

# **“The City of Heritage”**



## **Asset Management Policy and Procedures**

**Version 1**

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## GLOSSARY OF TERMS

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

## 1 INTRODUCTION

- 1.1 Asset Management encompasses planning/demand management, acquisitions, use, maintenance, and disposal of assets. Ulundi Local Municipality (“ULM”) should use assets to ensure efficient and effective service delivery to the community within the Ulundi locality.
- 1.2 The purpose of the Asset Management Policy is to govern the management of assets owned by ULM (both operationally and financially) to ensure that they are managed, controlled, safeguarded and used in an efficient and effective manner.
- 1.3 In other words, the purpose of the Asset Management Policy is to facilitate the management of assets both operationally and financially (accounting treatment).

## 2 REGULATORY REQUIREMENTS

- 2.1 ULM is required to comply with the MFMA, MSA, and circulars, memorandum and guidelines (practice notes) issued by National Treasury.
- 2.2 The MFMA Circular No. 18 prescribes the following minimum standards to be complied with by high capacity municipalities for the 2005/2006 financial statements:
  - (i) *GRAP 1*: Presentation of financial statements
  - (ii) *GRAP 2*: Cash Flow statements
  - (iii) *GRAP 3*: Accounting policies, changes in accounting estimates and errors
  - (iv) *GAMAP 4*: The effects of changes in the foreign exchange rates
  - (v) *GAMAP 6*: Consolidated financial statements and accounting for controlled entities
  - (vi) *GAMAP 7*: Accounting for investments in associates
  - (vii) *GAMAP 8*: Financial reporting of interests in joint ventures
  - (viii) *GAMAP 9*: Revenue
  - (ix) *GAMAP 12*: Inventories
  - (x) *GAMAP 17*: Property, Plant and Equipment
  - (xi) *GAMAP 19*: Provisions, contingent liabilities and contingent assets
- 2.3 GRAP 1, GRAP 3 GAMAP 12, GAMAP 17 and GAMAP 19 relate directly to the Asset Management Policy.
- 2.4 National Treasury issued “Additional guidance to facilitate the finalisation of the MFMA audit process for the year ending 30 June 2006” on 4 October 2006. The guidance is summarised as follows:
  - (i) The 2005/2006 financial statements should be prepared in compliance with the standards mentioned above (MFMA Circular No. 18).
  - (ii) “Additional Standards of GRAP have not been prescribed by the Minister of Finance, despite the Accounting Standards Board (ASB) having approved such standards, and ‘early’ application of these standards by public sector entities is not encouraged.”

- (iii) In addition to the effective Standards of GRAP and GAMAP, municipalities may seek guidance in determining the appropriate accounting policies and disclosures from SA GAAP where material transactions, balances and/or events fall outside the scope of the effective Standards of GRAP and GAMAP (e.g. Biological Assets/Investment Property).

### **3 RELATED POLICIES, PROCESSES AND PROCEDURES**

3.1 The following policies, processes and procedures should be in place to ensure an effective and efficient asset management system:

- (i) Supply Chain Management Policy
- (ii) Risk Management Policy
- (iii) Delegations of Authority
- (iv) Expenditure Management Policy
- (v) Fleet Management Policy
- (vi) Insurance Policy

### **4 RELATED POLICY GUIDELINES**

4.1 The following related published guidelines may provide additional assistance:

- (i) National Treasury Guidelines for the implementation of accounting standards, June 2005
- (ii) The latest published Specimen Annual Financial Statements

### **5 POLICY OBJECTIVES**

5.1 The objectives of the Asset Management Policy include:

- (i) To ensure that all responsible municipal officials are aware of their roles and responsibilities regarding the use of the assets of the Municipality.
- (ii) To prescribe the accounting treatment of assets acquired and used in accordance with the applicable accounting standards approved by National Treasury.
- (iii) To prescribe the administrative guidelines and internal control procedures to be followed by persons in control of the municipal assets.
- (iv) To ensure compliance with Municipality's Insurance Policy, Supply Chain Management Policy and Payment Procedures.
- (v) To ensure the effective and efficient control, utilisation, optimisation of usage, safeguarding and management of ULM's assets.
- (vi) To ensure compliance with current legislations.
- (vii) To emphasise a culture of accountability over fixed assets.
- (viii) To ensure that fixed assets are not written off and disposed of without proper authorization.
- (ix) To ensure that preventative measures are in place to eliminate theft, loss and misuse.
- (x) To ensure a formal set of procedures that can be implemented to ensure that fixed assets and financial policies are achieved and are in compliance with the MFMA.

## 6 DEFINITIONS

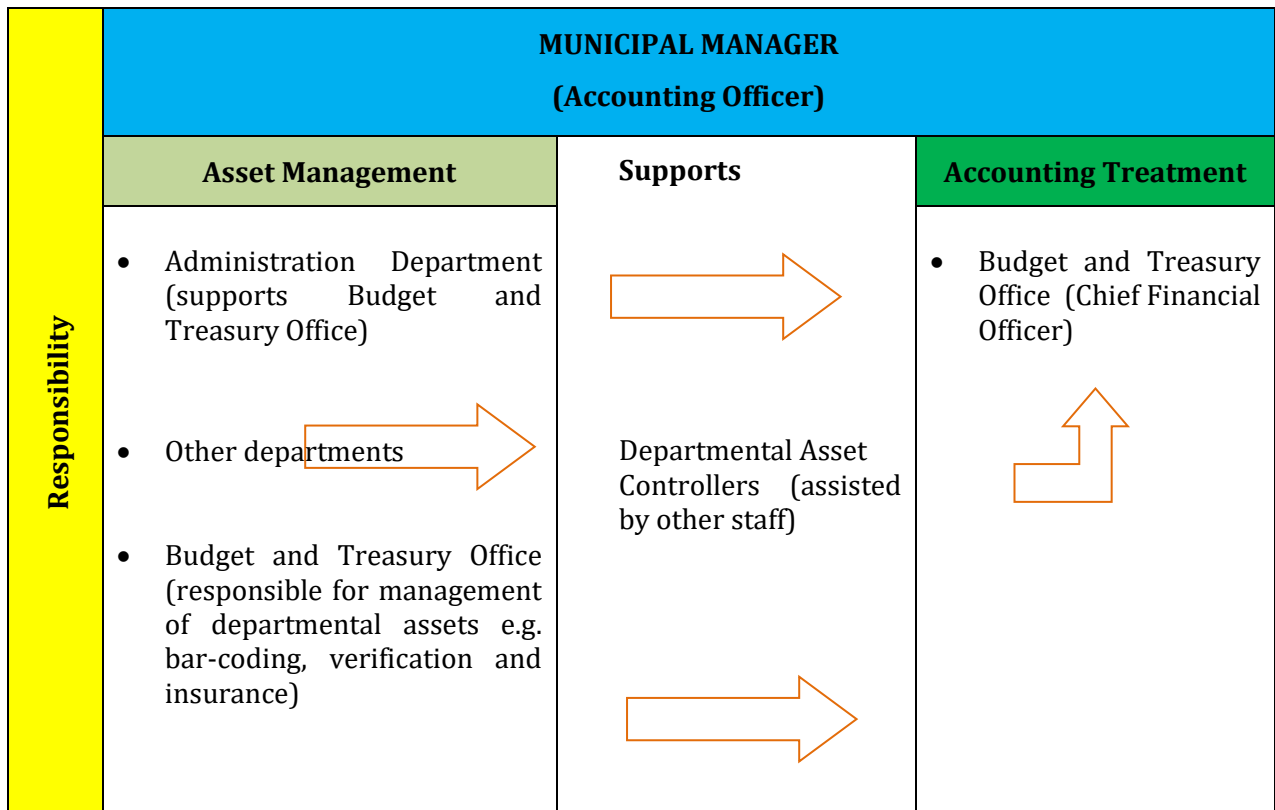
TERM	STANDARD	DETAIL
<b>Asset</b>	GRAP 1 and 3	<p>An asset is defined in terms of GRAP 1.06 and GRAP 3.04 as follows:</p> <p>“Assets are resources <b>controlled</b> by an entity as a result of past events and from which future <b>economic benefits</b> or service potential are expected to flow to the entity.”</p> <p>The Framework for the Preparation and Presentation of Financial Statements (in terms of IFRS) provides the following explanations.</p> <ul style="list-style-type: none"> <li>• <b>Future economic benefits:</b> The potential to contribute, directly or indirectly, to the flow of can and cash equivalents of the operating activities.</li> <li>• <b>Control:</b> The ability to control the benefits which are expected to flow. It’s not limited to legal title.</li> </ul>
<b>Asset Management</b>	Not applicable	Asset Management encompasses planning/demand management, acquisitions, use, maintenance, and disposal of assets.
<b>Biological assets</b>	IAS 41	A biological asset is defined as a living asset or plant.
<b>Carrying amount</b>	GAMAP 17	Carrying amount is the amount at which an asset is included in the statement of financial position after deducting any accumulated depreciation and any impairment losses thereon.
<b>Cost</b>	GAMAP 17 IAS 40	Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction
<b>Depreciable amount</b>	GAMAP 17	Depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.
<b>Depreciation</b>	GAMAP 17	Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.
<b>Fair value</b>	GAMAP 17 IAS 40	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.
<b>Head of Department</b>	Not applicable	All incumbents of post level 1 in the different directorates.
<b>Inventory</b>	GAMAP 12	<p>GAMAP 12 (Inventories) defines the following as inventory in the public sector:</p> <ul style="list-style-type: none"> <li>• ammunition,</li> <li>• consumable stores,</li> <li>• maintenance materials,</li> <li>• spare parts for plant and equipment other than those dealt with under the Standard of Generally Accepted Municipal Accounting Practice on <i>Property, Plant and</i></li> </ul>

TERM	STANDARD	DETAIL
		<p><i>Equipment,</i></p> <ul style="list-style-type: none"> <li>• strategic stockpiles,</li> <li>• work in progress, and</li> <li>• Land/property held for sale.</li> </ul>
<b>Investment property</b>	IAS 40	<p>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:</p> <p>(a) use in the production or supply of goods or services or for administrative purposes; or</p> <p>(b) Sale in the ordinary course of business.</p>
<b>Owner-occupied property</b>	IAS 40	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
<b>Property, Plant and Equipment</b>	GAMAP 17	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul>
<b>Recoverable amount</b>	IAS 36  GAMAP 17	<ul style="list-style-type: none"> <li>• <b>Cash generating asset</b></li> </ul> <p>The recoverable amount is the higher of its fair value less costs to sell and its value in use.</p> <ul style="list-style-type: none"> <li>• <b>Non-cash generating asset</b></li> </ul> <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>
<b>Useful life</b>	GAMAP 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>
<b>Residual value</b>	GAMAP 17	<p>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.</p>



## 7 ROLES AND RESPONSIBILITIES

### 7.1 OVERVIEW



The diagram above depicts an overview of the key role players involved in asset management. The Administration Department supports Budget and Treasury. The other departments are accountable to Budget and Treasury. Each department is supported by a Local Asset Management Unit/Controller.

### 7.2 MUNICIPAL MANAGER

#### 7.2.1 Responsibilities

- 1) The MM is the AO of the Municipality in terms of section 60 of the MFMA.
- 2) Section 60 of the MFMA further states that the AO must:
  - (i) Exercise their functions and powers assigned to them in terms of the Act, and
  - (ii) Provide guidance and advice on compliance with the MFMA to:
    - (a) Political structures, political office-bearers and officials of the municipality, and
    - (b) Any municipal entity under the sole or shared control of the municipality.

- 3) The AO of a municipality is responsible for the management of the assets of that municipality in terms of section 63 of the MFMA which prescribes the following:
  - (i) Safeguarding and maintenance of assets.
  - (ii) Implementation of an information system that accounts for the assets.
  - (iii) Ensuring that assets are valued in terms of generally recognised accounting practice.
  - (iv) Maintaining a system of internal control of assets (e.g. an asset register)

### 7.2.2 Delegations

- 1) The AO 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:
  - (i) Any powers or duties assigned to an AO in terms of the Act, or
  - (ii) Any powers or duties reasonably necessary to assist the AO in complying with a duty which requires the AO to take reasonable or appropriate steps to ensure the achievement of the aims of a specific provision of this Act.
- 2) The AO must regularly review the delegations issued above and, if necessary, amend or withdraw any of those delegations.
- 3) The delegations:
  - (i) Must be in writing.
  - (ii) May be subject to limitations and conditions as the AO may impose in a specific case.
  - (iii) May be to a specific individual or to the holder of a specific post in the municipality.
  - (iv) May authorise the delegated member to sub-delegate the delegated power or duty to an official or the holder of a specific post in that member's area of responsibility.
  - (v) Do not divest the AO of the responsibility concerning the exercise of the delegated power or the performance of the delegated duty.
- 4) The AO is therefore accountable for all transactions entered into by his/her delegates.

### 7.3 CHIEF FINANCIAL OFFICER

- 1) The CFO shall be the asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerised asset register is maintained.
- 2) No amendments, deletions or additions to the asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO.
- 3) The following duties have been delegated to the CFO:
  - (i) To ensure that Council assets are accounted for in accordance with generally recognised accounting practice.
  - (ii) To ensure that the general ledger is reconciled to the asset register.
  - (iii) To review the reconciliation between the general ledger and the asset register
  - (iv) 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.

### 7.4 HEADS OF DEPARTMENT

- 1) Section 78(1) of the MFMA prescribes the following areas of responsibility for senior managers (also referred to as HOD's) relating to asset management.
- 2) "Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure –
  - (i) That the system of financial management and internal control established for the municipality is carried out diligently;
  - (ii) That the financial and other resources of the municipality are utilised effectively, efficiently economically and transparently;
  - (iii) That any unauthorised, irregular or fruitless and wasteful expenditure and any other losses are prevented;
  - (iv) That the assets of the municipality are managed effectively and that assets are safeguarded and maintained to the extent necessary;
  - (v) That all information required by the AO for compliance with the provisions of this Act is timeously submitted to the AO; and
  - (vi) That the provision of this Act, to the extent applicable to that senior manager or official including any delegations in terms of section 79, are complied with.
- 3) The provision of section 78(1) must be performed subject to the directions of the AO.
- 4) In addition to the above, the HOD's are responsible to ensure that all employees within their respective department adhere to the approved Asset Policy and Procedures. **The HOD must nominate an employee to implement and maintain asset control (i.e. Departmental Asset Controller) in his/her directorate / department. The Administration Department must be notified of such person.**
- 5) Where limited resources are available, it is incumbent upon the HOD's, to ensure that adequate procedures for regular independent checks of fixed assets are in place.
- 6) It is the responsibility of the HOD to ensure that all assets related changes that take place within their divisions/directorates have been properly authorised and communicated to the Department Asset Controller.

## 7.5 DEPARTMENT ASSET CONTROLLER

- 1) The “Departmental Asset Controller”, under the supervision and authority of the HOD, must ensure that:
  - (i) All information needed by the Budget and Treasury Office to compile and update the Asset Register, is circulated to the said Department.
  - (ii) The HOD and Administration Department (after approval of the HOD) is notified of any changes in the status of the assets under the directorates/departments control (e.g. new asset purchases, asset transfers, asset impairments and asset disposals).
  - (iii) The inventory and/or assets of the ULM are not used for private enterprise and gain by any employee/Councillor.
  - (iv) Control is exercised over the respective department’s assets and shall report any enhancement/improvement, transfer or disposal of the respective department’s assets to the Administration Department.
  - (v) Relevant reports on the writing off of scrap (in case of vehicles) and the theft/loss (in the case of other assets) are submitted to the Administration Department.
  - (vi) Any discrepancies in the asset stock take report are followed up.
  - (vii) All assets within the department are recorded on the asset register and are bar coded.
  - (viii) Administer cyclical counts on assets within the respective department and follow up on any discrepancies.

## 7.6 DELEGATIONS

- 1) All delegated authority must comply with the Delegations of Authority Policy.

## 7.7 ACCOUNTING POLICIES

### 7.7.1 FORMAT OF THE ASSET REGISTER

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

### 7.7.2 CLASSIFICATION OF ASSETS

- 1) 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:
  - (a) PPE (infrastructure, community, heritage and other assets)
  - (b) Investment property
  - (c) Inventory (classified as PPE)
  - (d) Intangible assets

### 7.7.3 PROPERTY, PLANT AND EQUIPMENT TREATED AS INVENTORY

- 1) 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.

#### 7.7.4 PROPERTY, PLANT AND EQUIPMENT

##### 7.7.4.1 Recognition criteria

- 1) PPE shall be recognised as an asset when:
  - (i) It is probable that future economic benefits or service potential associated with the asset will flow to the entity, and
  - (ii) The cost or fair value of the asset can be measured reliably.

##### 7.7.4.2 Initial measurement

###### 1) Purchased assets

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

###### 2) Donated assets

- (i) 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.

##### 7.7.4.3 Capitalisation threshold

- 1) Council must approve the capitalisation threshold on an annual basis:

Asset (excluding computer equipment)	Treatment
Cost/fair value $\geq$ R5 000*	Recognise as PPE
* Or such other amount as the Council of the municipality may from time to time determine on the recommendation of the MM	Record on the asset register
Cost/fair value $<$ R5 000	Recognise as an ordinary operating expense
Cost/fair value $>$ R500	Record on the inventory register

- 2) **The above capitalisation threshold does not apply to computer equipment.**

#### **7.7.4.4 Components of Cost/Valuation of assets**

##### **A. General**

- 1) 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.
- 2) Any trade discounts and rebates are deducted in arriving at the purchase price.
- 3) 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 GAMAP on Provisions, contingent liabilities and contingent assets.
- 4) **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.
- 5) Initial operating losses incurred prior to an asset achieving planned performance are recognised as an expense.
- 6) **Recoverable indirect costs** (e.g. VAT etc.) are not a component of the cost of PPE.

##### **B. Self-constructed assets**

- 1) 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 GAMAP 12 on Inventories). Therefore, any internal surpluses are eliminated in arriving at such costs.
- 2) 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.

##### **C. Finance lease assets**

- 1) GAMAP 17.32 refers to the International Public Sector Accounting Standard on Leases for the accounting treatment of leases.

- 2) National Treasury issued “Additional guidance to facilitate the finalisation of the MFMA audit process for the year ending 30 June 2006” which states the following in paragraph 6a:

“The International Public Sector Accounting Standards (IPSAS) are not up to date with the latest enhancements made to the International Accounting Standards (IAS) and SA GAAP. Selecting accounting policies from IPASA will result in the presentation of information that is not consistent with local and international best practices.”

- 3) Therefore, the cost of an asset held by a lessee under a finance lease will be accounted for in terms of IAS 17.

**D. Deferred payments**

- 1) When payment for an item of PPE is deferred beyond normal credit terms, its cost is the cash price equivalent.

**7.7.4.5 Exchange of assets**

- 1) In accordance with GAMAP 17.33-34 the accounting treatment relating to the exchange of dissimilar and similar assets as follows:

**A. Dissimilar exchange**

1.1 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**

1.2 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.

1.3 PPE may also be **sold in exchange for an equity interest in a similar asset**.

1.4 In both cases, no gain or loss is recognised on the transaction. The cost of the new asset is the carrying amount of the asset given up.

1.5 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. Examples of exchanges of similar assets include the exchange of aircraft, hostels and other real estate properties.

1.6 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.

**7.7.4.6 Subsequent expenditure**

1.1 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,
- (d) Will flow to the entity.

- 1.2 Otherwise, all other subsequent expenditure not meeting the definition above will be accounted for as repairs and maintenance expense.
- 1.3 **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 (provided the recognition criteria is met in terms of section 2.3.4.1) and the replaced asset should be written off.
- 1.4 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.

**7.7.4.7 Measurement subsequent to initial recognition**

- 1.1 Subsequent to the initial recognition as an asset, and item of PPE should be measured as follows in terms of GAMAP 17.40-41.

PPE (excluding land and buildings)	Land and buildings
Carried at its cost less any accumulated depreciation and any accumulated impairment losses.	Carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent impairment losses.

**7.7.4.8 Revaluations of land and buildings**

- 1.1 In accordance with GAMAP 17.42-50 the accounting treatment requirements relating to the revaluation of land and buildings as follows:

**A. Determination of the fair value**

- 1.1 The fair value of land and buildings is their market value, determined by appraisal.
- 1.2 An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognised and relevant professional qualification.

**B. Frequency of revaluations**

- (i) Land and buildings will be revalued every 3 years.

**C. Treatment of accumulated depreciation on revaluation**



- (i) When land and buildings are revalued, any accumulated depreciation at the date of the revaluation will be eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.
- (ii) The amount of the adjustment arising on the elimination of accumulated depreciation forms part of the increase or decrease in carrying amount.

**D. Classes of property**

- (i) When land and buildings are revalued, the entire class of property to which that asset belongs shall be revalued. In other words, if land is revalued, then all land within that classification must be revalued. If land and buildings within that classification are revalued, then all land and buildings must be revalued.

**E. Accounting treatment of revaluation increases and decreases**

**1. Increase in carrying amount**

- (i) The increase shall be credited directly to the non-distributable reserve under the heading "Revaluation surplus."
- (ii) The increase will only be recognised as revenue (credited to the Statement of Changes in Financial Performance) to the extent that it reverses a revaluation decrease of the same class of assets previously recognised as an expense.

**2. Decrease in carrying amount**

- (i) The decrease shall be recognised as an expense.
- (ii) The decrease will only be charged directly against any related
- (iii) "Revaluation surplus" to the extent that the decrease does not exceed the amount held in the "Revaluation surplus" in respect of that same class of assets.
- (iv) The "Revaluation surplus" must be realised (transferred directly to the Accumulated Surplus or Deficits) in part or in whole through use, retirement or disposal of the asset.

**7.7.4.9 Depreciation**

- (i) All PPE, except land and heritage assets, shall be depreciated.
- (ii) In accordance with the GAMAP 17: 51-62 the requirements and guidance relating the accounting treatment of depreciation from have been summarised below.

**A. Depreciation method**

- (i) The CFO shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question.

**B. Commencement date**

- (i) Depreciation should be calculated from the day following the day in which an asset is acquired until the end of the calendar month concerned.

- (ii) ULM will calculate depreciation from the beginning of the month in which the asset was acquired.

**C. Useful life**

- (i) The CFO shall assign a useful life to each depreciable asset recorded on the municipality's asset register. In determining such a useful life the CFO shall adhere to the useful lives set out in the **Appendix 5.1** to this document.
- (ii) In the case of a fixed asset which is not listed in **Appendix 5.1**, the CFO shall determine a useful life, if necessary in consultation with the HOD who shall control or 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.

- (iii) Lost, stolen or damaged assets must be fully depreciated when the event occurs.

**D. Review of the useful life**

- (i) 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.

**E. Review of the depreciation method**

- (i) 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.
- (ii) When such a change in depreciation method is necessary 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.

**F. Accounting treatment**

- (i) 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.

**G. Land and buildings**

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

**7.7.4.10 Impairment losses**

- (i) The following procedures need to be performed to determine whether a cash generating asset and a non-cash generating asset are impaired. IAS 36 (Impairment of assets) should be applied relating to cash-generating assets until the relevant GRAP statement is approved. GAMAP 17 should be applied to noncash generating assets.

### **A. Cash-generating assets**

- (i) IAS 36 (Impairment of assets) should be applied to determine whether a cash generating asset is impaired.
- (ii) 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.

### **B. Recoverable amount**

- (i) 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.

### **C. Frequency of impairment test**

- (i) 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.

### **D. Reversal of impairment**

- (i) 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.

### **E. Non-cash generating asset**

- (i) In accordance with GAMAP 17.66-68 guidance 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.

### **F. Accounting treatment**

- (i) 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”.

#### **7.7.4.11 Retirements and disposals**

- (i) In accordance with GAMAP 17.70 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.
- (ii) Any gains or losses from the retirement or disposal of an item of PPE are calculated as follows:

$$\text{Gain/loss} = \text{Estimated net disposal proceeds} - \text{carrying amount of the asset}$$

- (iii) The gain or (loss) shall be included in the statement of financial performance as an item of revenue or (expense), whichever is applicable.
- (iv) 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 2.3.4.10**

## **7.8 HERITAGE ASSETS**

- (i) GAMAP 17 does not require an entity to recognise heritage assets that would otherwise meet the definition of, and recognition criteria for, PPE.
- (ii) If an entity does recognise heritage assets, it must apply the disclosure requirements of GAMAP 17 and May, but is not required to, apply the measurement requirements of GAMAP 17.
- (iii) Some assets are described as “heritage assets” because of their cultural, environmental or historical significance.

## **7.9 INVESTMENT PROPERTY**

- (i) Investment property shall be accounted for in terms of IAS 40 and shall not be classified as PPE for purposes of preparing the municipality’s Statement of Financial Position.

### **7.9.1 Recognition criteria**

- (i) IAS 40.16 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*.

### **7.9.2 Measurement at initial recognition**

- (i) IAS 40 states that:
  - (c) Investment property shall be measured initially at its cost (including transaction costs).
  - (d) The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by IAS 17.20. I.e. the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability in accordance with that same paragraph.

### **7.9.3 Measurement subsequent to initial recognition**

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) 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

## **7.10 INVENTORY**

### **7.10.1 Recognition of spare parts and servicing equipment**

- (i) GAMAP 17.14 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.
- (ii) Spare parts and land/property held for sale are accounted for as inventory in terms of GAMAP 12 unless the spare parts meet the requirements to be recognised as PPE in terms of GAMAP 17.

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

- (iii) Depreciation will be over the time period not exceeding the useful life of the related asset.

#### **7.11 BIOLOGICAL ASSETS**

- (i) Accounting for biological assets (living animals or plants) shall take place in accordance with the requirements of IAS 41 where applicable.
- (ii) 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. Such valuation shall be undertaken by a recognised valuer in the line of the biological assets concerned.
- (iii) 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.
- (iv) 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.
- (v) 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.
- (vi) 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.

#### **7.12 DISCLOSURE**

##### ***7.12.1 Property, plant and equipment***

- (i) GAMAP 17.75-81 details the disclosure requirements for accounting purposes relating to PPE. 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:

- 1.1. additions,
  - 1.2. disposals,
  - 1.3. acquisitions through business combinations,
  - 1.4. increases or decreases during the period resulting from revaluations,
  - 1.5. reductions in the carrying amount (impairment losses),
  - 1.6. impairment losses (if any) reversed,
  - 1.7. depreciation, and
  - 1.8. Other movements.
- (ii) Existence and amounts of restrictions on the title for PPE pledged as security for liabilities. The amount of commitments for the acquisition of PPE.
- (iii) The accounting policy for estimated costs of restoring the site of PPE.
- (iv) When property is stated at revalued amount, the following shall be disclosed:
- (a) the basis used to revalue property,
  - (b) the effective date of the revaluation,
  - (c) whether an independent valuer was involved,
  - (d) the nature of any indices used to determine replacement cost, and
  - (e) The revaluation surplus, indicating the movement for the period.

#### **7.12.2 Investment property**

- (i) IAS 40.126-137 details the disclosure requirements for accounting purposes relating to investment property. However, investment property should be disclosed in accordance with the latest Specimen Annual Financial Statements guideline issued by National Treasury.

## **8 FORMAT OF THE ASSET REGISTER**

- (i) 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) Revalued amount
  - (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/price of retirement from use.



## 9 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.

### 9.1 Property, plant and equipment

(i) PPE are classified as follows in terms of GAMAP 17.17-23:

<b>Classification</b>	<b>Description</b>	<b>Example</b>
<b><i>Infrastructure assets</i></b>	<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,</p> <p>(b) They are specialised in nature and do not have alternative uses,</p> <p>(c) They are immovable, and/or</p> <p>(d) They may be subject to constraints on disposal.</p>	Roads, water and Reticulation schemes, sewerage purification, electricity assets and trunk mains.
<b><i>Community assets</i></b>	Community assets are any assets that contribute to the community's well-being.	Parks, libraries and fire stations.
<b><i>Heritage assets</i></b>	Heritage assets are culturally significant resources.	Works of art, historical buildings and statues.
<b><i>Other assets</i></b>	Other assets are assets utilised in operations <b>except</b> for assets referred to in <b>section 2.3.3</b> .	Plant and equipment, motor vehicles and furniture and fittings. Property classified as investment property.

- (ii) **Housing and township developments**, where ULD acts as developers on behalf of District and Provincial Government, are not under the control of ULD (unless accredited by the provincial department of housing). Therefore, development costs are expensed. Only the infrastructure (e.g. roads) will be under the control of the municipality and will be capitalised.
- (iii) The cost of the land for **landfill sites** will be capitalised. However, any future costs required to decommission, restore or rehabilitate will be accounted for in terms of IFRIC 5 (AC 438) Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation funds.

### 9.2 Investment property

- (i) Investment property shall be accounted for in terms of IAS 40 and shall not be classified as PPE for purposes of preparing the municipality's Statement of Financial Position.

### 9.3 Inventory

- (i) 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 GAMAP 17.14.

### 9.4 Intangible assets

- (i) No intangible asset should be recognised as an asset, except where the CFO, acting in compliance with the requirements of IAS 38 (specifically research and development expenditure) recommends to the Council that specific development costs be recognised as an asset.

## 10 PROPERTY, PLANT AND EQUIPMENT

### 10.1 Components of Cost/Valuation of assets

#### Deferred payments

##### *Example*

ULM purchases an asset costing R100 000 on 1.7.0x which is to be repaid in equal instalments over a 36 month period from 1.8.0x. Assume the following:

- The market related interest rate is 15% per annum, compounded monthly.
- There is no residual value

##### *Answer*

Cost of the asset and corresponding liability on 1.7.0x is R80 131

[Using a financial calculator: PMT=100 000/36; i=15/12; n=36; PV=??]

Interest will accrue monthly and the monthly payment will be split between the liability and interest expense e.g. for 31.8.0x

Dr Lease Liability (balancing figure)	1 776	
Dr Interest expense (80 131 x 1.25%)	1 002	
Cr Bank (100 000/36)		2 778

### 10.2 Subsequent expenditure

In accordance with GAMAP 17.36-38 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.
- (b) Examples of improvements that result in increased future economic benefits or service potential include the following:
  - (i) Modification of an item of plant to extend its useful life, including an increase in its capacity,
  - (ii) Upgrading machine parts to achieve a substantial improvement in the quality of output, and
  - (iii) Rehabilitation of a road enabling a substantial reduction in previously assessed maintenance costs.

***Recognising subsequent expenditure as an expense***

- (c) 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.
- (d) Therefore, they are usually recognised as an expense when incurred.
- (e) 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**

- (f) GAMAP 17.38 states that:
  - (i) 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.

**10.3 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 movements in the fair values of land and buildings being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some land and buildings may experience significant and volatile movements in fair value, thus necessitating

annual revaluation. Such frequent revaluations are unnecessary for land and buildings with only insignificant movements in fair value. Instead, revaluation every three or five years may be sufficient.

**Treatment of accumulated depreciation on revaluation**

**Example**

ULD purchases an asset costing R100 000 on 1.7.06.  
 The asset is:

- Depreciated on a straight line basis over 10 years
- Revalued every 4 years

The gross replacement cost on the first date of revaluation (1.7.10) is R250 000.  
 Answer

1.7.10

Dr	Asset – revaluation	150 000	
	Accumulated depreciation	40 000	
Cr	Asset-cost		100 000
	Revaluation surplus		90 000

**Calculations**

Carrying amount prior to revaluation		
Cost		100 000
Accumulated depreciation (100 000 x 10% x 4 years)		<u>(40 000)</u>
Carrying amount		60 000
Carrying amount after revaluation		
Replacement cost		250 000
Replacement cost 250 000	Accumulated depreciation (250 000 x 10% x 4 years)	<u>(100 000)</u>
Carrying amount		150 000

Therefore, the revaluation surplus is 90 000 (150 000 – 60 000)

**10.4 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.

### 10.5 Depreciation

In addition to the definition of depreciation explained in section 2.1, 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.

### 10.6 Useful life

In accordance with GAMAP17.53-54 the following guidance should be referred to when considering the useful life of an asset.

#### ***GAMAP17.53***

The economic benefits or service potential embodied in an item of property, plant and equipment is consumed by the entity principally through the use of the asset. However, other factors such as technical obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits or service potential that might have been expected to be available from the asset. Consequently, all the following factors need to be considered in determining the useful life of an asset:

- (a) The expected usage of the asset by the entity. Usage is assessed by reference to the asset's expected capacity or physical output,
- (b) The expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program of the entity, and the care and maintenance of the asset while idle,
- (c) Technical obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, and
- (d) Legal or similar limits on the use of the asset, such as the expiry dates of related leases.

#### ***GAMAP17.54***

The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time or after consumption of a certain proportion of the 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 entity with similar assets.

10.7 Impairment losses

*Indicators of impairment for cash-generating assets*

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

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

## 11 HERITAGE ASSETS

### *Examples of heritage assets*

Include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

**Certain characteristics**, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

- (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.

### 11.1 Heritage assets with service potential

- (a) GAMAP 17.07 states that some heritage assets have service potential other than their heritage value (e.g. a historic building being used for office accommodation). In such instances, they may be recognised and measured on the same basis as other items of PPE. For other heritage assets, their service potential is limited to their heritage characteristics, for example, monuments and ruins. The existence of alternative service potential can affect the choice of measurement base.
- (b) GAMAP 17.08 states that the disclosure requirements in paragraphs .75 to .81 require entities to make disclosures about recognised assets. Therefore, entities that recognise heritage assets are required to disclose in respect of those assets such matters as:
  - (i) the measurement basis used,
  - (ii) the gross carrying amount,
  - (iii) the accumulated depreciation at the end of the period, if any, and
  - (iv) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

### 11.2 Heritage assets without service potential

- (a) Entities may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.



## 12 ASSET MANAGEMENT PROCEDURES

### 12.1 Summary of asset management responsibilities

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

Department	Human Resources	Administration	Budget & Treasury	All departments	HOD	CFO	MM	Council
4.2 Budget Process		✓	✓	✓	✓	✓		
4.3 Acquisition of assets		✓	✓	✓	✓		✓	
4.4 Disposal of assets		✓	✓	✓	✓	✓	✓	✓
4.5 Departmental transfer of assets		✓	✓	✓	✓			
4.6 Resignations	✓ □			✓	✓	✓	✓	
4.7 Identification of assets				✓	✓	✓	✓	
4.8 Verification of assets		✓	✓	✓				
4.9 Safekeeping of assets					✓			
4.10 Alienation of assets			✓	✓	✓	✓	✓	✓
4.11 Reporting write-offs of assets			✓		✓	✓		
4.12 Maintenance					✓		✓	
4.13 Private use of municipality assets				✓	✓			
4.14 Replacement norms				✓	✓	✓	✓	
4.15 Insurance of assets			✓	✓		✓	✓	
4.16 Disposal of firearms				✓				
4.17 Biological assets					✓	✓		

## 12.2 Budget process

- (a) Each HOD, acting in consultation with the CFO, shall:
  - (i) Prepare an annual budget for the acquisition of assets and the maintenance of assets.
  - (ii) 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.

## 12.3 Acquisition of assets

- (a) The process to be followed when assets are acquired shall be in accordance with the Council's Supply Chain Management Policy and Manual, Delegation of Authority Policies and Payment Procedures. This shall apply to all the types of Council's assets as contained in this Policy.
- (b) All assets to be purchased should be in terms of the approved budget.
- (c) Depending on the amount of the asset to be purchased and after the necessary authorisation has been obtained the following procedure for purchasing an asset must be followed:
  - (i) Requisition to be completed and signed by person requesting the asset.
  - (ii) Quotations must be obtained in terms of the Supply Chain Management Policy.
  - (iii) Authority in terms of Delegated Powers to Officials must be reflected on the requisition.
    - 1) The bidding process procedures will apply in terms of the MFMA Municipal SCM Regulations and the ULM SCM Policy.
    - 2) The HOD/MM should sign the requisition as authorisation where the asset is acquired within their delegated authority.
  - (iv) Quotations must be attached to the relevant requisition and submitted to Budget and Treasury Office.
  - (v) Budget and Treasury Office: Creditors Section must generate and issue the order.
  - (vi) For all assets acquired, the HOD should notify the Insurance Claims Clerk on delivery to provide immediate cover. It is the responsibility of the HOD to ensure that the purchased capital asset has been covered for insurance purposes.
  - (vii) On receipt of the purchased asset, the recipient should inspect the asset and once satisfied endorse
  - (viii) The delivery note or invoice and forward it to Budget and Treasury Office.
  - (ix) The recipient should immediately inform the Accountant: Budget and Treasury Office that the asset has been delivered for the purpose of bar coding.
  - (x) The recipient's inventory list should be updated and a signed copy be kept by Budget and Treasury Office.
  - (xi) The invoice should be endorsed with the bar code number before payment can be made to the supplier.

- (d) The Budget and Treasury Office will provide the Administration Department with a monthly report on asset movements. The reporting must also apply to the following:
- (i) Donations.
  - (ii) Additions / Improvements (refers to immovable assets).
  - (iii) Auctions.
  - (iv) Loss or damage.
  - (v) Transfers.
  - (vi) Write-offs
  - (vii) Land sales.

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- (e) HOD’s shall ensure:
- (i) At all times that there are enough funds in the budget before approval of any requisitions.
  - (ii) That the correct vote and descriptions are being used before authorising any requisitions.
  - (iii) Any item with a value in excess of R500 (five hundred rand), and with an estimated useful life of more than one year, shall be recorded on an inventory register. The inventory register should record all inventory purchases and movements.

**12.4 Disposal of assets**

- (a) All assets are to be disposed of in 4 ways, for example:

Asset Management Policy	Link to Supply Chain Managements Policy (Disposal Management)
<ul style="list-style-type: none"> <li>• Donation</li> </ul>	<ul style="list-style-type: none"> <li>(a) transferring the asset to another organ of state in terms of a provision of the Act enabling the transfer of assets</li> <li>(b) transferring the asset to another organ of state at market related value or, when appropriate, free of charge</li> </ul>
<ul style="list-style-type: none"> <li>• 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)</li> </ul>	<ul style="list-style-type: none"> <li>(c) selling the asset</li> </ul>
<ul style="list-style-type: none"> <li>• Auctioning</li> </ul>	
<ul style="list-style-type: none"> <li>• By dumping at a tip site after approval by HOD concerned if the item is damaged beyond repair</li> </ul>	<ul style="list-style-type: none"> <li>(d) destroying the ass</li> </ul>

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

**12.4.1 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.

**12.4.2 Disposal procedures**

After the necessary authorisation has been obtained, the following procedure for disposing of an asset must be followed:

Disposal procedure	Type of disposal
<ul style="list-style-type: none"> <li>• A staff member identifies the asset(s) to be disposed of (obsolete, redundant, transferred, and other).</li> </ul>	All
<ul style="list-style-type: none"> <li>• HOD concerned approves the status of the item.</li> </ul>	All
<ul style="list-style-type: none"> <li>• A request to dispose of the asset and the proposed method of disposal must be sent to the Disposal Committee.</li> <li>• The Disposal Committee should inspect all redundant items and provide recommendations to Council to approve the disposal.</li> </ul>	All  Disposal of unserviceable, redundant, obsolete and damaged assets
<ul style="list-style-type: none"> <li>• The Administration Department will table the item as per the recommendations of the Disposal Committee at the HOD/Working Group meeting for consideration</li> </ul>	All
<ul style="list-style-type: none"> <li>• A memorandum must be written by the HOD/Working Group meeting to the MM indicating the status of the item and</li> </ul>	All

Disposal procedure	Type of disposal
the proposed method for disposal	
<ul style="list-style-type: none"> <li>An asset disposal form must be filled in and properly signed by the requesting official, HOD, Disposal Committee Chairperson and the MM.</li> </ul>	All
<ul style="list-style-type: none"> <li>The asset disposal form must be attached to the memorandum and forwarded to Budget and Treasury for processing.</li> </ul>	All
<ul style="list-style-type: none"> <li>The asset (s) should be taken to the Administration Department's safe house for storage.</li> </ul>	All
<ul style="list-style-type: none"> <li>When the items to be disposed of have been identified, a public notice in the local newspaper is made inviting applications from charity organisations and schools.</li> </ul>	Disposal of redundant and obsolete assets Disposal by auction or donation.
<ul style="list-style-type: none"> <li>Once the approval has been received, the asset register will be adjusted accordingly.</li> </ul>	All

Each department / directorate must take the necessary steps to ensure that all its assets to be disposed of are brought to the attention of the Director: Administration.

The useful life of assets will be guided by the asset life as suggested by GAMAP standardised set of statements. Refer to **section 5.1**.

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

All computer equipment to be disposed of will be subject to scrutiny by the IT Manager.

#### 12.4.3 Council

The Council shall give fourteen (14) days notice in the newspaper circulating within its area. Notice shall be both in English and Xhosa. 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 function to the Human Resources and Administration Standing Committee to make proposals.

#### 12.4.4 Disposal Committee

The Disposal Committee will be responsible for the following:

- To be a central point for all requests to dispose of assets.
- To evaluate all requests to dispose of assets.
- To prepare a memorandum to the MM indicating the status of the item and the proposed method for disposal.
- To ensure that the asset disposal forms are signed by relevant parties (requesting official, HOD, Chairperson of the Disposal Committee, and the MM)

#### **12.4.5 Disposal of Immovable Assets**

- Disposal of such assets will only take place after approval by Council.
- The disposal may be in a form of a closed bidding process or in a form of a public auction as determined by Council.
- After placing a notice of sale to the public, the Accounting Officer MUST give directive to Bid Committees (in the case of closed bid) or appoint the Auctioneer (in the case of a public auction) to facilitate the process.

##### **i) Sale by Means of Closed Bid**

- Relevant provisions of the MFMA Supply Chain Management Regulations will apply.

##### **ii) Sale by Means of Public Auction**

- An Accounting Officer must appoint an auctioneer in writing who will facilitate the bidding process and subsequently submit the report, including letters of awards to successful bidder(s), to the Accounting Officer.
- All prospective bidders who wish to participate in the bidding process will be required to pay a minimum deposit as determined by the Accounting Officer.
- Such minimum deposit as mentioned above is refundable if the bidder was not successful.
- The sale is deemed to be final on the fall of a hammer, whereupon the successful bidder will be required to pay the balance within twenty-four (24) hours failing which the sale will be nullified and the deposit paid is forfeited.
- Should a successful bidder decide to withdraw after being awarded, his/her deposit will be forfeited, and the asset concerned will be awarded to the next bidder.
- Should any successful bidder wish to deviate from his/her initial declaration of interest within the bidding process such deviation may be allowed subject to the availability of the advert asset and provided that there is no deviation from the expectation created in terms of the bidding price.

#### **12.5 Departmental transfers of assets**

- (a) The HOD's shall approve all asset movements, which relate to the transfer of assets from one department to the other.
- (b) When a directorate or department transfers an asset or an inventory item interdepartmentally or within its department, the Asset Transfer Form (section 5.3) must be forwarded to the department/location receiving the

asset or inventory item. A copy of this form is to be forwarded to the Budget and Treasury Office for the update of the asset register.

- (c) Where a department no longer requires the use of an asset it should be transferred to the Administration Department for storage until it is required by another department.

### 12.6 Resignations

- (a) 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.
- (b) 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.

### 12.7 Identification of assets

- (a) The following applies relating to the identification of assets:
  - (i) The MM is responsible for ensuring that the municipality maintains an asset identification system.
  - (ii) The fixed asset identification system should operate in conjunction with the asset register.
  - (iii) The MM in consultation with the Director: Administration and HOD's should prescribe the identification system.
  - (iv) The identification system should comply with any legal prescriptions and recommendations of the Auditor-General.
  - (v) The CFO should ensure that the asset identification system is applied.

### 12.8 Verification of assets

- (a) Departmental asset register/listing of assets
- (b) The Budget and Treasury Office must distribute to each Department Asset Controller an asset register/listing of all assets for the respective department on a quarterly basis.

- (c) The departments should:
  - (i) Perform cyclical counts on assets within their department during the year.
  - (ii) Perform the annual asset verification of all assets as at 30 June each year within the last two months of the financial year. The asset verification will be facilitated by the Budget and Treasury Office.
  - (iii) Ensure that the existence of items recorded on the inventory register is verified from time to time, and at least once in every financial year. Any amendments which are made to the inventory register must be retained for audit purposes.
  - (iv) These counts should be coordinated by Department Asset Controller.
- (d) The Director: Administration and where necessary his/her duly designated official shall:
  - (i) Receive from the Budget and Treasury Office a detailed “outcome report” on the assets verification exercise.
  - (ii) In consultation with the CFO, ensure that the asset register of the Council is balanced at least annually.
- (e) Budget and Treasury Office will facilitate the annual verification of assets.

### 12.9 Safekeeping of assets

- (a) Every HOD shall be directly responsible for the physical safekeeping of any asset controlled or used by the department in question.
- (b) In exercising this responsibility, every HOD shall adhere to any written directives issued by the MM to the department in question, or generally to all departments, in regard to the control of or safekeeping of the municipality’s assets.
- (c) In addition, any visitors to a department should be accompanied by an employee of the department.

### 12.10 Alienation of assets

- (a) Every HOD shall report in writing to the Director: Administration on 31 October 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 CFO shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the Council or the municipal manager of the municipality, as the case may be, recommending the process of alienation to be adopted.
- (b) The Council shall delegate to the municipal manager the authority to approve the alienation of any asset with a carrying value less than R5 000 (five thousand rand).
- (c) The Council shall ensure that the alienation of any asset with a carrying value equal to or in excess of R5 000 (five thousand rand) takes place in compliance with Section 14 of the MFMA.
- (d) Once the assets are alienated, the CFO shall delete the relevant records from the asset register.



- (e) 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.
- (f) 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.

### 12.11 Reporting write-offs of assets

- (a) All losses should be recorded on a standard Asset Write off Form (refer to section 5.5) which shall be used for reporting purposes.

#### **Loss, theft, destruction, or impairment**

- (b) Every HOD shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing (refer to **section 5.5**) to the Director of Administration, and – in cases of suspected theft or malicious damage – also to the South African Police Service. The Director of Administration shall promptly report to the CFO in writing the above events.

#### **Other write-offs**

- (c) A fixed asset even though fully depreciated shall be written off only on the recommendation of the HOD controlling or using the asset concerned, and with the approval of the MM of the municipality.
- (d) Each Department / Directorate must keep an accurate record of all asset losses and report (refer to **section 5.5**) such losses to the Director of Administration.
- (e) The Director of Administration shall report to the CFO on 31 October and 30 April of each financial year on any assets which such HOD wishes to have written off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports, and shall promptly submit a recommendation to the Council of the municipality on the assets to be written off.
- (f) The only 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.
- (g) 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 depreciation expenses, the full carrying value of the asset concerned.

## 12.12 Maintenance

### 12.12.1 General maintenance

- (a) Every HOD shall be directly responsible for ensuring that ***all assets (other than infrastructure assets which are dealt with below)*** are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

### 12.12.2 Maintenance plans

- (a) Every HOD shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 (one hundred thousand rand) or more is promptly prepared and submitted to the Council of the municipality for approval.
- (b) 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.
- (c) Annual reports should be submitted by the HOD's (controlling or using infrastructure assets) to the Council by July 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.

### 12.12.3 Deferred maintenance

- (a) If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan, the CFO shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements.
- (b) If no such plans have been formulated or are likely to be implemented, the CFO shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the HOD controlling or using the asset, and shall recalculate the annual depreciation expense accordingly.
- (c) Where maintenance is deferred and results in a change in the useful operating life of the asset, then the statement on Accounting policies, changes in accounting estimates and errors (GRAP 3) should be applied.

## 12.13 Private use of municipal assets

- (a) Each department should ensure that the removal of assets from municipal premises is monitored. The standard Asset Removal Form (refer to section 5.6 for the form to complete) should be completed and authorised by the HOD each time any asset is removed from municipal premises.
- (b) No municipal asset may be used for personal gain or profit.

**12.14 Replacement norms**

- (a) The MM, in consultation with the CFO and other HOD's, shall formulate norms and standards for the replacement of all normal operational assets. Such norms and standards shall be incorporated in a formal policy, which shall be submitted to the Council of the municipality for approval. This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such policy shall also provide for the replacement of assets which are required for service delivery but which have become uneconomical to maintain.

**12.15 Insurance of assets**

- (a) All insured assets shall be handled in terms of the Municipality's Insurance Policy as agreed with the Insurance Brokers. The MM or designee 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).
- (b) For all assets acquired, the HOD should notify the Insurance Claims clerk on delivery to provide immediate cover. It is the responsibility of the HOD to ensure that the purchased capital asset has been covered for insurance purposes before it is used by the respective department.
- (c) The CFO shall annually insure the municipality's biological assets, in consultation with the head(s) of department concerned, provided the Council of the municipality considers such insurance desirable and affordable.

**12.16 Fleet Management**

- (a) The management of Fleet Assets (Council's vehicles, plant and earth moving equipment as defined by the Fleet Management Policy) shall be in terms of the "Fleet Management Policy."

**12.17 Disposal of firearms**

- (a) The procedures for the legal disposing of firearms in terms of the Firearms Control Act of 2000 are not included in this policy.

**12.18 Biological assets**

- (a) 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.
- (b) 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.

## APPENDIX A: ASSET USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

Description	Asset Life YRS		Asset Life YRS
<b>INFRASTRUCTURE ASSETS</b>			
<b>ELECTRICITY</b>		<b>GAS</b>	
Power stations	30	Metres	20
Cooling towers	30	Mains	20
Transformer Kiosks	30	Storage tanks	20
Meters	20	Supply/reticulation	20
Load control equipment	20		
Switchgear equipment	20	<b>SEWERAGE</b>	
Supply/reticulation	20	Sewers	20
Mains	20	Outfall sewers	20
		Purification works	20
<b>ROADS</b>		Sewerage pumps	15
Motorways	15	Sludge machines	15
Other roads	10		
Traffic islands	10	<b>PEDESTRAIN MALLS</b>	
Traffic lights	20	Footways	20
Street lighting	25	Kerbing	20
Overhead bridges	30	Paving	20
Storm water drains	20		
Bridges, subways & culverts	30	<b>AIRPORTS</b>	
Car parks	20	Aprons	20
Bus terminals	20	Runways	20
		Taxiways	20
<b>COMMUNITY ASSETS</b>		Airports/Radio Beacons	20
<b>BUILDINGS</b>		<b>RECREATIONAL FACILITIES</b>	
Ambulance stations	30	Bowling greens	20
Aquariums	30	Tennis courts	20
Beach development	30	Swimming pools	20
Care centres	30	Golf courses	20
Cemeteries	30	Jukskei pitches	20
Civic theatres	30	Outdoors sports facilities	20
Clinical/Hospitals	30	Organ & Case	20
Community centres	30	Lakes and dams	20
Fire stations	30	Fountains	20
Game reserves/Rest Camps	30	Floodlighting	20
Indoor sports	30		
Libraries	30	<b>SECURITY MEASURES</b>	
Museums/Art galleries	30	Fencing	3
Parks	30	Security System	5
Public convenience/Bathhouses	30	Access control	5
Recreation centres	30		
Public convenience/Bathhouses	30	<b>Water</b>	
Recreation centres	30		

## Assets Management Policy

Stadiums	30	Access control	5
Zoos	30	Meters	15
<b>OTHER ASSETS</b>		Mains	20
<b>BUILDINGS</b>		Rights	20
Abattoirs	30	Supply/reticulation	20
Asphalt plant	30	Reservoirs & tanks	20
Cable Stations	30	<b>EMERGENCY EQUIPMENT</b>	
Caravan parks	30	Fire	15
Cinemas	30	Ambulances	5-10
Compacting stations	30	Fire hoses	5
		Emergency lights	5
Hostels - Public/Tourist	30	<b>MOTOR VEHICLE</b>	
Hostels - Workers	30	Fire engines	20
Housing scheme	30	Buses	15
		Motor vehicles	5-7
Kilns	30	Motor cycles	3
Laboratories	30	Trucks/bakes	5-7
Markets	30	<b>AIRCRAFT</b>	15
Nurseries	30	<b>WATERCRAFT</b>	15
Office buildings	30	<b>PLANT &amp; EQUIPMENT</b>	
Old age homes	30	Graders	10-15
Quarries	30	Tractors	10-15
Tip sites	30	Mechanical horses	10-15
Training centres	30	Farm equipment	5
Transport facilities	30	Lawnmowers	2
Workshops/deposits	30	Compressors	5
<b>OFFICE EQUIPMENT</b>		Laboratory equipment	5
Computer hardware	5	Radio equipment	5
Computer software	3-5	Firearms	5
Office machines	3-5	Telecommunication equipment	5
Air conditioners	5-7	General	5
<b>FURNITURE AND FITTINGS</b>		Cable cars	15
Chairs	7-10	Irrigation systems	15
Tables/desks	7-10	Cremators	15
Cabinets/cupboard	7-10	Lathes	15
Miscellaneous	7-10	Milling equipment	15
<b>BINS AND CONTAINERS</b>		Conveyors	15
Households refuse bins	5	Feeders	15
Bulk containers	10	Tippers	15
		Pulverising mills	15