for the physical safekeeping of any asset controlled or used by the department/office in question.

In exercising this responsibility, every Custodian shall adhere to any written directives issued by the Manager: Assets to the department in question, or generally to all departments, in regard to the control of or safekeeping of the municipality's assets.

In addition, any visitors to a department/office shall be accompanied by an employee of the department.

5.11 Alienation of Assets

Every HOD shall inform in writing the Manager: Assets on 31 November and 30 April of each financial year on all assets controlled or used by the department concerned which such HOD wishes to alienate by public auction or public tender.

The Manager: Assets shall consolidate the requests received from the departments and promptly report such consolidated information to the CFO or the Municipal Manager of the municipality, as the case may be recommending the process of alienation to be adopted.

The Council delegates to the Municipal Manager the authority to approve the alienation of any asset with a carrying value less than R 5000-00 (five thousand rand).

The Council shall ensure that the alienation of any asset with a carrying value equal to or in Excess of R5000-00 (five thousands rand) takes place in compliance with Section 14 of the MFMA.

Once the assets are alienated, the CFO may delete the relevant records from the asset register.

If the proceeds of the alienation are less than the carrying value recorded in the asset register, such difference shall be recognised as a loss in the Statement of Financial Performance of the department or vote concerned. If the proceeds of the alienation, on the other hand, are more than the carrying value of the asset concerned, the difference shall be recognised as a gain in the Statement of Financial Performance of the department or vote concerned.

Transfer of assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.

5.12 Reporting Write-Offs of Assets

All assets to be written off are to be reported to Council for approval.

Loss, theft, destruction, or impairment

Every Custodian shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by his/her department is promptly reported in writing (refer to **section 6.5**) to the Manager: Assets, and – in cases of suspected theft or malicious damage – also to the South African Police Service. The Manager: Assets shall promptly report to the CFO in writing the above events and follow the necessary steps to claim the loss from the insurer.

Other write-offs

A fully depreciated fixed asset shall be written off only on the recommendation of the Manager: Assets, and with the approval of the user of the asset.

The Manager: Assets shall report to the CFO after every verification on any assets which have to be written off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports, and shall submit a recommendation to the Council of the municipality on the assets to be written off.

The only other reasons for writing off assets, other than the alienation of such assets, shall be the loss, theft, and destruction or material impairment of the fixed asset in question.

In every instance where a not fully depreciated fixed asset is written off, the CFO shall immediately debit to such department or vote, as additional expenses, the full carrying value of the asset concerned.

5.13 Maintenance

General maintenance

The Assets Manager shall be directly responsible for ensuring that **all assets** are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

Planned Maintenance

The CFO shall ensure that an Asset Management Plan in respect of all **infrastructure assets** with a value of R50 000 (fifty thousand rand) or more is promptly prepared and submitted to the Council of the municipality for approval.

The MM may direct that the maintenance plan be submitted to the Council prior to any approval for the acquisition or construction of infrastructure asset concerned.

Annual reports should be submitted by the CFO's to the Council each year on the progress in complying with the maintenance plan. The effect of any non-compliance on the useful operating life of the asset should also be reported.

The Manager: Assets is responsible for the implementation of the maintenance plan and shall report to the CFO on a monthly basis on the progress thereof. The Manager: Assets may commission other departments (e.g. Technical Department) to assist with the implementation of the maintenance plan.

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan, the CFO shall report such extra expenses to council for noting and a possible request for adjustment of the budget.

Unplanned maintenance/repairs

Every Custodian shall ensure that any incident of material impairment to any fixed asset of the Municipality used by their department is promptly reported to the Manager: Assets. The Manager: Assets shall promptly follow the necessary steps to claim the loss from the insurer and/or effect repairs to the Asset.

The Manager: Assets may seek assistance from other departments (e.g. technical) in order to assess the loss/damage and/or to effect the repairs. Where such assistance is sought by

the Manager: Assets, such other department(s) shall promptly offer such assistance without reserve.

Subsequent to repairs on any fixed asset, the Manager: Assets shall re-determine the useful life of the fixed asset in question, if necessary, recalculate the annual depreciation expense accordingly.

Reports for all repairs and/or maintenance carried out shall be prepared on a monthly basis by the responsible division/department (e.g. roads and stormwater, infrastructure development, etc.) and submitted to the Assets Manager on or before the 7th of each month.

5.14 Private Use of Municipal Assets

Each department should ensure that the removal of assets from municipal premises is monitored. Temporary Asset Removal Form should be completed and authorised by the HOD each time any asset is removed from municipal premises for private use. Items that are regularly used by employees when performing their duties, e.g. laptops, cameras, calculators, tape recorders, two way radios, guns, and other similar items are exempted from this requirement.

5.15 Replacement Norms

The replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items shall be provided for in the Asset Management Plan. The replacement of assets which are required for service delivery but which have become uneconomical to maintain shall also be considered in the Asset Management Plan.

5.16 Insurance of Assets

All assets shall be insured as agreed with the Insurance Brokers/Insurance company. The MM should ensure that all assets are insured. The CFO should recommend the basis of insurance to be applied to each type of fixed asset (e.g. carrying value or replacement value).

For all assets acquired, the Manager: Asset should notify the Insurance brokers/ company on delivery to provide immediate cover. It is the responsibility of the Manager: Assets to ensure that all new assets have been covered by insurance before they are issued for use by the respective department.

The CFO shall, in conjunction with the HOD of the user department, consider whether all assets require insurance and where insurance is deemed undesirable and/or unaffordable for particular assets, seek Council approval to exclude such assets from the insurance portfolio.

5.17 Fleet Management

The management of Fleet Assets (Council's vehicles, plant and earth moving equipment as defined) shall be in terms of the "Fleet Management Policy." The Fleet Management Office shall provide a report to the Manager: Assets as to the condition, status and maintenance/repairs requirements of all fleet on a monthly basis for inclusion in the Assets Reports (**see 5.9**)

5.18 Disposal of Firearms

The procedures for the legal disposing of firearms in terms of the Firearms Control Act of 2000 are not included in this policy. The Chief Traffic Officer shall be engaged to facilitate any process dealing with firearms.

5.19 Biological Assets

If any biological asset is lost, stolen or destroyed, the matter – if material – shall be reported to the Manager Assets in exactly the same manner as though the asset were an ordinary asset.

Records of the details of biological assets shall be kept in a separate section of the asset register or in a separate asset register altogether and such details shall reflect the information which the CFO, in consultation with the Manager: Assets, deems necessary for accounting and control purposes.

6. POLICY REVIEW.

6.1. This policy will be reviewed annually and revised as necessary.

7. IMPLEMENTATION OF THIS POLICY.

7.1. This policy shall be implemented once approved by Council.

APPENDICES

A. Useful lives of Assets

The useful life of infrastructure-, buildings, recreational- and other assets are categorised below.

Heritage Assets are not reflected in the asset life schedule below because no useful life can be established for heritage assets as there is no way to determine the lifespan of painting or statue etc.

Useful lives - Estimated useful lives per category of asset are as follows:

CATEGORY	USEFUL LIFE
<p><u>Infrastructure Assets:</u></p> <p>Electricity Highmast lights Meters Load Control Equipment Switchgear Equipment Supply/reticulation Mains</p>	<p>15-30 years 15-25 years 20-30 years 20-30 years 20-30 years 20-30 years</p>
<p>Roads Motorways Other Roads Traffic signage and markings Traffic Lights Street Lighting Overhead Bridges Storm Water Drains Bridges, Subway & Culverts Car Parks Bus Terminals</p>	<p>15-30 years 10-30 years 2-10 years 5-25 years 10-30 years 10-30 years 10-30 years 10-30 years 10-20 years 5-20 years</p>
<p><u>Community Assets</u></p> <p>Buildings: Ambulance Stations Cemeteries Community Centres/halls Traffic Stations Indoor Sport stadiums Parks Recreation Centres Stadiums Taxi Ranks Office Buildings</p>	<p>10-30 years 3-30 years 10-30 years 5-30 10-30 years 5-30 years 5-30 years 5-30 years 10-30 years 5-30 years</p>
<p><u>Recreational Assets:</u></p>	

CATEGORY	USEFUL LIFE
Facilities: Netball/Tennis Courts Swimming Pool Golf Course Outdoor Sport Facilities Fountains Floodlighting Soccer Field	5-20 years 5-20 years 5-20 years 5-20 years 5-25 years 5-30 years 5-20 years
<u>Security Measures:</u> Fencing Security Systems Access Control	3-10 years 3-15 years 3-15 years
Office Equipment: Computer Hardware Computer Software Office Machines Air Conditioners Photocopy Machines Faxes	3-20 years 3-20 years 3-20 years 3-30years 3-20 years 3-15 years
Furniture and Fittings: Chairs Tables Desks Cabinets Cupboards Fire Cabinets Miscellaneous	4-20 years 4-20 years 4-20 years 4-20 years 4-20 years 4-20 years 4-20 years
Bins and Containers: Bulk Containers	3-15years
Motor Vehicles: Fire Engines Motor Vehicles Motor Cycles Trucks	5-25 years 5-15 years 5-25years 5-25 years
Plant and Equipment:	

CATEGORY	USEFUL LIFE
Graders	5-25 years
Tractors	5-25 years
Mechanical Horses	5-25 years
Lawnmowers	2-15 years
Brush Cutters	2-15 years
Compressors	2-15 years
Radio Equipment	3-15 years
Fire Arms	5-50 years
Telecommunication Equipment	5-15 years
Tippers	5-25 years
Other Office Equipment	2-30 years

B. Asset Disposal Form

ASSET DISPOSAL FORM

Date requested	
Department	
Asset barcode	
Asset description	
Asset location	
Classification of asset	
Suggested method of disposal	
Condition of asset	
Reason for request for disposal	
Requesting official	
Name and surname	
Signature	
Date	
HOD recommendation	
Name and surname	
Signature	
Date	
Municipal Managers Approval	
Name and surname	
Signature	
Date	

C. Asset Transfer Form

ASSET TRANSFER FORM

Date requested	
Asset barcode	
Asset description	
Classification of asset	
Reason for transfer	
Condition of asset	
<u>Current location</u>	<i>Approval for the transfer of asset</i>
Department/location	
Name of building	
Floor number	
Room number	
Room barcode	
User	
Transferring official	
Signature	
<u>New location</u>	<i>Verifying and receiving of asset</i>
Department/location	
Name of building	
Floor number	
Room number	
Room barcode	
User	
Receiving official	
Signature	
<u>Assets Division Authorisation</u>	
Name and Surname	
Date Authorised	

D. Specimen Asset Clearance Form

ASSET CLEARANCE FORM

Inventory items:

Movable Assets

Resigning Official:

Name and Surname -----
Signature -----
Date -----

HOD:

Name and Surname -----
Signature -----
Date -----

E. Temporary Asset Removal form

TEMPORARY ASSET REMOVAL FORM

Date requested	
Department	
Asset barcode	
Asset description	
Asset location	
Classification of asset	
Reason for temporary removal	
<i>Condition on removal</i>	
Date to be returned	
Date returned	
<i>Condition on returning</i>	
Requesting official	
Name and surname	
Position	
Signature	
Date	
Asset Management Authorisation	
Name and surname	
Position	
Signature	
Date	

F. Personal Asset Declaration Form

PERSONAL ASSET DECLARATION FORM

Asset Description _____

Serial number/Barcode _____

Name of User _____

Asset Location _____

Room/Floor number _____

Reason for Bringing the Asset onto the Premises

Estimated Removal date ____/____/_____

Owner Details

Name and Surname _____

Address _____

Signature _____

Date ____/____/_____

DECLARATION: I, the owner agree not to hold the Municipality liable for any theft, loss or damage incurred relating to the use of the abovementioned asset.

Asset Division

Name and Surname _____

Signature _____

Date ____/____/_____

DECLARATION: I, the Manager: Assets, agree that the Municipality is not the owner of the abovementioned asset.

G. Asset record form

ASSET RECORD FORM

BUILDING NAME _____
FLOOR NUMBER _____
OFFICE NUMBER _____
OFFICE BARCODE _____

I _____ WILL KEEP THE ASSETS REFLECTED ON **THE ATTACHED PAGE** SAFE AND REPORT TO ASSET OFFICE ANY LOSS, DAMAGE OR MOVEMENT IF ANY. I FURTHER AGREE AND UNDERSTAND THAT REMOVAL OR FAILURE TO REPORT ANY SUCH REMOVAL EFFECTED BY ANY PERSON OF ANY ASSETS LISTED ON THE ATTACHED PAGE WITHOUT COMPLETION OF THE ASSET TRANSFER FORM DULY AUTHORISED BY THE ASSET DIVISION IS A CONTRAVENTION OF AN APPROVED POLICY OF THE COUNCIL AND MAY LEAD TO DISCIPLINARY ACTION AGAINST THE PERPETRATOR.

ASSET HOLDER	_____	
SIGNATURE	_____	DATE
	____/____/____	
ASSET OFFICER	_____	
SIGNATURE	_____	DATE
	____/____/____	