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# **ASSET MANAGEMENT POLICY**

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## Definitions and Abbreviations

Item	Description
<b>Asset</b>	An asset is a resource controlled by the entity which is expected to last more than twelve months and from which future economic benefits or service potential will flow.
<b>Asset Champion</b>	Are senior officials appointed by the Asset Manager in the different Departments or Sections within the Asset Management Directorate with delegated authority to implement and maintain physical control over assets in the Department/Section.
<b>Asset Custodian</b>	Is a person in any position or level in the organisation entrusted with the safeguarding and use as well as the condition monitoring of a specific asset.
<b>Asset Management</b>	Is a broad function and includes a structured process of decision-making, planning and control over the acquisition, use, safeguarding and disposal of assets to maximise their service delivery potential and benefits, and to minimise their related risks and costs over their entire life.
<b>Asset Manager</b>	Is any official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the municipality's assets in accordance with the municipality's standards, policies, procedures and relevant guidelines.
<b>Carrying Amount</b>	The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
<b>CFO</b>	Chief Financial Officer
<b>Cost</b>	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>Depreciation</b>	This is the systematic allocation of the cost of use of an asset over its useful life.
<b>Depreciable amount</b>	The cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

Item	Description
<b>Fair Value</b>	The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.
<b>FAR</b>	Fixed Assets Register
<b>GRAP</b>	Standards of Generally Recognised Accounting Practice
<b>IAS</b>	International Accounting Standards
<b>Impairment</b>	An asset is impaired when the carrying amount exceeds its recoverable amount.
<b>PPE</b>	Property, Plant & Equipment – These are tangible assets that: <ul style="list-style-type: none"> <li>• are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and</li> <li>• are expected to be used during more than one reporting period.</li> </ul>
<b>Residual value</b>	The estimated amount that the municipality would currently obtain from disposal of the asset after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
<b>Recoverable amount</b>	The estimated amount which the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.  <b><i>Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.</i></b>
<b>SCM</b>	Supply Chain Management
<b>Useful life</b>	Useful life is either: <ul style="list-style-type: none"> <li>• the period over which an asset is expected to be available for use by the municipality, or</li> <li>• the number of production or similar units expected to be obtained from the asset by the municipality.</li> </ul>
<b>Value in use</b>	The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

## **Section 1**

### **Objective of the Asset Management Policies and Procedures**

- To ensure the effective and efficient control, utilization, safeguarding and management of a municipality's PPE.
- To ensure Head of Departments are aware of their responsibilities in respect of operation and maintenance of PPE.
- To ensure Asset Custodians are aware of their responsibilities in regards to PPE.
- To set out the standards of management, recording and internal controls over assets to ensure that they are safeguarded against inappropriate loss or utilisation.
- To specify the process required before expenditure on property, plant and equipment occurs.
- To emphasize a culture of accountability over assets.
- To ensure compliance with all legal and accounting prescriptions and requirements.
- To prescribe the accounting treatment for PPE, including:
  - The criteria to be met before expenditure can be capitalised as an item of PPE,
  - The criteria in determining the initial cost of the different items of PPE,
  - The method of calculating depreciation for the different items of PPE,
  - The criteria for capitalising subsequent expenditure of PPE,
  - The classification of items of PPE, and
  - The procedure for scrapping and disposal of items of PPE.

## Section 2

### Background

#### 2.1 Constitutional and legal framework

The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objects:

- providing democratic and accountable government for local communities;
- ensuring the provision of services to communities in a sustainable manner;
- promoting social and economic development;
- promoting a safe and healthy environment; and
- encouraging the involvement of communities and community organisations in matters of local government.

The manner in which a municipality manages its fixed assets is central to meeting the above challenges. Accordingly, the Municipal Systems Act (MSA) specifically highlights the duty of municipalities to provide services in a manner that is sustainable, and the Municipal Finance Management Act (MFMA) requires municipalities to utilise and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal assets with the Municipal Manager.

The Occupational Health and Safety Act (OHSA) requires municipalities to provide and maintain a safe and healthy working environment, and in particular, to keep its assets safe.

#### 2.2 Accounting standards

The accounting standards that apply to municipalities are in transition. The MFMA requires municipalities to comply with the Standards of Generally Recognised Accounting Practice (GRAP), in line with international practice. The Accounting Standards Board (ASB) has approved a number of Standards of Generally Recognised Accounting Practice (GRAP). When compiling a Fixed Asset Register in accordance with the accounting standards, the requirements of GRAP 17 cannot be seen in isolation. Various other accounting standards impact on the recognition and measurement of assets within the municipal environment and should be taken into account during the compilation of a GRAP compliant asset register. The following Standards of GRAP significantly impacts on the recognition and measurement of assets within the municipal environment:-

- GRAP 11 - Construction Contracts
- GRAP 12 - Inventories
- GRAP 13 - Leases and more specifically, deemed finance leases;
- GRAP 16 - Identification of items to be treated as Investment Properties
- GRAP 17 - Property Plant and Equipment
- GRAP 21- Impairment of Non-cash-generating Assets
- GRAP 26 Impairment of Cash-generating Assets

- GRAP 27 - Agriculture
- GRAP 31- Intangible assets and more specifically the treatment of items of software.
- GRAP 100 - Non Current assets held for sale and Discontinued Operations
- GRAP 103 Heritage Assets

### **2.3 Management of infrastructure assets**

Effective management of infrastructure and community facilities is central to the municipality providing an acceptable standard of services to the community. Infrastructure impacts on the quality of the living environment and opportunities to prosper. Not only is there a requirement to be effective, but the manner in which the municipality discharges its responsibilities as a public entity is also important. The municipality must demonstrate good governance and customer care, and the processes adopted must be efficient and sustainable. Councillors and officials are custodians on behalf of the public of infrastructure assets, the replacement value of which amounts to several hundred million Rand.

Key themes introduced in the latest generation of national legislation relating to municipal infrastructure management include:

- long-term sustainability and risk management;
- service delivery efficiency and improvement;
- performance monitoring and accountability;
- community interaction and transparent processes;
- priority development of minimum basic services for all; and
- provision of financial support from central government in addressing the needs of the poor.

Legislation has also entrenched the Integrated Development Plan (IDP) as the principal strategic planning mechanism for municipalities. However, the IDP cannot be compiled in isolation for the above objectives to be achieved. The IDP needs to be informed by robust, relevant and holistic information relating to the management of the municipality's infrastructure.

There is a need to direct limited resources to address the most critical needs, to achieve a balance between maintaining and renewing existing infrastructure whilst also addressing backlogs in basic services and facing ongoing changes in demand. Making effective decisions on service delivery priorities requires a team effort, with inputs provided by officials from a number of departments of the municipality, including infrastructure, community services, financial planning, and corporate services.

Cooperative Government and Traditional Affairs CoGTA has prepared guidelines in line with international practice, that propose that an Infrastructure Asset Management Plan (IAMP) is prepared for each sector (such as water, roads etc). These plans are used as inputs into a Comprehensive Infrastructure Plan (CIP) that presents an integrated plan for the municipality covering all infrastructures. This is in line with the practice adopted in national and provincial spheres of government in terms of the Government-wide Immoveable Asset Management Act (GIAMA).

Accordingly, the asset register adopted by a municipality must meet not only financial compliance requirements, but also set a foundation for improved infrastructure asset management practice.

## **Section 3**

### **Role of the Municipal Manager**

As accounting officer of the municipality, the Municipal Manager is the principal custodian of all the municipality's fixed assets, and is responsible for ensuring that the fixed asset management policy is thoroughly applied and adhered to.

The Municipal Manager or his duly delegated representative is responsible for:

- Ensuring the implementation of the approved Asset Management Policy as required in terms of Section 63 of the Municipal Finance Management Act (MFMA)
- The verification of assets in possession of the municipality regularly, during the course of the financial year
- Keeping a complete and balanced record of all assets in possession of the Municipality
- Reporting in writing all asset losses, where applicable, to Council
- Ensuring that assets are valued and accounted for in accordance with the GRAP Accounting Standards.
- An Asset Management Steering Committee is established, through which all asset processes and procedures will be implemented.
- The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- The Directors and their teams comply with this policy.

## **Section 4**

### **Role of the Chief Financial Officer (CFO) and the Finance Department**

The Chief Financial Officer (CFO) is responsible to the Municipal Manager to ensure that the financial investment made in the municipal assets is safeguarded and maintained.

The CFO, as one of the Directors of the municipality, shall also ensure, in exercising his/her financial responsibilities, that:

- Appropriate systems of financial management and internal control are established and carried out diligently;
- The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;
- Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- All revenue due to the municipality is collected, for example rental income relating to assets;
- The systems, procedures and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements of the Auditor-General;
- Financial processes are established and maintained to ensure the municipality's financial resources are optimally utilized through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
- The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
- The Directors and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;
- This policy and support procedures are established, maintained and effectively communicated.
- The CFO may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.
- The CFO shall be the fixed asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained. No amendments, deletions or additions to the fixed asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

The Asset Manager and the Chief Financial Officer shall ensure that:

- The Asset Management Policy is reviewed on an annual basis to ensure alignment with legislative and prescriptive guidelines;
- The process and procedure guidelines are reviewed on an annual basis to address any shortcomings and incorporate guidance received from the internal and external auditors;

- The Policy and Procedure Guidelines are adhered too;
- A detailed action plan is developed for the annual review/verification of all assets; and that this action plan is effectively followed.

## 4.1 Asset Control Section

The asset control section is responsible to:

- Ensure that complete records of asset items are kept, verified and balanced regularly
- Ensure that all **movable** assets are properly tagged and accounted for (see also 23.1)
- Ensure that all immovable assets are properly accounted for.
- Conduct an annual audit of inventory by scanning selected movable assets and compare this inventory with the department's asset sign offs (see also 23.2)
- Compile an asset verification report that will reflect any discrepancies between the articles found during verification and the record referred to in the point above
- Ensure that the FAR is balanced annually with the general ledger and the financial statements
- Ensure adequate bar codes to exercise the function relating to assets control are available at all times
- Provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to the municipality as recorded in the FAR
- Ensure that all audit queries are resolved in a timely manner
- Ensure that the relevant information relating to the calculation of depreciation is obtained from the departments and provided to the Finance department in the prescribed format.
- Ensure that asset acquisitions are allocated to the correct asset code
- Ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset disposal form, counter signed by the Asset Control Section, is presented
- Ensure that a verifiable record is kept of all obsolete, damaged and unused assets or asset inventory items received from the departments
- Compile a list of the items to be auctioned or disposed in accordance with their guidelines in the Supply Chain Management (SCM) Policy

**Commented [WU1]:** Not only movable assets but both movable and immovable assets

- Compile and circulate a list of unused movable assets to enable other departments to obtain items that are of use to them
- Ensure that the Supply Chain Management section is notified of any auctioning or disposing of written-off assets or asset inventory items.

## **4.2 The Manager: Budget and Reporting**

The Manager: Budget and Reporting or his duly delegated representative is responsible to:

- Ensure that the capital budget as submitted by the departments is approved. A clear description of the funding source is also required
- Release capital funds only after receiving written authority. A clear and concise description of the item to be purchased as well as an allocated responsible person for this asset is also required before release
- Ensure that any changes in the capital budget, with regards to funds transferred or project description changes, are communicated to the Asset Control Section.

## **4.3 The Manager: Expenditure Division**

The Manager: Expenditure or his duly delegated representative is responsible to:

- Ensure that invoices authorised for payment are matched to the goods received note before processing such payment. If any doubt exists as to whether the invoice is in accordance with policy, query the payment with the relevant department and will not process a payment until the invoice meets the policy criteria.

## **4.4 Supply Chain Management Section**

The Supply Chain Management Section is responsible to:

- Dispose of assets – via auction – in accordance with the provisions in the SCM Policy
- The Bid Adjudication / Bid Specification Committee must comply with and be constituted in accordance with the Supply Chain Management policy.



## **Section 5**

### **The roles of other key role players**

#### **5.1 All departments and Human Resources**

The relevant Departmental Manager in consultation with the Human Resources Division is responsible to:

- Ensure that no monies are paid out on termination of service without receiving the relevant asset resignation form signed off by the relevant department (see also 23.6)
- Ensure that every asset resignation form is counter signed by the Asset Control Section before processing the termination of service.

#### **5.2 All Departments**

The Departmental Managers are responsible to:

- Ensure that the Asset Control Section is notified of any changes in the status of the assets under the department's control. This must be done on the prescribed form and include the following:
  - Movements/disposals which relate to the transfer of assets (inter departmental transfers)
  - The identification of impairment losses on assets by following the procedures as outlined in section 26 of this policy document
- The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently, and ensure that the assets of the municipality are not used for private gain
- Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
- The asset management system, processes and controls can provide an accurate, reliable and up to date account of assets under their control;

- They are able to manage and justify that the asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives; and
- Manage the asset life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.
- Certify, in writing, that they have assessed and identified impairment losses on all assets at year end
- Ensure that all obsolete and damaged asset items, accompanied by the relevant asset disposal forms, are handed to the Asset Control Section without delay
- Ensure that the correct cost element and description are being used before authorising any requisitions
- Ensure that assets are bar-coded by the Asset Control Section and insured by the Finance Department.
- Ensure that employees in their departments adhere to the approved Asset Management Policies. Ensure that an employee with delegated authority has been nominated to implement and maintain physical control over assets (Asset champion) in the department. The Asset Control Section must be notified of who the Asset champion is. Although authority has been delegated the responsibility to ensure adequate physical control over each asset remains with the director.

### **5.3 All other council employees**

All other council employees shall ensure that:

- Assets assigned to them are utilised effectively, efficiently and economically.
- Assets of the council are not used for personal gain.
- They notify assets management unit of all obsolete, damaged and stolen assets without any delay.
- They notify assets management unit of the movement and transfer of assets assigned to them by completing assets transfer/movement form.
- On termination of service they return assets to their supervisors and complete assets clearance form.
- They comply with the operational procedures

## 5.4 Asset Champions

- The Asset Champion must:
  - Assist the Asset Manager in performing his/her functions and duties.
  - Ensure that all new assets (purchased or donated) are recorded on the NARC form.
  - Ensure that the NARC forms are completed in full and sent with copies of the relevant documentation to the asset control department within 7 working days after receipt of the assets.
  - Ensures that all their movable assets, where applicable, are barcoded.
  - Ensure that asset listings are verified and kept up to date in collaboration with the Finance Department.
  - Assist the Finance Department with the annual verification of movable assets by making sure that the assets, as per asset listing, are at the correct locations, that these locations are accessible when the verification of assets takes place and provides a full report on any missing assets to the Asset Manager.
  - Notify the Finance Department when he/she identifies obsolete and redundant assets so that these assets can be moved to the Write-off Store.
- The following require the written recommendation of the Asset Manager and approval of Municipal Manager on the prescribed form:
  - The temporary or permanent transfer of all movable assets between departments.
  - Asset Management Policy & Procedures.
  - The writing off or disposal of obsolete or redundant assets.

## 5.5 Asset Management Committee

The Asset Management Committee (AMC) shall ensure that:

- The Asset Management Policy is reviewed on an annual basis to ensure alignment with legislative and prescriptive guidelines,

- The process and procedure guidelines are reviewed on an annual basis to address any shortcomings and incorporate guidance received from the internal and external auditors,
- The policy and procedure guidelines are adhered to,
- The committee meets at least quarterly, and
- A detailed action plan is developed for the annual review/verification of all assets, and that the action plan is effectively followed.

The following officials must form part of Asset Management Committee and such Committee shall be appointed by the Municipal Manager:

- a. Municipal Manager (Chairperson);
- b. All Directors/HODs;
- c. Official responsible for asset management;
- d. Any other official deemed necessary to serve on the Committee.

**Commented [WU2]:** Proposed composition of the Asset Management Committee

## **Section 6**

### **Definition of an Asset**

#### **6.1 Definition of an Asset**

An asset is a resource controlled by the municipality as a result of past events and from which future economic benefits or service potential is expected to flow to the municipality. The definition has three components, which must all be satisfied in order to be classified as 'an asset' in an accounting sense. They are relevant to all forms of assets:

- The municipality has the capacity to control the service potential or future economic benefits of the asset, that it is control of the economic benefits or service potential of the asset rather than 'physical' control
- The service potential or future economic benefits arose from past transactions or events existing on reporting date (that is future assets cannot be recognised in the financial statements)
- The asset has future service potential or economic benefit for the municipality. The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the municipality. The potential may be a productive one that is part of the operating activities of the municipality. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative process lowers the costs of providing a service
- Service potential is the capacity of an asset, alone or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the municipality
- An asset held under a finance lease, if it meets the remaining criteria of a fixed asset, shall be so recognised, as the municipality has control over such an asset even though it does not own the asset.

#### **6.2 Purpose of Assets**

The purpose of an asset is to support the delivery of a service to the public. Assets should exist to support programme delivery.

### 6.3 Threshold Capitalisation Value for Movable Assets

- Threshold capitalisation values are applied to ensure that only items with a material value are capitalised, but are not intended to limit custodial responsibilities for equipment below the threshold. The limit is also to ensure that administration and financial cost to manage non material assets are limited. The threshold value is used to distinguish between property, plant and equipment (as defined in GRAP 17) that is recorded in the fixed asset register and those that are recognised as an expense (as defined in GRAP 1).
- The basis for the determination of the threshold limit is determined by a number of factors, such as materiality, inflation, CPI, IDP and cost/benefit considerations such as the economical assessment of “future economic benefit considerations” to be derived from the individual asset.
- Certain items must be budgeted for as part of the capital budget, usually as a group of items, even though their acquisition values are below the threshold value and provided the value of the group exceeds the threshold limit. For example, due to their nature and irrespective of the costs to acquire; land, motor vehicles and computer equipment (such as desktops, laptops and printers), are items that must be duly captured on the PPE register when the costs are incurred.
- Subsequent capital costs against an existing network asset must also be capitalised despite its value.
- The threshold value is based on cost price per individual asset. Where the cost of the asset is not available, the fair value of the asset should be applied with respect to applying threshold. The net book value is not considered when applying thresholds.
- The threshold value is only applicable to movable assets.
- Where an item is regarded as falling below the “threshold value”, the item is included in the “Inventory Listing”
- Responsibility items recorded in the Inventory Listing, in respect of record keeping and custody of the assets is delegated to the heads of the departments.

- The threshold value will be reviewed every three years by the Chief Financial Officer and will coincide with the business planning cycle IDP and MTEF during the budget process.
- Changes to the threshold value are regarded as a change in estimate. This should be dealt with prospectively in terms of GRAP 3 — Changes in accounting policies, estimates and errors"
- The current threshold value is set at R1 000.
- All minor assets that qualify within the threshold value shall be recorded on the FAR and will be fully depreciated in the year of capitalisation and will be carried at R1

**Commented [WU3]:** Not in line with GRAP. Items like chairs which cost far much less than R1 000 but are used for more than one financial year should be capitalised and not expensed in the year of purchase

**Commented [WU4]:** This is not in line with GRAP. An asset which is expected to be used beyond one financial year should be capitalised and depreciated over its useful period

**Commented [WU5]:** No assets should be carried at R1

## **Section 7**

### **Format of the Fixed Asset Register (FAR)**

#### **7.1 Format**

The FAR will be maintained in the format determined by the CFO, which complies with the requirements of any accounting requirements prescribed. Without in any way detracting from the compliance criteria mentioned in the preceding paragraph, the FAR will reflect at least the following information:

- a brief but identifiable description of each asset
- classification of each asset
- the date on which the asset was acquired for use
- the location of the asset
- the departments or cost centre within which the assets will be utilised
- the responsible person for this asset
- the title deed number, in the case of fixed property
- the stand number, in the case of fixed property
- where applicable, the identification number, as determined in compliance with 7.2 below
- the original cost or fair value if no costs are available
- the (last) effective date of revaluation of the fixed assets subject to revaluation
- the revalued value of such fixed assets
- the valuer who did the (last) revaluation
- accumulated depreciation to date
- the carrying value of the asset
- whether this is a cash or non-cash generating asset
- the method and, where applicable, the rate of depreciation
- impairment losses
- impairment recovery
- the source of financing
- the current insurance arrangements

- whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements
- maintenance plan referrals
- whether the asset is required to perform basic municipal services
- the date on which the asset is disposed off
- the disposal proceeds
- the date on which the asset is retired from active use, and held for disposal
- the residual value of each asset
- measurement model
- periods when the asset was idle and reason for the idleness.

All Departmental Managers under whose control any fixed asset falls shall promptly provide the CFO in writing of any information required to compile the FAR and of any material change which may occur in respect of such information.

A fixed asset shall be capitalised, that is, recorded in the FAR, as soon as it is acquired and is available for use. If the asset is constructed over a period of time, it must be recorded as work-in-progress until it is available for use, where after it must be appropriately capitalised as a fixed asset.

A fixed asset shall remain in the FAR for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated must not in itself be a reason for writing-off such an asset.

## **7.2 Different asset categories within the FAR**

The CFO is responsible for ensuring that complete records of asset items are kept, verified and balanced regularly. The FAR for the municipality will contain the following types of assets categorized as immovable or movable assets:

### **Immovable Assets:**

- Infrastructure assets:
  - Electricity assets

- Water networks and related assets
- Waste water networks and related assets
- Roads, bridges and storm water
- Land and buildings
  - Investment properties
  - Community assets
  - Heritage assets
  - Intangible assets
  - Agricultural assets
  - Other assets

**Movable Assets:**

- Office equipment
- Furniture and fittings
- Bins and containers
- Motor vehicles
- Plant and equipment
- Heritage Assets (e.g. mayoral chain and mayoral hood)

**Commented [WU6]:** Added Heritage assets which are movable assets as well

The FAR will consist of all the asset master records of movable assets capitalised. These assets, except for group assets, must be numbered with the approved barcode labels.

Immovable assets on the FAR will not be physically numbered with barcode labels but will have a unique asset master record number.

Capital work-in-progress. Incomplete construction work is stated at historic cost. Depreciation only commences when the asset is available for use.

## Section 8

### Classification and Identification of Property, Plant and Equipment (Fixed Assets)

#### 8.1 Classification

In compliance with the requirements of National Treasury and accounting standards, the CFO shall ensure that all fixed assets are classified under the headings listed below. The Departmental Managers shall provide the CFO, in writing, with information and assistance as required to compile a proper classification:

##### Property, Plant and Equipment

- Land (not held as investment assets)
- Buildings, excluding buildings classified as investment assets, classified as heritage assets and buildings utilised in contributing to the community's well-being (clinics, libraries etc).
- Infrastructure assets are defined as any asset that is part of a network of similar assets. These assets usually display some or all of the following characteristics:
  - They are part of a system or network
  - They are specialised in nature and do not have alternative uses
  - They are immovable
  - They may be subject to constraints on disposal.

Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks. Infrastructure can be considered as a single asset or more usefully as a collection of different assets. Each individual asset shall be measured at its own cost and own lifespan, which will influence the depreciation of such an asset.

- Community assets are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.

- Heritage assets are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
- Capital Finance Lease assets are defined as assets financed by a Finance Lease if it is identified as such in terms of the requirements of GRAP 13.
- Agricultural assets are defined as biological assets which are living animals or plants and agricultural produce which is the harvested product of the biological assets.
- Other assets are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles, furniture and fittings.

#### **Assets Held for Sale**

- 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 non-current assets held for sale, and not included in either property, plant and equipment or investment property in the municipality's statement of financial position.
- Such assets will, however, be recorded in the FAR in the same manner as other fixed assets, but a separate section of the FAR will be maintained for this purpose.

#### **Investment Property**

Investment properties are defined as properties that are acquired/held for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.

The CFO shall adhere to the classifications indicated in the annexure on fixed asset lives (see **Annexure A** below). In the case of a fixed asset not appearing in the annexure the classification applicable to the asset most closely comparable to the asset in question will be used.

## **8.2 Identification**

The Municipal Manager shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerised FAR.

The identification system must be determined by the Municipal Manager, acting in consultation with the CFO and other Departmental Managers, and shall comply with any legal prescriptions, as well as any requirements of the Auditor-General. This shall be decided within the context of the municipality's budget.

Every Departmental Manager shall ensure that the asset identification system approved for the municipality is thoroughly applied in respect of all fixed and movable assets controlled or used by the department in question.

### **8.3 Verification**

The Asset Control Section shall provide all Departmental Managers with a comprehensive list of assets which is registered under their control at least once every financial year.

Every Departmental Manager will be responsible for verifying this list with the assets under their control and investigate any discrepancies arising out of the asset verification exercise. The Departmental Manager will be required to sign and date a declaration stating that the list of assets verified for his/her department is complete and accurate except for the discrepancies as reported to the Asset Control Section.

### **8.4 Safekeeping**

Section 63 of the Municipal Financial Management Act (Act no 56 2003) determines that the Accounting Officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

Section 78 of the Municipal Financial Management Act (Act no 56 2003) determines that 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 that the assets and liabilities of the municipality are managed effectively and that assets are safeguarded and maintained to the necessary extent. A senior manager or such official must perform the functions subject to the directions of the accounting officer of the municipality.

Every Departmental Manager will be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question.

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

## Section 9

### Heritage Assets

#### 9.1 Definition

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. Examples are works of art, conservation areas, historical buildings and statues.

#### 9.2 Recognition and Disclosure of Heritage assets

After recognition as an asset, a class of heritage assets shall be carried at its cost less any accumulated impairment losses.” (paragraph 36 of GRAP 103 (Heritage assets).

An assessment for impairment of heritage assets will be performed annually. Where there is major refurbishment of heritage assets, the cost of refurbishment is added to the carrying amount of the heritage asset

**Commented [WU7]:** Added the refurbishment of heritage assets

## **Section 10**

### **Donated Assets**

#### **10.1 Definition**

An item donated to the municipality or acquired by means of an exchange of assets between the municipality and one or more other parties shall be recorded in the FAR only if it subscribe to the definition of an asset as set out in section 5 above.

#### **10.2 Disclosure of Donated Assets**

Donated assets will be disclosed in the Statement of Financial Position at fair value less accumulated depreciation at date of acquirement. Fair value can be defined as what an asset would cost in the open market at the date of acquirement. If there is no open market for such assets the depreciated replacement value will be applied to determine fair value.

The transaction of acquirement will reflect on the Statement of Changes to Net Assets as "Assets Donated".

#### **10.3 Budgetary Requirements**

The same budget requirements as for other fixed assets are applicable.

## **Section 11**

### **Agricultural Assets**

#### **11.1 Definitions**

Biological assets are defined as living animals or plants. Agricultural produce is the harvested product of the biological assets.

#### **11.2 Measurement**

A biological asset shall be measured on initial recognition and at each reporting date at its fair value less estimated point-of-sale costs. This excludes assets with market-determined prices or values which are not available and for which alternative estimates of fair value are unreliable. These assets will be measured at its cost less any accumulated depreciation and any accumulated impairment losses.

Agricultural produce harvested from an entity's biological assets will be measured at its fair value less estimated point-of-sale costs at the point of harvest.

Records of the details of agricultural assets shall be kept in a separate section of the FAR or in a separate accounting record altogether. The municipality must provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets, as appropriate.

#### **11.3 General**

- If any agricultural asset is lost, stolen or destroyed, the matter, if material, shall be reported in writing by the Departmental Manager concerned in exactly the same manner as though the asset was an ordinary fixed asset.

- If the municipality's investment in agricultural assets does represent a material part of its financial activities, the CFO, in consultation with the Departmental Manager concerned, shall ensure that expert valuations are done at frequent intervals as the Council deems appropriate. Such valuations shall then account for losses, sales, acquisitions and other changes to the composition of the agricultural assets concerned.
- The department shall insure the municipality's agricultural assets annually, provided the Council considers such insurance desirable and affordable.

## **Section 12**

### **Intangible Assets**

#### **12.1 Definition**

Items belonging to the category 'intangible' do not have a physical form and meet the identification criteria in the definition of an intangible asset when it:

- is separable i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

Examples of intangible items are:

- Mineral exploration rights
- Computer software (not operational software)
- Licensing rights
- Servitudes

#### **12.2 Recognition and Measurement**

Intangible items are initially recorded at their cost price. Where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at date of acquisition.

After initial recognition, the municipality shall choose either the cost model or the revaluation model as its accounting policy. If an intangible asset, in a class of revalued intangible assets, cannot be revalued because there is no active market for this asset,

the asset shall be carried at its cost less any accumulated amortisation and impairment losses.

#### **Cost Model**

An intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

#### **Revaluation Model**

An intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.

### **12.3 Useful Life**

The municipality shall assess whether the useful life or service potential of an intangible asset is finite or indefinite. If finite the length of, or number of production or similar units constituting that useful life, shall be determined. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential for the entity.

An intangible asset with a finite useful life is amortised and an intangible asset with an indefinite useful life is not.

### **12.4 Retirements and Disposals**

An intangible asset shall be de-recognised on disposal or when no more future economic benefits or service potential are expected from its use or disposal.

### **12.5 Review of Useful Life Assessment**

The useful life of an intangible asset, that is not being amortised, shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

## **Section 13**

### **Capitalisation Criteria**

#### **13.1 All Asset Acquisitions that Comply with the Definition of PPE.**

All items of PPE acquired that comply with the fixed asset definition must be capitalised in the FAR at cost and be provided for on the capital budget. These items will be bar-coded (if moveable).

#### **13.2 Group Assets**

Group assets are assets of a similar nature and usually purchased as a group.

Group items identified are:

- Water and electricity meters;
- Chairs for community centres and the city hall
- Library books

All group asset purchases will not be tagged but must be capitalised on the FAR as a group and provided for on the capital budget.

## Section 14

### Calculation of Capitalisation Cost of Assets

#### 14.1 Initial Cost

An item of property, plant and equipment that qualifies for recognition as an asset should initially be measured at its cost. The cost of an item of property, plant and equipment 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:

- The cost of site preparation
- Initial delivery and handling costs
- Installation and assembly costs
- Professional fees such as for architects and engineers that is directly applicable to the project
- Feasibility studies will only be capitalised as cost if the capital project, for which this study was applied, will be executed. Up to the starting time of this capital project the cost of this study will be carried as work in progress. If no capital project will flow from this study the cost will be adjusted to the accumulated surplus account
- The initial estimated costs of dismantling and removing the item and restoring the site on which it is located, to the extent that it is recognised as a provision
- Administrative and other general overhead costs are only a component of cost if it can be directly attributed to the acquisition or construction of the asset without which the asset could not have been brought to working condition
- Interest on external loans that are directly attributable to the acquisition, construction or production of a qualifying asset are that interest that would have been avoided if the expenditure on the qualifying asset had not been made.

#### Exchanged PPE assets

In cases where assets are exchanged, the cost is deemed to be the fair value of the acquired asset and the disposed asset is de-recognised.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the assets given up.

Commented [WU8]: Added valuing of assets received on fair value

#### PPE finance leases

Once a lease is deemed to be a finance lease, the asset is capitalised at the lower of the fair value of the asset or the present value of future lease payments, using the relevant discounting rate at the date of signing of the lease agreement.

#### Depreciated replacement cost

The depreciated replacement cost (DRC) approach requires information on the expected useful life (EUL), residual value (RV), current replacement cost (CRC), and remaining useful life (RUL) of each of the asset components. The CRC is the product of a unit rate and the extent of the component and represents the cost of replacing the asset, and in cases where the existing asset is obsolete, the replacement with a modern equivalent. The depreciable portion of an asset is determined by subtracting the residual value from the CRC. The depreciated replacement cost (DRC) is established by proportionately reducing the depreciable portion based on the fraction of the remaining useful life over the expected useful life.

Accordingly, the following formula is used:

$$DRC = ((CRC - RV) \times RUL/EUL) + RV$$

Replacement costs are "green field", unless there is evidence of definite cost variance due to "brown-field" modifications. Capital unit costs vary from site to site and provision is made for site specific influencing factors (e.g. topography). Capital unit costs are also influenced by macro-economic driving forces such as "supply-and-demand", economy of scale, financial markets and availability of contractors, and the impact of these factors are reflected in the capital unit rates where applicable. Adjustments of rates for escalation to the valuation date are applied.

#### Self-constructed assets

Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality. All assets that can be classified as fixed assets and that are constructed by the municipality should be recorded in the asset register and depreciated over its estimated useful life for that category of asset. Proper records are kept such that all costs associated with the construction of these assets are completely and accurately accounted for as capital under construction, and upon completion of the asset, all costs (both direct and indirect) associated with the construction of the asset are summed and capitalised as an asset.

#### Borrowing costs

Borrowing costs are interest and other costs incurred by the municipality from borrowed funds. The items that are classified as borrowing costs include interest on bank overdrafts and short-term and long-term borrowings, amortisation of premiums or discounts associated with such borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings; finance charges in respect of finance leases and foreign exchange differences arising from foreign currency borrowings when these are regarded as an adjustment to interest costs. Borrowing costs shall be capitalised if related to construction of a qualifying asset to get ready for its intended use or resale and external funding is sourced to fund the project.

#### Investment property

– Where available, initial recognition will take place on the cost model. Should relevant cost data not be available, a fair value determination will be made by appointing a valuer. Subsequent measurement and disclosure will be subject to an annual fair value assessment.

– If the council of the municipality constructs or develops a property for future use as an investment property, such property shall in every respect be accounted for as PPE until it is ready for its intended use – where after it shall be reclassified as an investment asset.

#### Intangible assets

An item of intangible asset acquired by the municipality is recognised at cost. Where an intangible asset is acquired at no or nominal cost (for example in the case of donated or developer-created), or reliable costs data is not available, its cost is deemed to be its fair value at the date of acquisition.

### **Policy**

Fixed assets that qualify for recognition shall be capitalised at cost.

In cases where complete cost data is not available or cannot be reliably linked to specific assets, the fair value of fixed assets shall be adopted on the following basis:

- PPE infrastructure, community assets, other assets, staff housing (moveable and immovable);: depreciated replacement;
- PPE land: values from the valuation roll ( or in the event that such is not available, depreciated replacement cost);
- Heritage assets (that do not qualify as any other PPE): no value shall be indicated.
- Investment property: values from the valuation roll ; and
- Intangible assets: depreciated replacement cost.

## **14.2 Costs Incurred on Existing PPE Subsequent to the Initial Recording of the Cost Price**

Assets are often modified during their life. There are two main types of modification:

**Enhancements / Rehabilitation:**

This is where work is carried out on the asset that increases its service potential. Enhancements normally increase the service potential of the asset or may extend an asset's useful life and result in an increase in value.

These expenses are not part of the life cycle of the asset. These costs normally become necessary during the life of an asset due to a change in use of the asset or technological advances.

Disbursements of this nature relating to an asset, which has already been recognised in the financial statements, should be added to the carrying amount of that asset. The value of the asset is thus increased when it is probable that future economic benefits or service potential will flow to the municipality over the remaining life of the asset.

To be classified as capital spending, the expenditure must lead to at least one of the following economic effects:

- Modification of an item or plant to extend its useful life, including an increase in its capacity
- Upgrading machine parts to achieve a substantial improvement in the quality of output
- Adoption of new production processes enabling a substantial reduction in previously assessed operating costs
- Extensions or modifications to improve functionality such as installing computer cabling or increasing the speed of a lift
- Improve the performance of the asset

**Maintenance / Refurbishment:**

Maintenance is an expenditure, relating to repairs or maintenance of property, plant and equipment, which are made to restore or maintain the future economic benefits or service potential that a municipality can expect from the asset.

Refurbishment of works does not extend functionality or the life of the asset, but are necessary for the planned life to be achieved. In such cases, the value of the asset is not affected, and the costs of the refurbishment are regarded as operating expense in the statement of financial performance.

**Commented [WU9]:** Except for major refurbishments for Heritage assets

In summary if the improved performance or extended life of an asset is not beyond what has originally been estimated for the asset and the expenditure is only to bring performance back to the level that is normally expected for the asset the expenditure will be considered an operating expense.

## **Definitions and rules**

### Options

Accounting standards allow measurement after recognition on either a cost or revaluation model. Different models can be applied, providing the treatment is consistent per asset class.

### Cost model

After recognition, an asset is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

### Revaluation model

After recognition, an asset (whose value can be measured reliably) is carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. When revaluations are conducted, the entire class of assets should be revalued. Revaluation is to be executed by persons with suitable professional qualifications and experience. Any change to an asset's carrying amount as a result of revaluation, is credited (or deducted from any surplus from previous revaluations) in the Revaluation Reserve.

– The revaluation surplus is transferred to accumulated surpluses/deficits on de-recognition of an asset. An amount equal to the difference between the new (enhanced) depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred from the revaluation reserve to the municipality's appropriation account. An adjustment of the aggregate transfer is to be made at the end of each financial year.

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### Statutory inspections

The cost of a regular major statutory inspection that is required for the municipality to continue to operate an asset is recognised at the time the cost is incurred, and any previous statutory inspection cost is de-recognised.

### Expenses to be capitalised

Expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset), or in the material extension of the useful operating life of a fixed asset are capitalised. Such expenses are recognised once the municipality has beneficial use of the asset (be it new, upgraded, and/or renewed) – prior to this, the expenses are recorded as work-in-progress. Expenses incurred in the maintenance or repair (reinstatement) of a fixed asset that ensures that the useful operating life of the asset is attained, shall be considered as operating expenses and are not capitalised, irrespective of the quantum of the expenses concerned.

Spares

The location of capital spares shall be amended once they are placed in service, and re-classified to the applicable PPE asset sub-category.

**(a) Policy**

Measurement after recognition shall be on the following basis:

- Immoveable PPE land: Cost model Moveable PPE: cost model;
- Heritage assets: cost model;
- PPE Land and Investment property: values established on the cost model; and

Intangible assets: cost model.

## **Section 15**

### **Residual Values**

#### **15.1 Definition**

The residual value of an asset is the estimated amount that the municipality would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

#### **15.2 Determine Residual Value**

Residual value will be determined on PPE where practical in terms of the definition as stated above. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

The residual value and an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate

## Section 16

### Depreciation of assets

#### 16.1 Definition

Depreciation is the accounting process used to allocate the cost to particular accounting periods of 'using up' the service potential of the asset over its useful life.

Note: depreciation is not a method of financing the replacement of assets and is necessary even when assets are revalued every year (excluding valuation of biological assets).

#### 16.2 Which Assets must be Depreciated

All assets, except land, heritage assets and biological assets, shall be depreciated - or amortised in the case of intangible assets.

Although typically disclosed together, land and buildings are separable assets. While land normally has unlimited life it is not depreciated, buildings are. Heritage assets such as works of art, historical buildings and statues are also not normally depreciated. The reason is that these assets have cultural significance and as such are likely to be preserved for the benefit of future generations. It is therefore impossible to determine their useful lives.

#### 16.3 Determining Useful Lives of Assets

The CFO shall assign a useful operating life to each depreciable asset recorded on the municipality's FAR. In determining such a useful life the CFO shall adhere to the useful lives set out in the annexure to this document (refer **Annexure A**).

The useful lives in **Annexure A** will be determined considering all the following factors:

- Expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.
- 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 programme, and the care and maintenance of the asset while idle.
- Technical or commercial 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.
- Legal or similar limits on the use of the asset, such as the expiry dates of related leases.
- The recommendation of the managers of the departments involved.

In the case of a fixed asset which is not listed in this annexure, the CFO will determine a useful operating life. If necessary this will be done in consultation with the Departmental Manager who will control or use the fixed asset in question. This Manager will be guided in determining such useful life either by the useful lives assigned in the annexure to the fixed asset most closely comparable to the asset in question or by any appropriate statement of generally recognised accounting practice (GRAP).

The useful life of an asset shall be reviewed at least at each reporting date. The amortisation period for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly.

Only the CFO may amend the useful operating life assigned to any item of property, plant and equipment, and when any material amendments occurs the CFO shall inform the Council of such amendments.

The CFO will amend the useful operating life assigned to any asset –after recommendation from the affected department - if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life cycle will not be attained.

If the value of an item of property, plant and equipment has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be fully depreciated in the financial year in which such lessening in value occurs.

The additional depreciation expenses shall be debited to the department's expense vote controlling or using the fixed asset in question.

## 16.4 Depreciation Calculation

### Tangible Assets

The municipality applies two methods of depreciation to best reflect the pattern of use of an asset. These methods are:

- The straight line depreciation method whereby items of property, plant and equipment are depreciated on a constant or uniform amount over their estimated useful life. For example, if a vehicle is purchased and has an estimated useful life of 5 years, each month 1/60th of the vehicle will be depreciated.
- The sum of units method whereby units consumed against total unit consumable for an asset are reflected as depreciation. For example 50 graves have been sold for the month in the cemetery which can produce 1000 graves. The depreciation will then be 50/1000 times the cost of the cemetery capitalised.
- The diminishing balance method whereby a percentage of the cost will be depreciated every year. For example an asset is to be depreciated at 10% per period on the carrying value.

Commented [WU10]: Is this still being used?

Depreciation is an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the item of property, plant and equipment is used or consumed and should be recognised as such.

Depreciation shall be charged from the calendar month following the month in which an item of property, plant and equipment is available for use and will continue until the

accumulated depreciation equals the cost or valuation amount of the respective item of property, plant and equipment or the item is disposed or written off.

When depreciation is calculated, a corresponding accumulated depreciation account is created. The accumulated depreciation account is a statement of financial position item (it is an asset provision). This account balance reflects the depreciation charge that has been expensed or capitalised since the asset was available for use. The balance on the accumulated depreciation account can never exceed the cost or valuation of the specific item of property, plant and equipment to which it relates.

Depreciation starts once an asset is recognised and available for use and ceases when it is de-recognised or classified as non-current assets held for sale. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

**Commented [WU11]:** Added the requirement that depreciation does not cease if an asset becomes idle

### **Intangible Assets**

Amortisation period and amortisation method. The amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern.

### **Finite Useful Life**

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date that the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the municipality. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for

each period shall be recognised in profit or loss unless another standard permits or requires it to be included in the carrying amount of another asset.

#### **Infinite Useful Life**

No amortisation will take place during this phase.

### **16.5 Budget Requirement**

Each Departmental Manager, acting in consultation with the CFO, shall 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 three financial years.

In calculating this provision the following must be taken into consideration:

- Assets in commission with useful life that will span the budget period or a portion thereof:
  - Full 12 months per budget year unless fully depreciated before the final budget year
- Expected assets that will be commissioned in the current year of operations:
  - Full 12 months per budget year unless fully depreciated before the final budget year;
- Expected assets that will be commissioned in the ensuing three years:
  - Pro rata for commission year and full 12 months for ensuing years on commission year.
- For ensuing years 1 January of each year will be regarded as date of commissioning.

The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of property, plant and equipment.

### **16.6 Offset Depreciation**

#### **Assets financed by Government Grants or Public Contributions**

The principle of government grant and public contribution funded assets is that there should be no capital cost included in tariffs from using this source of financing.

Funding from Government Grants and Public Contributions, equal to the amount used to finance the asset are directly transferred to the operating account as revenue. This transfer will reflect in the accumulated surplus as offset of depreciation against future depreciation charges on these assets.

#### **Assets Re-Valued**

An amount equal to the annual depreciation portion of the re-valued assets should be transferred from the revaluation reserve to the accumulated surplus or deficit.

### **16.7 Disclosure Requirements**

#### **In the accounting policy notes**

- The depreciation methods used and the depreciation rates or useful lives.

#### **On the statement of financial position**

- The depreciation is part of the Net Property, Plant and Equipment amount.

#### **On the statement of financial performance**

- The depreciation charged in arriving at the net surplus or deficit disclosed in the income statement.

#### **In the notes to the statements**

- The gross carrying amount and the accumulated depreciation at the beginning and end of the period in respect of each class of property, plant and equipment, together with all the other movements on the asset accounts.

**In *Annexure B* and *C* to the financial statements**

- These Annexures disclose a more detailed analysis of the various classes of assets (***Annexure B***) as well as a detailed analysis on the allocation of assets to the various departments and functions (***Annexure C***). These Annexures must show a reconciliation of the carrying amount at the beginning and end of the period showing:
  - Additions
  - Disposals
  - Acquisitions through business combinations
  - Increases or decreases resulting from revaluations
  - Reductions in carrying amount (impairment losses)
  - Depreciation
  - Other movements

When property, plant and equipment is disposed of by selling or destroyed the asset values must be offset against the proceeds, if any. This will result in a profit or loss on the particular item of property, plant and equipment. If this item was previously revalued and there is still a balance left regarding this item on the revaluation reserve, this balance must then be transferred to the accumulated surplus/deficit account.

## **Section 17**

### **Revaluation of Fixed Assets**

The municipality must adopt the cost or revaluation method at re-measurement of PPE. In adopting the revaluation method the following will be relevant:

#### **17.1 Revaluation Process**

In adopting the revaluation method a class of PPE, after initial recognition, whose fair value can be measured reliably, shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

#### **17.2 Revaluation Reserve**

The CFO shall also, where applicable, create a revaluation reserve for fixed assets equal to the difference between the value as recorded in the valuation roll and the carrying value of the fixed asset before the adjustment in question.

#### **17.3 Depreciation of Revalued Property**

The fixed asset concerned shall, in the case of buildings, be depreciated on the basis of its revalued amount, over its remaining useful operating life. Such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the department's vote controlling or using the fixed asset in question.

The CFO shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred each month from the revaluation reserve to the municipality's appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary.

#### **17.4 Disclosure of Revalued Property**

Revalued PPE shall be carried in the FAR, and recorded in the annual financial statements, at their revalued amount, less accumulated depreciation.

**Commented [WU12]:** Name , qualifications and experience of the valuer to be disclosed underneath a note to the annual financial statements

## **Section 18**

### **Disposal of Assets**

#### **18.1 Disposal**

In compliance with the principles and prescriptions of the MFMA the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the municipality's SCM policy.

Every Departmental Manager shall report in writing to the CFO annually on all fixed assets controlled or used by the department concerned which the director wishes to dispose of by public auction or public tender within the period up to 30 June of the next financial year. The CFO shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the Disposal Committee prior to being reported to the Council or the Municipal Manager (by 30 April of the financial year), as the case may be, recommending the process of disposal to be adopted.

Any items declared obsolete or damaged will be handed in to the Asset Control Section for safekeeping. No items will be received by the Asset Control Section without a completed asset disposal form counter signed by the Asset Control Section, describing the status of the item and the reason for writing-off the item.

Each department must take the necessary steps to ensure that all their obsolete or damaged assets are disposed of in the correct and approved manner. It is the responsibility of each department to ensure that all such assets to be disposed of are delivered to and received at the Asset Control Section.

The Council shall ensure that the disposal of any fixed asset takes place in compliance with Section 14 of the MFMA 2004 and the SCM Policy.

Every Departmental Manager 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 to the Insurance Section, the Asset Control Section, the internal auditor, and in cases of suspected theft or malicious damage, also to the South African Police Services. Once the fixed assets are disposed of, the CFO shall remove the relevant records from the FAR.

Transfer of fixed 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 disposal shall be by private treaty.

All assets to be disposed of in the next financial period is to be transferred to the non-current assets held for sale account, revalued to the lower of cost and expected selling price and to be disclosed on the statement of Financial Position as non-current assets held for sale under current assets and not as property, plant and equipment under non-current assets.

## **18.2 Other Write-offs**

A fixed asset even though fully depreciated shall be written off only on the recommendation of the Departmental Manager controlling or using the asset concerned, and with the final approval of Council.

Every Departmental Manager shall annually report to the CFO on any fixed assets which such director 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 on the fixed assets to be written off.

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

## **18.3 Proceeds /Gain or Loss on Disposal of Assets**

When assets are disposed of, whether by disposal or written off, the asset values needs to be readjusted and offset against the proceeds. If the proceeds of the disposal are less than the carrying value recorded in the FAR, such difference shall be recognised as a loss in the cost centre of the department concerned. If the proceeds of the disposal, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the cost centre of the department concerned.

If this asset has an outstanding balance on the Revaluation Reserve this balance must be transferred to the Accumulated Surplus.

#### **18.4 Disclosure of Assets Disposed of**

The carrying value of the asset disposed of is removed from the records and will not reflect on the statement of Financial Position as part of the balance on property, plant and equipment under non-current assets

The gain or loss will be reflected in the statement of Financial Performance as a gain under revenue or as a loss under expenditure.

## Section 19

### Recognition of Assets in the Financial Statements

Recognition is the process of incorporating in the statement of Financial Position or statement of Financial Performance, an item that meets the definition and satisfies the criteria for recognition.

Assets are classified into categories as set out in section 7 (Classification of Assets) and the information for each category summarised in a table format is disclosed as:

- a note to the financial statements
- with a detailed disclosure as an annexure reflecting the movements for the financial year by category and subcategory
- movements are also reflected on an annexure per department
- the net value (carrying value at year-end) for all categories is added together and reflected as a single line item in the statement of financial position.

The failure to recognise such items is not rectified by disclosure of the accounting policies used, or by notes or explanatory material.

To be able to assess the utilisation of assets all assets should be listed once the recognition criteria are met. An asset item should be recognised in the financial statements if it meets the:

- Probability criteria (it is probable that any future economic benefits or service potential associated with the asset will flow to the municipality)
- Measurement criteria (the asset has a cost or value that can be measured with reliability).

In many cases, cost or value must be estimated; the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their

reliability. When, however, a reasonable estimate cannot be made, the item is not recognised in the statement of Financial Position or statement of Financial Performance.

An item that possesses the essential characteristics of an asset but fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes, explanatory material or in supplementary schedules. This is appropriate when knowledge of the item is considered to be relevant to the evaluation of the financial position, performance and changes in financial position of the municipality by the users of financial statements.

No asset is recognised in the statement of Financial Position for expenditure incurred where it is improbable that economic benefit or service potential will flow to the municipality beyond the current financial year. Where the probability is low, such a transaction will result in the recognition of an expense in the statement of Financial Performance.

Where the expenditure has been incurred in connection with an asset already recognised, consideration should be given to the probability that the expense will result in an extension of the asset's estimated useful life. If the probability is high the expense will be added to the value of the asset in the statement of Financial Position and written off by way of depreciation over the *remaining life* of the asset.

Expenditure incurred on an existing asset that will not extend the useful life or the functionality of the asset, will be reflected in the statement of Financial Performance as an expense (maintenance).

Assets may be acquired for safety or environmental reasons. The acquisition of such assets, while not directly increasing the future economic benefits or service potential of any particular existing asset, may be necessary in order for the municipality to obtain the future economic benefits or service potential from its other assets. When this is the case, such acquisitions of assets qualify for recognition as assets, in that they enable future economic benefits or service potential from related assets to be derived by the municipality in excess of what it could derive if they had not been acquired. However, such assets are only recognised to the extent that the resulting carrying amount of such an asset and related assets does not exceed the total economic benefits or service

potential that the municipality expects to recover from their continued use and ultimate disposal.

## **Section 20**

### **Funding Sources**

The main sources of finance utilised to acquire assets are:

- Government and other conditional grants
- Finance leases
- Conditional grants, subsidies and public contributions and donations
- Surplus cash

The sources of finance that may be utilised to finance assets are utilised in accordance with the provisions of Section 19 of the MFMA.

#### **20.1 Government and Other Conditional Grants**

Whenever a conditional government or other grant for the acquisition of an asset is received a grant creditor is created on receipt of the funds. Once the asset is bought, an amount equal to the cost of the asset is transferred from the unspent grant creditor to the statement of Financial Performance as revenue.

Unspent conditional grants are reflected on the statement of Financial Position under current liabilities as unspent conditional grants. These funds always have to be backed by cash. The following conditions are set for the creation and utilisation of these funds:

- The cash which backs up the grant is invested until it is utilised
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If the conditions are silent on investment interest it is recognised as interest earned in the statement of Financial Performance and might be allocated, through the statement of Changes in Net Assets, in part or fully to the unspent portion of the grant if it is so stated in the accounting policy

- Whenever an asset is acquired from a conditional grant an amount equal to the cost of the asset is transferred from the unspent grant creditor to the statement of Financial Performance as revenue.
- The amount spent from this grant, meeting the condition, is transferred to an operational revenue account and reflected on the statement of Financial Performance. It will then increase the surplus for the year and the accumulated surplus representing an offset depreciation surplus.

Once the asset is available for use, it is included in the FAR and depreciation is calculated based on the relevant useful life of the asset. Depreciation on the asset is then charged to the statement of Financial Performance as an expense.

## 20.2 Finance Leases

A lease is classified as a finance lease if it meets the recognition requirements as per GRAP 13 (**Annexure C**).

At the commencement of the lease term, the municipality shall recognise finance leases as assets and liabilities in the statement of Financial Position 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 to 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.

**Commented [WU13]:** Municipality has not borrowed in a very long time. Rather lets use the government bonds coupon rate.

## 20.3 Donations

The fair value of donated assets must be determined and at receipt or transfer of the assets be allocated to the accumulated surplus account.

**Commented [WU14]:** It cannot be to accumulated surplus only. If the donation is done in the current year, the surplus for the year must be credited rather.

Once the asset is available for use, it is included in the FAR and depreciation is calculated based on the relevant useful life of the asset. Depreciation on the asset is then charged to the statement of Financial Performance as an expense.

## **20.4 Surplus Cash**

If there is sufficient surplus cash available assets can be financed directly by allocating this cash for the acquisition of assets. Depreciation charges on these assets will not be offset.

## Section 21

### Impairment Losses

#### 21.1 Impairment

The carrying amount (book value) of an item or a group of identical items of property, plant and equipment should be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount.

The municipality must on an annual basis and within one month from the financial year-end, test assets for impairment losses.

Recoverable amount is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.

When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately, unless it reverses a previous revaluation on properties in which case it should be charged to the Revaluation Reserve.

The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification work is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of recoverable amount.

The following may be indicators that an asset has become impaired:

- The item has been damaged
- construction is halted before it is usable or complete; or
- evidence that service performance is significantly worse than expected; or

**Commented [WU15]:** To include 'as a bare minimum annually' as the standard would require that there be annual impairment assessment.

- The item has become technologically obsolete
- The item remains idle for a considerable period either prior to it being put into use or during its useful life
- Land is purchased at market value and is to be utilised for subsidised housing developments, where the subsidy is less than the purchase price.

## **21.2 Impairment Example:**

An example of where the municipality has suffered an impairment loss is the purchase of land for an amount of R5,000,000. The land will be utilised for new subsidised housing developments. If at year end the expectation is that the municipality will receive only R1,000,000 by way of subsidies an impairment loss of R4,000,000 needs to be recognised. The recoverable amount (R1,000,000) is calculated as being the larger of:

- Net Selling Price of the land which is the amount obtainable from the sale of the market in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal
- Value in use of the land which is the present value of the estimated future net cash inflows expected from the continuing use of the asset and from its disposal at the end of its useful life.

## **21.3 Disclosure of Impairment Losses**

All impairment losses must reflect on the statement of Financial Performance. The financial statements should also disclose, in the reconciliation of the carrying amount at the beginning and end of the period for each class of property, plant and equipment recognised in the financial statements any impairment losses recognised or reversed in the statement of Financial Performance during the period.

Material impairment losses need to be disclosed in the notes to the income statement as a separately disclosable item.

## **21.4 Reversal of an Impairment Loss**

The same procedures as for the identification of impaired assets are followed as to whether there is an indication that impairment may have decreased. If so, the recoverable amount must be added to the carrying value of the asset. In addition:

- The life cycle must be adjusted
- The increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognised
- Reversal of an impairment loss is recognised as income in the income statement
- Depreciation must be adjusted for the remaining life cycle.

## **Section 22**

### **Investment Property**

#### **22.1 Definition of Investment Property**

Investment property is defined as 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:

- Use in the production or supply of goods or services or for administrative purposes; or
- Sale in the ordinary course of operations.
- Investment property generates cash flows largely independently of the other assets of the municipality.

Investment property is held to earn rentals or for capital appreciation or both.

The following are examples of investment property:

- Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations
- Land held for a currently undetermined future use (if the municipality has not determined that it will use the land for short-term sale in the ordinary course of operations, the land is considered to be held for capital appreciation)
- A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following are examples of items that are not investment property:

- Property held for sale in the ordinary course of operations or in the process of construction or development for such sale
- Property being constructed or developed on behalf of third parties

- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal
- Property that is being constructed or developed for future use as investment property. GRAP 17 applies to such property until construction or development is complete, at which time the property becomes investment property. However, existing investment property that is being redeveloped for continued future use as investment property remains investment property
- Property that is leased to another entity under a finance lease
- Property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an “investment property” and would be accounted for in accordance with GRAP 17
- Property held for strategic purposes which would be accounted for in accordance with GRAP 17
- Where a property is utilised partly in the ordinary course of operations and partly to generate rentals or for capital appreciation it will only be classified as investment property if a significant portion is utilised to generate investment income.

## **22.2 Initial measurement of Investment Property**

- Investment property is measured initially at its cost (including transaction costs). Where an investment property is acquired at no cost (for example donated assets), or for a nominal cost, its cost is 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, such as, professional fees for legal services, property transfer taxes and other transaction costs.

- The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, the municipality applies the GRAP standard on accounting for PPE (GRAP 17). At the completion date, the property becomes investment property and the standard on investment property applies (GRAP 16).
- Investment property is only recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality and the cost or fair value of the investment property can be measured reliably.

### **22.3 Measurement of Investment Property subsequent to Initial Measurement**

Subsequent expenditure relating to an investment property that has already been recognised should be added to the carrying amount of the investment property when it is probable that future economic benefits or service potential over the total life of the investment property, in excess of the most recently assessed standard of performance of the existing investment property, will flow to the municipality. All other subsequent expenditure should be recognised as an expense in the period in which it is incurred.

For example, if a municipality purchases a building as an investment property and will incur renovation costs, the renovation cost may be capitalised if it improves the condition of the asset over its most recently assessed standard of performance. Assume that before the renovation the building can earn R5, 000 per month rental income, but after the renovation it will earn R7, 000 per month rental income. In this case the renovation cost will be added to the carrying amount of the investment property.

Because the municipality chose the cost model it should measure all of its investment property using the guidelines for normal assets that is, at cost less any accumulated depreciation and accumulated impairment losses

## **22.4 Transfers and Disposals of Investment Properties**

### **Transfers**

Transfers to, or from, investment property should be made when, and only when, there is a change in use, evidenced by:

- Commencement of owner-occupation, for a transfer from investment property to owner-occupied property
- Commencement of development with a view to sale, for a transfer from investment property to inventories
- End of owner-occupation, for a transfer from other classified property to investment property
- Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property; or
- End of construction or development, for a transfer from property in the course of construction or development to investment property.

### **Disposals**

On disposal or permanent withdrawal from use of investment property:

- An investment property should be eliminated from the statement of Financial Position
- Gains or losses arising from the retirement or disposal of investment property should be determined as the difference between the net disposal proceeds and the carrying amount of the asset. For the purposes of display in the financial statements, the gain or loss should be included in the statement of Financial Performance as an item of revenue or expense.

## **22.5 Budget Implications relating to Investment Property.**

The following amounts will have to be budgeted for in the operating budget relating to investment properties:

- Gains on the disposal of investment properties that are intended to be sold during the next financial year

- Depreciation on investment properties that are intended to be transferred to owner-occupied properties during the next financial year
- The effect of reduced depreciation on owner-occupied properties that are intended to be transferred to investment properties during the next financial year
- Revenue through operating lease income

## **22.6 Disclosure**

The disclosure requirements adhered disclosing information on investment property is to be done in accordance with the requirements as per the relevant GRAP statement.

## **Section 23**

### **Replacement Strategy**

The Municipal Manager, in consultation with the CFO and other directors of departments shall formulate strategies and standards for the replacement of all operational property, plant and equipment. Such strategies and standards shall be incorporated in a formal policy, which shall be submitted to the Council for approval. This policy shall cover the replacement of infrastructure and operational movable vehicles and equipment.

This strategy should take into consideration:

- The nature of the asset
- The usage of the asset
- Priorities
- Available funding
- Operational and maintenance costs
- Operational skills
- Future expected developments
- Technology
- Outsourcing
- Private sector partnerships

## **Section 24**

### **Asset Risk Management**

#### **24.1 Insurance**

Departments are responsible for managing the risks associated with their activities. The decision to insure assets will depend on the amount of excess the municipality are prepared to carry, the types of risks they insure against, taking due cognisance of the budgetary constraints of the municipality.

Complete property, plant and equipment identification and valuation may prevent the municipality from being over or under insured. Specific supportable insurable values are defined in the insurance policy in effect and should be reviewed regularly. In some instances, an in-house estimate of cost or insurable value may not be sufficient to substantiate the amount of a loss. Rather, an appraisal by an independent third party may be required.

#### **24.2 Other Risk Reducing Methods**

Department regulations or "operating policies" can also reduce risks. Department managers should investigate their operations and set operating policies as to how personnel should operate and use property, plant and equipment to minimise risk. Examples are as follows:

- Only authorised personnel should be allowed in areas where expensive equipment is kept
- Only authorised personnel should be allowed to operate plant or vehicles
- The keys for office vehicles should be controlled in a central office during the day, and employees should sign when they take the keys
- Ensure that drivers or operators have the necessary qualifications and licenses

- It should be part of service conditions that employees incur personal liability if they drive while under the influence of alcohol, drugs, medication, and so forth; or if they leave the vehicle unattended and unlocked
- Physical access to buildings, or areas within buildings, should be restricted, especially after hours.

## **Section 25**

### **Maintenance of Assets**

#### **25.1 Maintenance Plans**

Regular maintenance can prevent unplanned and expensive breakdowns. Maintenance plans must therefore be drawn up to ensure minimum maintenance standards and execution to achieve the optimum use of assets as planned.

Every Departmental Manager shall ensure that a maintenance plan in respect of infrastructural asset is prepared and submitted to the Council of the municipality for approval.

If so directed by the Municipal Manager, the maintenance plan shall be submitted to Council prior to any approval being granted for the acquisition or construction of new infrastructural assets.

The Departmental Manager controlling or using the infrastructure asset in question, shall budget for the executing of the approved plan and will annually report to Council, not later than 31 March, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance and / or budgetary constraints may have on the useful operating life of the asset concerned.

#### **25.2 Deferred Maintenance**

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructural asset (see 18 above), the CFO shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans which the Council has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the Departmental Manager controlling or using such asset shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the Asset Control Section, and the Asset Control Section shall recalculate the annual depreciation expenses accordingly.

### **25.3 General Maintenance**

Every Departmental Manager shall be directly responsible for ensuring that all assets that are in his/her care are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

## Section 26

### General Requirements

#### 26.1 Safekeeping of Assets

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

In exercising this responsibility, every HOD shall adhere to any written directives issued by the CFO to the department in question, or generally to all departments, in regard to the control of or safekeeping of the Municipality's fixed assets.

The municipality will always have security service providers guarding all municipal premises. The level of security to be provided by the security company will be assessed from time to time.

**Commented [WU16]:** Added the need for engagement of security service providers.

#### 26.2 Asset Tagging

Asset tagging means to place a control number on a piece of equipment or property. All movable assets must be tagged if probable. The primary purpose of tagging is to maintain a positive identification of assets.

Tagging is important to:

- Provide an accurate method of identifying individual assets
- Aid in the annual physical inventory
- Control the location of all physical assets
- Aid in maintenance of fixed assets
- Asset identification
- Security and safeguarding of assets
- Asset tracking and verification

Fixed property and plant is not tagged; such as:

- Buildings (record legal description in asset record)
- Land (record legal description in asset record)
- Infrastructural assets

Consistently place asset tags in the same location on each similar type asset. If possible, the tags shall be accessible for viewing. Place the tag where the number can be seen easily and identified without disturbing the operation of the item, which will aid in taking inventory. No staff member of the municipality may remove an asset tag, unless with the authorisation of the CFO.

### **26.3 Physical Inventory of all Movable Assets**

The Asset Control Section will conduct a physical inventory of movable assets annually. They will require the cooperation of departmental personnel in accomplishing the physical inventory task and will attempt to minimise the time demanded of them. The designated officials in the different departments within the municipality must execute the functions listed below:

- Ensure that the bar code number and location number are reflected on the asset movement form by the relevant official on the receipt of the asset. Where applicable, the serial number or registration number should be included
- Complete the asset movement form when transfers occur and forward the completed original form to Asset Control Section
- Ensure that a completed asset disposal form is submitted when an asset item is disposed of after the necessary approval has been obtained
- Asset Control Section must be notified by the relevant department within 14 days of any of the following possible movements:
  - Donations
  - Additions / Improvements
  - Departmentally manufactured items
  - Loss or damage
  - Transfers
  - Terminations
  - Land Sales

## **26.4 Acquisition**

In making the decision to acquire an asset the following fundamental principles should be carefully considered:

- The purpose for which the fixed asset is required is in keeping with the objectives of the municipality and will provide significant, direct and tangible benefit to it
- The fixed asset has been budgeted for
- The purchase is absolutely necessary as there is no alternative municipality asset that could be upgraded or adapted
- The fixed asset is appropriate to the task or requirement and is cost effective over the life of the asset
- The fixed asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources
- Space and other necessary facilities to accommodate the asset are in place.
- The most suitable and appropriate type, brand, and model etc. has been selected.

## **26.5 Asset Management Responsibilities**

- Utilisation - all assets should be used for the purposes they were acquired
- Asset performance should be regularly reviewed to identify under-utilised and under-performing assets. The reasons for this should be critically examined and appropriate action taken
- Disciplinary action must be taken against individuals if there is misuse of the municipality's assets.

## **26.6 Additions / Improvements**

Depending on the type of addition or improvement to a specific asset the responsible official in the department must notify the Asset Control Section of the change in status. The asset master record will be amended on receipt of the required asset acquisition form from the responsible department.

When capital expenditure is incurred for any enhancement/improvement of an asset, the department shall complete the necessary asset acquisition form and forward it to the Asset Control Section.

When any changes to vacant land or land and buildings are effected such as subdivision, transfer to another department, extent or holders title, the current owner must complete the relevant asset movement form and forward it to the Asset Control Section.

## **26.7 Termination of Employee's Service**

At the termination of an employee's service, the applicable department representative must complete the asset resignation form and forward the original to the Asset Control Section. This form is a statement that the inventory and assets entrusted to the employee to execute his/her daily duties are in good order and handed in where necessary. A copy of this form is forwarded to the HR Business Section concerned or its relevant department for further investigation in the case of missing assets.

## **26.8 Transfer of Assets**

When a department transfers an asset or inventory item within the department, the asset movement form must be completed and forwarded to the Asset Control Section. The copy of this form must be forwarded to the party receiving the asset or inventory item.

When a department transfers an asset or inventory item to another department, the transferring department must approve the transfer. After approval has been granted the asset movement form must be completed and forwarded to the Asset Control Section.

## **26.9 Disposal of Assets**

All departments must submit the properly completed asset disposal forms together with copies of all relevant approvals for the disposal of assets to the Asset Control Section.

## Section 27

### Financial Disclosures

Fixed assets should be disclosed and accounted for in terms of GRAP 17 as applicable

#### 27.1 Objective

To ensure that financial statement disclosures for fixed assets to be done in terms of GRAP 17 as applicable

#### 27.2 Detailed disclosure requirements

- The Chief Financial Officer must ensure that relevant and current GRAP 17 accounting standards are applied for the disclosure of fixed assets on the financial statements
- The financial statements should disclose, in respect of each class of property, plant and equipment classified under the categories of infrastructure, community, heritage, investment properties and other assets:
  - The measurement bases used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed.
  - The depreciation methods used.
  - The useful lives or the depreciation rates used.
  - Depreciation charged in arriving at net surplus or deficit for the period.
  - The gross carrying amount and the accumulated depreciation at the beginning and the end of the period.
  - A reconciliation of the carrying amount at the beginning and end of the period showing:
    - (i) additions
    - (ii) disposal
    - (iii) acquisition through business combinations
    - (iv) increases or the decreases resulting from revaluations
    - (v) deductions in carrying amount
    - (vi) amounts written back
    - (vii) depreciation
    - (xi) other movements
- The financial statement should also disclose:
  - Whether or not, in determining the recoverable amount of items of property, plant and equipment, expected future cash flows have been discounted to their present values.
  - The existence and amounts of restrictions on title and property, plant and equipment pledged as security for liabilities.

- The accounting policy for restoration costs relating to items of property, plant and equipment.
- The amount of expenditures on account of property, plant and equipment in the course of construction, and
- The amount of commitments for the acquisition of property, plant and equipment.
- Assets under work in progress which have taken significantly longer to construct than usual as well as the reasons thereof
- When items of property are stated at re-valued amounts, the financial statements should disclose:
  - The basis used to revalue the assets.
  - The effective date of revaluation.
  - Whether an independent value was involved.
  - The nature of any indices used to determine replacement cost.
  - The carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried at cost less depreciation.
  - The revaluation surplus, detailing the movement for the period.
- The portion of the depreciation charge relating to the revaluation.

**Commented [WU17]:** WIP items taking longer to construct.

**Commented [WU18]:** Carrying amounts of assets held at revaluation had they been held at cost

## Section 28

### Policy amendment & implementation

#### 28.1 Policy amendment

Changes to this document shall only be applicable if approved by Council. Any proposals in this regard shall be motivated by the Municipal Manager in consultation with the CFO and respective Directors. These recommendations shall be considered for adoption by Council.

#### 28.2 Policy implementation

Detailed procedures shall be prepared and adopted by the Municipal manager, in consultation with the CFO and other Directors, to give effect to the effective implementation of this policy.

#### 28.3 Relationship with other policies

This policy, once effective, will replace the pre-existing Asset Management Policy.

This policy needs to be read in conjunction with other relevant policies of the municipality, including the following adopted documents:

- Delegations Register  
Identifying the processes surrounding the establishment of delegated authority.
- SCM policy  
Regulating all processes and procedures relating to acquisitions.
- Budget policy  
The processes to be followed during the budget process as well as pre-determined prioritisation methodology,
- Accounting Policy  
Governed by the Accounting standards, the accounting policy determines the basis recognition, measurement and recording of all transactions.
- Risk Management Policy
  - Fleet Management Policy

The policy promotes effective and efficient asset utilisation.

#### SIGNED BY

**CLLR SHIBAMBO B A  
THE MAYOR**

\_\_\_\_\_  
SIGNATURE

\_\_\_\_\_  
DATE

**Council Resolution CR76-29/05/19SP**

# Annexure A

## Asset Useful Live Guide

### Infrastructure Assets

The following is the list of infrastructure assets, with the estimated useful life in years indicated in brackets in each case.

- **Electricity**
  - Power stations (30)
  - Cooling towers (30)
  - Transformer kiosks (30)
  - Meters (20)
  - Load control equipment (20)
  - Switchgear (20)
  - Supply and reticulation networks (20)
  - Mains (20)
  - Substations (20)
  - Festive Lighting (10)
  - Highmast (30)
  
- **Roads**
  - Motorways (15)
  - Asphalt surface (10-20)
  - Gravel surface (3-10)
  - Asphalt layer (30-50)
  - Traffic islands (15)
  - Traffic lights (20)
  - Street lights (20-25)
  - Overhead bridges (30)
  - Storm water drains (15-80)

Bridges	(60-80)
Car parks	(20)
Bus terminals	(20)
Parking Meters	(15)
Parking Areas	(20)
Road Signs	(5-15)
Pedestrian Facilities	(15)
Sidewalks	(15)
Taxi Facilities	(20)
Traffic circle	(20)
Parking meters	(20)
Stormwater pipes	(25-20)
Catchpit	(20)
Crash barriers	(10-30)
Stormwater slabs	(20)
Speed hump	(20)
Retaining wall	(30-60)
Culverts	(25-40)
Kerbs	(40-50)
Grid inlet	(20)
<b>• Pedestrian Malls</b>	
Footways	(20)
Kerbing	(20)
Paving	(20)
<b>• Security</b>	
Access control systems	(5)
Security systems	(5)
Security fencing	(3)
Security lighting	(3)

**Community Assets**

The following is a list of community assets, showing again the assigned or estimated useful lives in years in brackets:

- **Buildings and other assets**

Agriculture	(30)
Cemeteries	(25-30)
Community centres	(25-30)
Libraries	(25-30)
Clinics	(30)
Museums and art galleries	(30)
Parks	(30)
Public conveniences	(30)
Recreation centres	(30)
Sports and related stadiums	(25-30)

- **Recreational facilities**

Bowling greens	(20)
Tennis courts	(10-30)
Swimming pools	(10-30)
Golf courses	(10-30)
Outdoor sports facilities	(10-30)
Fountains	(20)
Floodlighting	(20)
Pound Station	(20)

### **Heritage Assets**

The following is a list of at least some typical heritage assets encountered in the municipal environment (no asset lives are given, of course, as no ordinary depreciation will be charged against such assets):

- Works of art (which will include paintings and sculptures)
- Public statues

- Historical buildings or other historical structures (such as war memorials)
- Historical sites (for example, an Iron Age kiln, historical battle site or site of a historical settlement)

### **Investment Assets**

It is not possible to provide an exhaustive list of investment assets, as the actual list will depend very much on the local circumstances of each municipality.

### **Other Assets**

The following is a list of other assets, again showing the estimated useful life in years in brackets:

- **Buildings**

Compost	(30)
General	(30)
Hawker Facilities	(30)
Housing schemes	(30)
Laboratories	(30)
Nurseries	(30)
Office buildings	(30)
Old age homes	(30)
Recycling Centres	(30)
Tip sites	(30)
Transport facilities	(30)
Waste Cells	(30)
Workshops and depots	(30)
  
- **IT equipment**

Computer hardware	(3-9)
Computer software	(3-9)
Computer accessories	(3-9)
  
- **Office equipment**

Office machines	(3-5)
Air Conditioners	(5-8)
  
- **Furniture and fittings**

Chairs	(5-10)
Tables and desks	(5-10)
General	(5-10)
Cabinets and cupboards	(5-10)
• <b>Bins and containers</b>	
Household refuse bins	(5)
Bulk refuse containers	(10)
• <b>Motor vehicles</b>	
Tankers	(15)
Buses	(15)
Trucks and light delivery vehicles	(5-7)
Ordinary motor vehicles	(3-20)
Motor cycles	(3-20)
• <b>Plant and equipment</b>	
Chlorination Equipment	(5-15)
Compactors	(5-15)
Electronic Equipment	(5-15)
Fire Hoses	(5-15)
General	(5-15)
Generators	(5-15)
Graders	(5-15)
Horticultural Equipment	(5-15)
Mobile Pumps	(5-15)
Other Fire Fighting Equipment	(5-15)
Pumps	(5-15)
Tractors	(5-15)
Trailers	(5-15)
Mechanical horses	(5-15)
Farm equipment	(5-15)
Lawn mowers	(5-15)
Compressors	(5-15)

Laboratory Equipment	(5-15)
Radio Equipment	(5-15)
Firearms	(5-15)
Telecommunication equipment	(5-15)
Irrigation systems	(5-15)
Cremators	(5-15)
Lathes	(5-15)
Conveyors	(5-15)
Feeders	(5-15)
Tippers	(5-15)
Workshop Equipment	(5-15)

## **Annexure B**

### **Paraphrase of Section 14 of the Municipal Finance Management Act 2004**

A municipality may not dispose of any capital asset required to provide a minimum level of basic municipal services.

A municipality may dispose of any other capital asset, provided that:

- The Council, in a meeting open to the public, has first determined that the asset is not required to provide a minimum level of basic municipal services, and
- The Council has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

## **Annexure C**

### **GRAP 13 Definitions of Finance Leases**

A lease must meet one of the following criteria to be classified as a finance lease:

- the lease transfers ownership of the asset to the lessee by the end of the lease term,
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
- the lease term is for the major part of the economic life of the asset even if title is not transferred,
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset,
- the leased assets are of a such a specialised nature that only the lessee can use them without major modifications, and
- the leased assets cannot easily be replaced by another asset.
- if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee,
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease), and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

## **Annexure D**

### **Forms**



## GREATER GIYANI MUNICIPALITY

Tel: 015 811 5500  
Fax: 015 812 2068

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Giyani  
0826

### ASSET DISPOSAL FORM

DATE REQUESTED: \_\_\_\_\_  
DEPARTMENT: \_\_\_\_\_  
ASSET BARCODE: \_\_\_\_\_  
ASSET DESCRIPTION: \_\_\_\_\_  
ASSET LOCATION: \_\_\_\_\_  
CLASSIFICATIO OF ASSET: \_\_\_\_\_  
SUGGESTED METHOD OF DISPOSAL: \_\_\_\_\_  
CONDITION OF ASSET: \_\_\_\_\_  
REASON FOR REQUESTED FOR DISPOSAL: \_\_\_\_\_

#### REQUESTED OFFICIAL:

NAME & SURNAME: \_\_\_\_\_

SIGNATIURE: \_\_\_\_\_

#### HOD RECOMMENDATIONS:

NAME & SURNAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

#### CFO APPROVAL:

NAME & SURNAME: \_\_\_\_\_

SIGNATIURE: \_\_\_\_\_

#### MM APPROVAL:

NAME & SURNAME: \_\_\_\_\_

SIGNATIURE: \_\_\_\_\_



## GREATER GIYANI MUNICIPALITY

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0826

### ASSET TRANSFER FORM

DATE REQUESTED: \_\_\_\_\_

ASSET BARCODE: \_\_\_\_\_

ASSET DESCRIPTION: \_\_\_\_\_

ASSET LOCATION: \_\_\_\_\_

CLASSIFICATION OF ASSET: \_\_\_\_\_

CONDITION OF ASSET: \_\_\_\_\_

REASON FOR TRANSFER: \_\_\_\_\_

---

<b>CURRENT LOCATION</b> (Approval for the transfer of the asset)	<b>NEW LOCATION</b> (Asset is received and above details are verified)
<b>DEPARTMENT/LOCATION</b>	<b>DEPARTMENT/LOCATION</b>
<b>NAME OF BUILDING</b>	<b>NAME OF BUILDING</b>
<b>ROOM NUMBER</b>	<b>ROOM NUMBER</b>
<b>TRANSFERRING OFFICIAL</b>	<b>RECEIVING OFFICIAL</b>
<b>TRANSFERRING OFFICIAL SIGNATURE</b>	<b>RECEIVING OFFICIAL SIGNATURE</b>
<b>HOD NAME &amp; SURNAME</b>	<b>HOD NAME &amp; SURNAME</b>
<b>HOD SIGNATURE</b>	<b>HOD SIGNATURE</b>
<b>ASSETS OFFICIAL NAME &amp; SURNAME:</b>	
<b>ASSET OFFICIAL SIGNATURE:</b>	
<b>DATE TRANSFERRED</b>	<b>DATE RECEIVED</b>



## GREATER GIYANI MUNICIPALITY

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### ASSET WRITE-OFF FORM

DATE REQUESTED: \_\_\_\_\_  
DEPARTMENT: \_\_\_\_\_  
ASSET BARCODE: \_\_\_\_\_  
ASSET DESCRIPTION: \_\_\_\_\_  
ASSET LOCATION: \_\_\_\_\_  
CLASSIFICATION OF ASSET: \_\_\_\_\_  
SUGGESTED METHOD OF DISPOSAL: \_\_\_\_\_  
CONDITION OF ASSET: \_\_\_\_\_  
REASON FOR WRITE-OFF: \_\_\_\_\_

#### REQUESTED OFFICIAL:

NAME & SURNAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

#### HOD RECOMMENDATIONS:

NAME & SURNAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

#### CFO APPROVAL:

NAME & SURNAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

#### MM APPROVAL:

NAME & SURNAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_



## GREATER GIYANI MUNICIPALITY

Tel: 015 811 5500  
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### ASSET REMOVAL FORM

DATE REQUESTED: \_\_\_\_\_  
DATE REMOVED: \_\_\_\_\_  
DEPARTMENT: \_\_\_\_\_  
FLOOR & ROOM NO.: \_\_\_\_\_  
ASSET BARCODE: \_\_\_\_\_  
ASSET DESCRIPTION: \_\_\_\_\_  
CLASSIFICATION OF ASSET: \_\_\_\_\_  
REASON FOR REMOVAL: \_\_\_\_\_  
RETURN DATE: \_\_\_\_\_  
DATE RETURNED: \_\_\_\_\_

**REQUESTED BY:**

NAME & SURNAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

DATE: \_\_\_\_\_

**AUTHORISED BY:**

NAME & SURNAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

DATE: \_\_\_\_\_



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### ASSET CLEARANCE FORM

INVENTORY ITEMS: \_\_\_\_\_

MOVEABLE ASSETS: \_\_\_\_\_

**RESIGNING OFFICIAL:**

NAME & SURNAME: \_\_\_\_\_

SIGNATIURE: \_\_\_\_\_

DATE: \_\_\_\_\_

**HOD:**

NAME & SURNAME: \_\_\_\_\_

SIGNATIURE: \_\_\_\_\_

DATE: \_\_\_\_\_

**ASSET OFFICIAL:**

NAME & SURNAME: \_\_\_\_\_

SIGNATIURE: \_\_\_\_\_

DATE: \_\_\_\_\_



## GREATER GIYANI MUNICIPALITY

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### PERSONAL ASSET DECLARATION FORM

SERIAL NUMBER: \_\_\_\_\_

ASSET DESCRIPTION: \_\_\_\_\_

NAME OF USER: \_\_\_\_\_

ASSET LOCATION: \_\_\_\_\_

REASON FOR BRINGING THE ASSET INTO THE PREMISES: \_\_\_\_\_

\_\_\_\_\_

ESTIMATED REMOVAL DATE: \_\_\_\_\_

DATE REMOVED: \_\_\_\_\_

#### OWNER DETAILS:

NAME & SURNAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

DATE: \_\_\_\_\_

DECLARATION: I ....., the owner agree not to hold Greater Giyani Municipality liable for any theft of damage incurred relating to the use of the above-mentioned asset.

#### ASSET OFFICIAL:

NAME & SURNAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

DATE: \_\_\_\_\_

DECLARATION: I ....., the Asset Official agree that Greater Giyani Municipality is not the owner of the above-mentioned asset.

