
ASSET MANAGEMENT POLICY

**P.O. BOX 47
10 CLAUGHTON TERRACE
MOOI RIVER 3300
TEL: 033 263 1221 / FAX: 033 263 1227
E: mm.office@mpofana.gov.za**



MPOFANA LOCAL MUNICIPALITY

INTRODUCTION:

This policy is intended to define and provide a frame work for the Asset Management of the Mpofana Municipality within the guiding principles of National Treasury, Guidelines Recognised Accounting Practices (GRAP), accounting Standards and to promote good financial management practices.

This document is provided to assist management and employees of Mpofana Local Municipality with implementing and maintaining consistent, effective and efficient assets management principles.

Failure to comply with the prescribed policies will result in the institution of disciplinary procedures in terms of the stipulated human resources policies and procedures of Mpofana Local Municipality. The policy is effective 1 January 2020.

MPOFANA MUNICIPALITY

Asset Management Policy

Contents

1	Key definitions
2	Statutory and regulatory framework
3	Asset Management Policy Summary
4	Classification of fixed Assets
4.1	Objectives
4.2	Property, plant and equipment
4.3	Investment property
4.3.1	Accounting and recording
4.3.2	Depreciation
4.3.3	Valuation
4.4	Inventory
4.4.1	Housing Stock
4.4.2	Recording
4.5	Heritage assets
4.5.1	Fixed assets register
4.5.2	Annual financial statements
4.5.3	Componentisation of major portions of assets
4.6	Intangible Assets
4.7	Accounting for Property, Plant and Equipment
4.7.1	Recognition of property, plant and equipment
4.7.2	Initial measurement
4.7.3	Donations or exchanges
4.7.4	Carrying amount on property, plant and equipment
5	Safekeeping, identification and movement of fixed assets
5.1	Objectives
5.2	Safekeeping
5.3	Identification
5.4	Transfers to another Asset Controller
5.4.1	Permanent transfers to another Asset Controller
5.4.2	Relocation or Reassignment of Property, Plant or Equipment
5.4.3	Verification
6	Fixed Assets register
6.1	Objective
6.1.1	Establishment and Management of the Financial Asset Register
6.1.2	Format of the fixed assets register
6.2	Provision of information for the fixed asset register
6.3	Recording on the register
6.4	Carrying value
6.4.1	Internal Controls over the Financial Asset Registers
7	Acquisition and replacement of fixed assets
7.1	Objectives
7.2	Acquisition of fixed assets
7.3	Physical Receipting and Management
7.3.1	Responsibilities of the Asset Controller

7.3.2	The date of acquisition
7.4	Replacement of fixed assets
8	Capitalisation criteria
8.1	Objective
	Material value: Management of Valuable Items
8.1.1	Management of asset inventory items
8.2	Reinstatement, maintenance and other expenses
8.2.1	Enhancement costs
8.2.2	Maintenance costs
8.2.3	Expenses to bring the asset in to operation
8.2.4	Subsequent expenditure on property plant and equipment
9	Management and operation of assets
9.1	Objectives
9.1.1	Accountability to manage property plant and equipment
9.1.2	Contents of a strategic asset management plan
9.1.3	Reporting on Emerging Issues
10	General, planned and deferred Maintenance
10.1	Objectives
10.2	General and planned maintenance
10.2.1	Maintenance planning
10.3	Deferred maintenance
10.3.1	Disclosure of deferred maintenance
11	Depreciation
11.1	Objectives
11.2	Depreciation
11.2.1	Assets to depreciate
11.2.2	Calculation of depreciation
11.2.3	Rate of depreciation
11.2.4	Depreciation rate
11.2.5	Initial determination useful life
11.2.6	Review of useful life
11.2.7	Review of depreciation method
12	Amendment of asset lives and diminution in value of fixed assets
12.1	Objective
12.2	Amendment of asset lives
12.2.1	Authority to amend useful life
12.2.2	Circumstances to amend useful life
12.3	Diminution in fixed asset value
12.3.1	Circumstances to fully depreciate fixed assets
12.4	Impairment of fixed assets
12.4.1	Subsequent increase in recoverable amount
13	Funding sources and reserves
13.1	Objectives

13.1.1	Main funding sources
13.1.2	Capital Replacement Reserve(CRR)
13.1.3	Conditional grants, subsidies, public contributions and donations
13.1.4	Revenue contributions
13.1.5	Surplus cash
14	Re-valuation of fixed assets
14.1	Objective
14.1.1	Re-valuation process
14.1.2	Re-valuation reserve
14.1.3	Depreciation of re-valued property
15	Insurance, loss, damage, theft
15.1	Objective
15.2	Insurance of fixed assets
15.3	Loss, damage theft of fixed assets
16	Disposal and retirement from use
16.1	Objective
16.2	Disposal of fixed assets
16.3	Other write-offs
16.3.1	Accounting treatment on Disposal
16.3.2	The Supply Chain Management Policy
17	Accounting and financial statement disclosure
17.1	Objective
17.2	Detailed disclosure requirements

1. Key definitions

"Accounting Officer" Means the Municipal Manager;

"Asset" Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

"Basic Municipal Service" Means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment;

"Carrying Amount" The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

"Chief Financial Officer" Means a person designated in terms of section 80(2)(a) of the MFMA;

"Cost" 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 or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP

"Councillor" Means a member of a municipal council;

"Current year" Means the financial year, which has already commenced, but not yet ended;

"Depreciable amount" The cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation"

The systematic allocation of the depreciable amount of an asset over its useful life.

"Fair value" The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

"Financial year" Means a twelve months period commencing on 1 July and ending on 30 June each year

"Financing agreement" Includes any loan agreement, lease, and instalment purchase contract or hire purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time;

"GRAP17" The accounting standards applicable to municipalities GRAP– Generally Recognised Accounting Practice

"Heritage assets" Some assets are described as "heritage assets" because of their cultural, environmental or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

"Impairment loss"

- Of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.
- Of a non-cash-generating asset is the amount by which the

carrying amount of an asset exceeds its recoverable service amount.

“Infrastructure assets”

2. These assets usually display some or all of the following characteristics:
- (a) They are part of a system or network,
 - (b) They are specialized in nature and do not have alternative uses,
 - (c) They are immovable, and
 - (d) They may be subject to constraints on disposal.

Examples of infrastructure assets include road networks, sewer systems, and water and power supply systems and communication networks.

“Inventory” Are assets:

- (a) In the form of materials or supplies to be consumed in the production process,
- (b) In the form of materials or supplies to be consumed or distributed in the rendering of services,
- (c) Held for sale or distribution in the ordinary course of operations, or
- (d) In the process of production for sale or distribution

“Investment” In relation to funds of a municipality, means-

- (a) The placing on deposit of funds of a municipality with a financial institution; or
- (b) The acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;

“Investment properties” 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.

“Local community” Has the meaning assigned to it in section 1 of the Municipal Systems Act;

“Municipal Structures Act” Means the Local Government: Municipal Structures Act, 1998 (Act No.117 of 1998);

“Municipal Systems Act” Means the Local Government: Municipal Systems Act, 2000(Act No.32 of 2000);

“Long-term debt” Means debt repayable over a period exceeding one year;

“Municipal council” or **“Council”** Means the council of a municipality referred to in section 18 of the Municipal Structures Act; (refer to the MSA for definition);

“Municipality”-

- a. When referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or
- (b) When referred to as a geographic area, means a municipal area determined terms of the Local Government: Municipal Demarcation Act, 1998 (Act No.27 of 1998);

"MFMA" The Local Government: Municipal Finance Management Act (No.56 of 2003)

"Municipal Manager" "MM" Means a person appointed in terms of section 82(l)(a) or (b) of the Municipal Structures Act;

"Municipal service" Has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

"National Treasury" "NT" Means the National Treasury established by section 5 of the Public Finance Management Act;

"Official" Means-

- (a) An employee of a municipality or municipal entity;
- (b) A person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
- (c) A person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee

"Property Plant and Equipment" Are tangible assets that:

- (a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- (b) Are expected to be used during more than one reporting period.

"PT", "Provincial Treasury" Means the Provincial Treasury branch established by section 5 of the Public Finance Management Act;

"Quarter" Means any of the following periods in a financial year:

- (a) 1 July to 30 September;
- (b) 1 October to 31 December;
- (c) 1 January to 31 March; or
- (d) 1 April to 30 June;

"Recoverable amount" The higher of a cash-generating asset's net selling price and its value in use.

"Residual value" The estimated amount that an entity 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.

"Useful life"

- (a) The period over which an asset is expected to be available for use by an entity, or
- (b) The number of production or similar units expected to be obtained from the asset by an entity.

"Vote" Means-

- (a) One of the main segments in to which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and

- (b) Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

2 **Statutory and regulatory framework**

This policy must comply with all relevant legislative requirements including:

The Constitution of the Republic of South Africa, 1996

The Municipal Structures Act, 1998

- The Municipal Systems Act, 2000 as amended
- The Division of Revenue Act (enacted annual)
- The Municipal Finance Management Act, 2003

This policy must comply with the standards specified by the Accounting Standards Board. The

current relevant recognized accounting standards include:

- GRAP 17 Property, Plant and Equipment
- GRAP 12 Inventories

This policy will be updated annually or whenever legislative or accounting standard

amendments significantly change the requirements pertaining to asset management in general

and the administration of property, plant and equipment.

This policy should be read in conjunction with all applicable Mpofana Municipality's policies including the Supply Chain Management Policy.

The Chief Financial Officer will provide

guidance or adjust this policy where an apparent conflict exists between this policy and other policies, legislation or regulations.

3

Asset Management Policy Summary

Objectives	Key principles to be achieved
<p>The objectives of this policy are to ensure that assets are managed and accounted for by:</p> <ul style="list-style-type: none"> • Accurate recording of fixed assets and related transactions • Compliance with municipal legislation and accounting standards • Compliance with accounting policies and standards • Providing management information on fixed assets • To ensure Asset Controllers are aware of their responsibilities in regard to assets. • To set out the standards of physical management, recording and internal control to ensure property, plant and equipment are safeguarded against inappropriate loss or utilisation. • To specify the process required before expenditure on assets. 	<ul style="list-style-type: none"> • Safekeeping of assets • Accurate, complete recording of all the municipality's fixed assets • Each departmental manager is responsible for the fixed assets in their department • Asset register must balance to the financial statements • Fixed assets must be properly maintained and insured • The fixed assets register and annual financial statements must comply with the applicable accounting standard and legislation applicable at the time

Key performance areas (strategic intent)

- Classification of fixed assets
- Safekeeping and identification of fixed assets
- Format of fixed assets register
- Acquisition and replacement
- Capitalisation criteria
- General planned & deferred maintenance
- Depreciation of fixed assets
- Amendment of asset lives and diminution in value of fixed assets
- Creation of non-distributable reserves
- Re-valuation of fixed assets
- Insurance, loss, damage, theft
- Disposal and retirement from use

4 **Classification of fixed assets**

Proposed Amendment

In compliance with the requirement of the National Treasury, the CFO shall ensure that all fixed assets are classified under the following headings in the FAR and HOD shall in writing provide the CFO with such information or assistance as is required to compile a proper classification:

4.2 **Property, plant and equipment**

- Land (developed and undeveloped)
- Buildings (dwellings and non-residential structures)
- Infrastructure assets (assets which are part of a network)
- Capital / Infrastructure work in progress
- Other Machinery and equipment
- Heritage assets (culturally significant resources)
- Investment property
- Intangible assets

4.3 **Investment property**

Investment assets shall be accounted for in terms of IAS 40 and shall not be classified as PPE for purposes of preparing the Municipality's statement of financial position.

Investment assets shall comprise land or buildings (or parts of Buildings) or both held by the Municipality, as owner or as lessee under finance lease to earn rental revenues or for capital appreciation or both.

- Investment Property assets shall be accounted for in terms of GRAP 16 and initially recorded at cost including transaction cost. Following initial recognition the investment property will be recognized at fair value reflecting the market conditions at the reporting date. An expert valuer may be engaged by the municipality to undertake such valuations.
- Transfer to and from investment property will be in accordance with GRAP 12 Inventories or GRAP 17 Property, Plant and Equipment whichever is appropriate.
- If the council of the municipality resolves to construct or develop a property for future use as an investment property, such property will be accounted for as property, plant and

equipment until it is ready for its intended use and reclassified as an investment property.

4.3.1 Depreciation

- Investment assets shall not be depreciated, but shall be annually valued on balance sheet date to determine their fair (market) value
- Investment assets shall be recorded in the statement of position at such fair value

4.3.2 Valuation

- Adjustments to the previous year's recorded fair values shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned

- An expert valuator shall be engaged by the municipality to undertake such valuations

- Where the council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as an ordinary fixed asset until it is ready for its intended use – whereafter it shall be reclassified as an investment asset

4.4 Inventory

4.4.1 Housing Stock

This is rental or housing stock which is not held for capital gain

- This includes:
 - Land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business
 - 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
- These assets shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the municipality's statement of position

4.4.2 Recording

- These inventory assets will be recorded in a separate section of the asset register and maintained as required
- Inventories shall be measured at the lower of cost and net realizable value
- The cost of inventories shall comprise all costs of purchase, cost of development, cost of conversion and other costs incurred in bringing the inventories to their present location and condition
- Any land or buildings owned or acquired by the municipality with the intention of selling the property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing the property for the purpose of selling it in

the ordinary course of business, will be accounted for as inventory

- Where the municipality owns undeveloped land, usually this will be classified as property, plant and equipment. Where there is an intention to develop such land and to sell or transfer or contract it to a third party it should be classified as inventory rather than property, plant and equipment
- The purchase of land or buildings for resale should be classified as inventory if the land or buildings is held for short-term sale in the ordinary course of operations

4.5 Heritage assets

4.5.1 Fixed assets register

If no original costs or fair values are available in the case of heritage assets, the Asset Manager/CFO should record such assets or assets in the fixed asset register at a value as determined in terms of the guidance and accounting standards for heritage assets.

4.5.2 Annual financial statements

For purposes of compiling the statement of position, the existence of such heritage assets shall be disclosed by means of an appropriate note in the Annual Financial Statements.

4.5.3 Componentisation of major portions of assets

- An Asset Controller may, with agreement of the Asset Manager, treat specified major components of an item of property plant and equipment as a separate asset for the purposes of this policy.
- These major components may be defined by its physical parameters (e.g. a reservoir roof) or its financial parameters (e.g. a road surface).
- In agreeing to these treatments the Asset Manager must be satisfied that these components:
 - Have significantly different useful life or usage pattern to the main asset,
 - Align with the asset management plans,
 - The benefits justify the costs of separate identification,
 - It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality,
 - The cost of the asset to the municipality can be measured reliably,
 - The municipality has gained control over the asset,
 - The cost is above the recognition threshold, and
 - The asset is expected to be used during more than one financial year.
- All such decisions and agreements will be confirmed before the beginning of the financial year and submitted for approval with the budget. Any amendments will only be permitted as part of a budget review.
- Once a major component is recognized as a separate asset, it may be acquired,

depreciated and disposed of as if it were a separate asset.

- All other replacements, renewal or refurbishment of components will be expensed

PROPOSED AMENDMENT

4.6 Intangible Assets

4.6.1 An intangible assets is defined as an identifiable non-monetary asset without physical substance. This asset can be held for any purpose but must be controlled by the municipality and expected to provide future economic benefit to the municipality or to be used for service delivery.

4.6.2 The Chief financial Officer acting in strict compliance with the criteria set out in GRAP31 dealing with research and development expenses, may recommend to council that specific development costs be recognised as an asset.

The following are examples of items that general have a physical substance of some sort, but where the physical substance is secondary (incidental) to the intangible asset. Physical substance is deemed to be incidental when it is not the driver of the value of the asset.

Item	Physical Substance	Why is it still seen as "without physical substance"
Licences (software licences, etc.)	Licence document/agreement	The entity pays for the right of use of, e.g. software. Thus an entity does not pay for the tangible item being the piece of paper on which the licence agreement is printed, but rather for information contained on the document (you can't touch a right of use).
Application Software	CD	The value of application software is not driven by the CD that it is loaded on, but rather by the knowledge that it embodies. Thus, the physical substance is deemed to be incidental.
Patents	Patent registration document	The value of a patent is not driven by the piece of paper that it is printed on, but rather by the knowledge that it embodies. Thus, the physical substance is deemed to be incidental.

4.7 Accounting for Property, Plant and Equipment

4.7.1 Recognition of property, plant and equipment

- An item of property, plant and equipment will be recognized as an asset when:

-

It is probable that future economic benefits or potential service delivered by the asset will flow to the municipality,

- The cost of the asset to the municipality can be measured reliably,
- The municipality has gained control over the asset,

- Irrespective of the cost, if the asset meets the recognition criteria it should be recognised as an asset

- The asset is expected to be used during more than one financial year.

- All other acquisitions of property, plant and equipment that do not meet the recognition criteria will be expensed.

4.7.2 Initial measurement

- An item of property, plant and equipment that qualifies for recognition as a non-current asset should be initially measured at its "cost of acquisition".

- This "cost of acquisition" will include all costs required to bring the asset to the proper working condition and position for its intended use. These costs usually include the following:

- Purchase costs (less any discount given)
- Deliveries
- Installation costs
- Professional fees for architects and engineers
- Import duties
- Non-refundable taxes
- Site development costs
- Contractor fees

4.7.3 Donations or exchanges

Where an item of property, plant and equipment is acquired at no cost, or for a nominal cost, it will be initially measured at its fair value as at the date of acquisition and included in the non-

current asset register if the fair value is greater than the recognition threshold.

4.7.4 Carrying amount on property, plant and equipment

Subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation, subject to the requirement to write an asset down to its recoverable amount or any subsequent revaluation.

5 Safekeeping, identification and movement of fixed assets

5.1 Objectives

To prevent the loss, damage or theft from them is appropriation or misuse of fixed assets owned by the municipality.

5.2 Safekeeping

Each departmental head shall:

- Be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question
- Take the necessary steps to ensure the safekeeping of fixed assets under their control
- Adhere to any written directives issued by the Chief Financial Officer in regard to the control of safekeeping of the municipality's fixed assets

5.3 Identification

- The Chief Financial Officers shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its fixed asset register
- The identification system shall be determined by the Chief Financial Officer:
 - Acting in consultation with the municipal manager and other departmental heads
 - Comply with any legal prescriptions
 - Be decided upon within the context of the municipality's budgetary and human resources available
- Every departmental head shall ensure that the asset identification system approved for the municipality is properly applied in respect of all fixed assets controlled or used in their department

5.4 Transfer to another Asset Controller

5.4.1 Permanent transfer to another Asset Controller

- An Asset Controller retains managerial accountability and control for a particular asset unless;

- Another Senior manager agrees in writing to accept responsibility for that asset, and
- The Asset Manager endorses the transfer.
- The Finance Department appropriately amends the Financial Asset register for all approved transfers.
- The new Asset Controller assumes all the accountabilities of the previous Asset Controller.

5.4.2 Relocation or Reassignment of Property, Plant or Equipment

- The Asset Controller must ensure that the asset is appropriately safeguarded for loss, damage or misuse wherever it is located. Safeguarding includes ensuring reasonable physical restrictions and delegated management is implemented.
- The Asset Controller must advise the Asset Manager whenever an asset is permanently relocated or reassigned from the location (or base) or cost centre recorded in the Financial Asset Register.
- The Asset Controller must advise the Asset Manager whenever an asset is temporarily relocated or reassigned from the location (or base) or cost centre recorded in the Financial Asset Register. In this case, the Asset Controller must also advise the Asset Manager when this asset is returned.

5.4.3 Verification

- Every departmental head shall undertake a comprehensive verification of all fixed assets under their control:
 - At least once during June of every financial year
 - In compliance with the relevant written directives issued by the Asset Manager
 - Report in writing to the Asset Manager in the format determined by the Chief Financial Officer, all relevant results of such fixed asset verification not later than 30 June

6 **Fixed assets register**

6.1 **Objective**

To ensure that all of the municipality's fixed assets are recorded in such a way to enable adequate management and accounting for fixed assets

6.1.1 **Establishment and Management of the Financial Asset Register**

- The Asset Manager will establish and maintain the Asset Register containing key financial data on each asset that satisfies the criterion for recognition.
- Asset Controllers are responsible for establishing and maintaining an additional register or database required to demonstrate their physical management of the assets.
- Each Asset Controller is responsible to ensure that sufficient control exists to substantiate the quantity, value, location and condition of all assets in their registers.

6.1.2 **Format of the fixed assets register**

The fixed assets register should contain the following for each item of property, plant and equipment:

- Acquisition dates
- Clear descriptions of individual items
- Location
- Department/service that controls the asset
- A unique asset identification number
- The original cost/fair value
- Depreciation charge and accumulated depreciation
- Carrying amount
- Method and rate of depreciation
- Impairment losses incurred during the year
- Source of financing
- Insurance arrangements
- Disposal date and price
- Date retired for use

- Re-valued amounts

6.2 Provision of information for the fixed asset register

Each departmental head under whose control any fixed asset falls shall:

- Promptly provide the Asset Manager in writing with any information required to compile the fixed asset register
- Promptly advise the Asset Manager in writing of any material change which may occur in respect of such information

6.3 Recording on the register

- A fixed asset shall be recorded in the fixed assets register, as soon as it is acquired
- Where the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, whereafter it shall be appropriately capitalised as a fixed asset
- A fixed asset shall remain in the fixed assets register for as long as it is in physical existence

6.4 Carrying value

- All fixed assets shall be carried in the fixed asset register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation
- The only exceptions to this rule shall be re-valued assets and heritage assets in respect of which no value is recorded in the fixed asset register

6.4.1 Internal Control over the Financial Asset Registers

- Controls around these asset registers should be sufficient to provide a accurate, reliable and up to date account of assets under their control to the standards specified by the Chief Financial Officer and required by the Auditor-General.
- These controls will include physical management and recording of all acquisitions, assignments, transfers, losses and disposal of their assigned assets as well as regular stock-takes and systems audits to confirm the adequacy of their controls.

7 Acquisition and replacement of fixed assets

7.1 Objectives

- To ensure fair, transparent and equitable acquisition of fixed assets in terms of the supply chain management policy, capital budget and IDP priorities
- To ensure that fixed assets are replaced when they have exhausted their effective service potential

7.2 Acquisition of fixed assets

- The Asset Manager will develop and provide a form to be completed by departmental heads for new acquisitions
- Each departmental head will promptly inform the Asset Manager of new fixed assets taken into use in the format requested by the Chief Financial Officer

7.3 Physical Receipting and Management

7.3.1 Responsibilities of the Asset Controller

- The Asset Controller must ensure that the purchase of assets complies with all municipal policies and procedures.
- The Asset Controller must ensure that all moveable property, plant and equipment is duly processed and identified before it is received into their stewardship.
- The Asset Controller must ensure that all moveable assets received into their stewardship are appropriately safeguarded for in appropriate use or loss. This will include appropriate control over the physical access to these assets and regular stocktake to ensure any losses have not occurred. Any known losses should be immediately reported to the Asset Manager.
- The Asset Controller will do an annual stocktake of property, plant and equipment as part of the annual reporting processes coordinated by the Asset Manager.
- The Asset Controller must ensure that property, plant and equipment is appropriately

utilized these assets for the purpose that the municipality acquire them.

7.3.2 The date of acquisition

- The date of acquisition of an asset is deemed to be the time when legal title and control pass to the municipality.
- This may vary for different categories of assets but will usually be the point of time when the payment for that asset is approved.

7.4 Replacement of fixed assets

- Fixed assets will be replaced when they can no longer deliver the services effectively and efficiently
- Each departmental head will assess the service potential of the fixed assets under their control annually
- The results of these assessments will be included into each departmental head's contribution to the IDP and capital budgeting process

8 **Capitalisation criteria**

8.1 **Objective**

To ensure that only items that meet the criteria and characteristics for fixed assets are capitalised as such

Material value: Management of Valuable Items

8.1.1 **Management of asset inventory items**

All items that meet the recognition criteria in terms of GRAP 17 will be recognised and accounted for as such.

8.2 **Reinstatement, maintenance and other expenses**

8.2.1 **Enhancement costs**

Only expenses incurred in the following shall be capitalised:

- Enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset)
- Material extension of the useful life

8.2.2 **Maintenance costs**

Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses

8.2.3 **Expenses to bring the asset into operation**

- Expenses to bring the fixed asset into operation will be capitalised as part of such fixed asset
- Such expenses may include the following costs:
 - Import duties
 - Forward cover
 - Transportation
 - Installation
 - Assembly
 - Commissioning

8.2.4 Subsequent expenditure on property plant and equipment

- Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized should be added to the carrying amount of the asset when it is probable that future economic benefits or potential service delivery, in excess of the originally assessed standard of performance of the existing asset, will flow to the municipality.
- All other expenditures should be recognized as an expense in the period in which it occurred.
- Before allowing the capitalization of subsequent expenditure, the Asset Manager must be satisfied that this expenditure significantly:
 - Increases the life of that asset beyond that stated in the asset register, or
 - Increases the quality of service that asset beyond the existing level of service, or
 - Increases the quantity of service that asset can provide, or
 - Reduces the future assessed costs of maintaining that asset.
- Expenditure that is proposed to be capitalized must also conform to recognition criteria for non-current assets and should also be appropriately included in the approved capital budget.
- Where it is desired to capitalise future component replacements, refurbishments or renewals, then please refer to this section on major components in this policy

9 **Management and operation of assets**

9.1 **Objectives**

To ensure that the municipality's fixed assets are effectively utilised and maintained.

9.1.1 **Accountability to manage property plant and equipment**

- Each Departmental Manager is accountable to ensure that municipal resources assigned to them are utilized effectively, efficiently, economically and transparently. This would include;
 - Developing appropriate asset management systems, procedures, processes and controls for managing assets,
 - Providing accurate, reliable and up to date account of assets under their control,
 - The development and motivation of relevant strategic asset management plans and operational budgets that optimally achieve the municipality's strategic objectives.

9.1.2 **Contents of a strategic asset management plan**

- Asset Controllers need to manage assets under their control to provide the required level of service or economic benefit at the lowest possible long-term cost. To achieve this, the Asset Controller will need to develop strategic asset management plans that cover:
 - Alignment with the Integrated Development Plan
 - Operational guidelines,
 - Performance monitoring,
 - Maintenance programs,
 - Renewal, refurbishment and replacement plans,
 - Disposal and Rehabilitation plans,
 - Operational, financial and capital support requirements, and
 - Risk mitigation plans including insurance strategies
- The operational budgets are the short to medium term plan for implementing this strategic asset management plan.

9.1.3 Reporting on Emerging Issues

Each Asset Controller should report to the Municipal Manager on issues that will significantly impede the asset's capability to provide the required level of service or economic benefit.

10 General, planned and deferred Maintenance

10.1 Objectives

To ensure that fixed asset maintained to a level to ensure that the fixed asset can be used efficiently and services can be effectively rendered to the community by:

- Planned maintenance
- General maintenance
- Reporting and follow-up of deferred maintenance

10.2 General and planned maintenance

- Every departmental head shall be directly responsible for ensuring that all assets are properly maintained to ensure:

- That such assets provide the desired level of service and;
- Attain their useful operating lives

10.2.1 Maintenance planning

- An annual maintenance plan shall be prepared and submitted by each departmental head when the capital and operating budget is prepared annually
- A maintenance plan shall be submitted to the council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned
- The departmental head of the department controlling or using the infrastructure asset in question, shall annually report to the council at least quarterly) on:
 - The extent to which the relevant maintenance plan has been complied with
 - The likely effect which any non-compliance may have on the useful operating life of the asset concerned

10.3 Deferred maintenance

10.3.1 Disclosure of 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 infrastructure asset the Chief

Financial Officers shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements

Such notes shall also indicate any plans which the council of the municipality has approved in order to redress such deferral of the maintenance requirements concerned

11 **Depreciation**

11.1 **Objectives**

To ensure that the accounting records and annual financial statements reflect fixed assets at a value in accordance with the rate at which the economic benefits and service potential has been utilised

11.2 **Depreciation**

11.2.1 **Assets to depreciate**

All fixed assets, except land and heritage assets, shall be depreciated

11.2.2 **Calculation of depreciation**

- Depreciation will take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed
- Depreciations shall initially be calculated from:
 - The day following the day in which a fixed asset is acquired or
 - In the case of construction works and plant and machinery – the day following the day in which the fixed asset is brought into use, until the end of the calendar month concerned
- Thereafter, depreciation charges shall be calculated monthly
- Depreciation will be included in the annual operating budget

11.2.3 **Rate of depreciation**

- The Asset Managers shall assign a useful operating life to each depreciable asset recorded on the municipality's fixed asset register
- The useful life shall be determined in consultation with the departmental head concerned

11.2.4 **Depreciation rate**

- The Asset Managers shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in qu

estion

11.2.5 Initial determination useful life

- Each Asset Controller needs to determine the useful life of a particular item or class of property, plant and equipment through the development of a strategic asset management plan that forecasts the expected useful life of that asset. This should be developed as part of the Pre-Acquisition Planning that would consider the following factors:
 - The operational, maintenance, renewal and disposal program that will optimize the expected long-term costs of owning that asset,

- Economic obsolescence because it is too expensive to maintain,
 - Functional obsolescence because it no longer meets the municipalities needs,
 - Technological obsolescence,
 - Social obsolescence due to changing demographics, and
 - Legal obsolescence due to statutory constraints.
- Spares purchased specifically for a particular asset, or class of assets, and which would become redundant if that asset or class was retired or use of that asset or class was discontinued, must be considered to form part of the historical cost of that asset or class. The depreciable amount of such spares must be allocated over the useful life of the asset or class.

11.2.6 Review of useful life

The useful life of any item of property, plant and equipment should be reviewed regularly and if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted.

11.2.7 Review of depreciation method

- The depreciation method applied to property, plant and equipment should be reviewed regularly, and if there has been a significant change in the expected pattern of economic benefits or potential service delivery from those assets, the methods should be changed to reflect the changed pattern.
- When such a change in depreciation method is necessary the change should be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods should be adjusted.

12 Amendment of asset lives and diminution in value of fixed assets

12.1 Objective

To ensure that the amendment of asset lives or the diminution in value thereof must take place in a controlled manner based on the operating value and service potential of those fixed assets

12.2 Amendment of asset lives

12.2.1 Authority to amend useful life

- Only the Asset Manager may amend the useful operating life assigned to any fixed asset
- When any material amendment occurs the Asset Manager shall inform the council of the municipality of such amendment

12.2.2 Circumstances to amend useful life

- The Asset Manager shall amend the useful operating life assigned to any fixed asset if:
 - it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or
 - Any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed

12.3 Diminution in fixed asset value

12.3.1 Circumstances to fully depreciate fixed assets

- A fixed asset shall be fully depreciated where:
 - Where the value of a fixed asset has been diminished to such an extent that it has no or a negligible further useful operating life or value
 - Where a fixed asset has been lost, stolen or damaged beyond repair
 - Physically ceased to exist
- These additional depreciation expenses shall be debited to the department or vote

controlling or using the fixed asset in question

12.4 Impairment of fixed assets

- A fixed asset is said to be impaired where the recoverable amount or the recoverable service value is less than the carrying amount reflected in the accounting record
- Each departmental head shall annually, judge the useful lives, value and impairment of all the fixed assets under their control and submit to the Asset Manager

- When such a decline has occurred, the carrying amount should be reduced to the recoverable amount
- The amount of the reduction should be recognized as an expense immediately, unless it reverses a previous revaluation in which case it should be charged to a non-distributable reserve
- For an asset providing economic benefits, the recoverable amount is the net present value of future ownership
- For an asset providing future service delivery, the recoverable amount is the remaining proportional of its useful life, service capacity or quality of service that is not intended to be restored by normal maintenance programs

12.4.1 Subsequent increase in recoverable amount

- A subsequent increase in the recoverable amount of an asset, previously written down due to a decline in the carrying amount, should be written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future
- The amount written back should be reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred

13 **Funding sources and reserves**

13.1 **Objectives**

- To ensure that fixed assets are funded in terms of the funding sources available
- To ensure that funding sources are completely and accurately disclosed in the fixed asset register and

13.1.1 **Main funding sources**

The main sources of finance to be used to acquire assets will be as follows:

- Capital Replacement Reserve (CRR)
- Grants, subsidies and public contributions
- Revenue contributions
- Cash surplus

13.1.2 **Capital Replacement Reserve (CRR)**

- Council must annually approve the basis and amounts for which contributions should be appropriated to the CRR
- This appropriation will be done in consideration of the funds available and future capital programme
- The CRR funds will be accumulated by:
 - Annual revenue contribution
 - Profit on disposal of assets
- When a fixed asset is financed from the CRR an amount is transferred to the CRR to Accumulated Surplus equal to the cost thereof
- The balance in the reserve must be cash backed

13.1.3 **Conditional grants, subsidies, public contributions and donations**

- Unspent grants are to be accounted for and disclosed in terms of GAMAP/GRAP17
- These funds will be cash backed and invested until utilised

- The interest earned from investments will be treated in terms of the condition of the grant

13.1.4 Revenue contributions

- Revenue will be used to finance smaller fixed asset items
- These items will typically be under the R20000 capitalisation threshold mentioned previously

13.1.5 Surplus cash

- If there is sufficient surplus cash available, fixed assets may be financed directly from surplus cash
- Depreciation charges on these assets will not be offset

14 Re-valuation of fixed assets

14.1 Objective

Accurate re-valuation of fixed assets where the re-valuation model is used

14.1.1 Re-valuation process

- All land and buildings recorded in the municipality's fixed asset register shall be re-valued with the adoption by the municipality of each new valuation roll
- The Asset Manager shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed asset as recorded in the valuation roll, provided the Asset Manager is satisfied that such value reflects the fair value of the fixed asset concerned
- Re-valued fixed assets shall thereafter be depreciated on the basis of its re-valued amount

14.1.2 Re-valuation reserve

- The Chief Financial Officer shall create a revaluation reserve for each re-valued fixed asset 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

14.1.3 Depreciation of re-valued property

- The fixed asset concerned shall, in the case of buildings, thereafter be depreciated on the basis of its re-valued amount over its remaining useful operating life
- The increased depreciation expenses must be budgeted

15 Insurance, loss, damage, theft

15.1 Objective

To ensure that municipal fixed assets are adequately insured and adequate records kept of loss, damage and theft thereof

15.2 Insurance of fixed assets

- The Chief Financial Officers shall ensure that all the fixed assets are adequately insured
- The municipal managers shall recommend to the council of the municipality, after consulting with the Chief Financial Officer, the basis of the insurance to be applied to each type of fixed asset: either
 - The carrying value or
 - The replacement value of the fixed assets concerned
- Such recommendations shall take due cognisance of the budgetary resources of the municipality
- The Chief Financial Officers shall ensure that insurance cover is sourced in terms of the supply chain management policy of the municipality
- The Chief Financial Officers shall annually submit a report to the council of the municipality for approval on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance reserve

15.3 Loss, damage, theft of fixed assets

- Every departmental head shall promptly report every incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in writing to the Chief Financial Officer and;
- In cases of suspected theft or malicious damage also to the South African Police Service
- Each departmental head shall prepare a schedule of loss, damage and theft and submit it to the Chief Financial Officer annually by 30 June

- TheAssetManagerwillthenreconcilethisinformationtotheinsurer's scheduleandcollate itintoareportforexternalaudit

16 **Disposal and retirement from use**

16.2 **Disposal of fixed assets**

- Each departmental head shall report in writing to the Asset Manager annually on all fixed assets controlled or used by the department concerned on which fixed assets they wish to dispose of by public auction, public tender or write-off by 30 June each year.
- Each departmental head must take the necessary steps to ensure that all obsolete or damaged assets are disposed of in an appropriate and approved manner.

16.3 **Other write-offs**

- A fixed asset shall be written-off only on the recommendation of the departmental head of the department controlling the asset and with the final approval of Council.
- Every departmental head shall report annually to the Asset Manager which fixed assets they wish to have written-off, stating the full reason for such recommendation by 30 June of each year.
- The Asset Manager will then consolidate all such reports and submit a recommendation to Council for approval.
- Valid reasons for the writing-off of fixed assets shall be the disposal, loss, theft, destruction, incorrect capitalization or material impairment of these fixed assets.

16.3.1 **Accounting treatment on Disposal**

- An item of property, plant and equipment should be eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery are expected from its disposal.
- Gains or losses arising from the retirement or disposal of an item of property, plant and equipment should be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset, and should be recognized as revenue or expense in the income statement.

16.3.2 **The Supply Chain Management Policy**

The asset management policy must be read together with section 10 of the Municipality's "Supply Chain Management policy" which sets out requirements for "Disposal Management" under the following headings:

- Disposal and letting of the municipality's assets and,
- Evaluation of offers for disposal and letting of asset

17 **Accounting and financial statement disclosure**

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

17.1 **Objective**

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

17.2 **Detailed disclosure requirements**

- The Chief Financial Officer must ensure that relevant and current GAMAP/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 statements 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 amount 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.
- When items of property are stated at revalued 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.

DRAFT