



LEPELLE - NKUMPI LOCAL MUNICIPALITY REVIEWED DRAFT ASSET MANAGEMENT POLICY

2020/2021

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REVIEWED DRAFT

DEFINITIONS AND ABBREVIATIONS

ITEM	DESCRIPTION
Carrying Amount	The amount at which an asset is included in the statement or financial position after deducting any accumulated depreciation and any impairment losses thereon
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
Depreciation	The systematic allocation of the depreciable amount of an asset over its useful life
Depreciable amount	The cost of an asset, or other amount substituted for cost in the financial statements, less its residual value
Disposal adhoc Committee	<p>An adhoc Committee will be established in accordance with the provisions of section 4 of Lepelle-Nkumpi Municipality's Supply Chain Management Policy as and when the assets are identified for disposal. the Committee comprises the following officials:</p> <ul style="list-style-type: none"> • Chief Financial Officer(Convenor) • Manager: Assets • Accountant: Assets Management(Secretariat) • Executive Manager: Technical services • Executive Manager: Corporate Services • Executive Manager: Community Services • Executive Manager: Planning& LED
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
AMS/FAR	Assets Management System/Fixed Assets Register
GRAP	Standards of Generally Recognised Accounting Practice
IAS	International Accounting Standards
PPE	<p>Property, Plant & Equipment – These are tangible assets that:</p> <ul style="list-style-type: none"> • are held by an entity for use in the production or supply of goods or services, for rental to others or for administrative purposes <p>are expected to be used during more than one reporting period</p>
Recoverable amount	<ul style="list-style-type: none"> • The amount that the entity expects to recover from the future use of an asset, including residual value on disposal
Residual Value	The net amount which the entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal
LNM	Lepelle-Nkumpi Municipality
SCM	Supply Chain Management
HOD	Head of Department(Executive Manager)
MM	Municipal Manager
CFO	Chief Financial Officer
Useful Life	<p>Useful life is either:</p> <ul style="list-style-type: none"> • the period of time over which an asset is expected to be used by the entity, or the number of production or similar units expected to be obtained from the asset by the entity

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MUNICIPAL ASSET MANAGEMENT POLICY
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Policy Adoption

- The Accounting Officer must ensure that this Policy is submitted for approval to the relevant bodies. On submission for perusal, consideration, approval and adoption by the Executive Committee of LNM, the policy will in turn be forwarded to Council for further approval.

REVIEWED DRAFT

SECTION 1

REGULATORY FRAMEWORK AND RELATED POLICIES

REGULATORY FRAMEWORKS

1. The Constitution of the Republic of South Africa, 1996

- Section 216 of the Constitution of the Republic of South Africa (Act 108 of 1996), provides for the establishment of a National Treasury which must prescribe measures to ensure that there is both transparency and expenditure control in each sphere of government through the introduction of Generally Recognized Accounting Practice (GRAP), uniform expenditure classification and uniform Treasury Norms and Standards.

2. Municipal Finance Management Act, 2003

- Section 62 (1) (a): The accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically
- Section 63 (1) (a): The accounting officer of a municipality is responsible for management of the assets of the municipality, including the safeguarding and the maintenance of those assets
- Section 63 (2) (a): The accounting officer for the purpose of section 63 (1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system that accounts for assets and liabilities of the municipality.
- Section 65 (1) and (2) (a) to (i) requires that the accounting officer keep full and proper records of the financial affairs of the entity and places the responsibility for producing annual financial statements, that will fairly reflect the financial position of the entity as well as its financial performance, on the accounting officer.
- Sections 15(a), read with 16 (1) and (3) and 28 (1),(2),(5) and (6) and 69(1) and (2) requires further that the annual budget must reflect the estimates of current and capital expenditure per vote and per main division, and in relation to capital expenditure reflect the impact thereof on future financial years.

3. Accounting Standards

This policy complies with the standards specified by the Accounting Standards Board relating to assets management.

RELATED POLICIES AND GUIDELINES

1. Supply Chain Management Policy
2. Delegations of authority
3. Fleet Management Policy
4. Budget Policy
5. Revenue and Tariff Policy
6. Accounting Policy
7. Municipal Finance Management –Local Government Capital Asset Management Guideline

REVIEWED DRAFT

INTRODUCTION, AIMS AND OBJECTIVES OF THE ASSET MANAGEMENT POLICY

INTRODUCTION

- This policy is intended to define and provide a framework for the Asset Management of the Lepelle-Nkumpi Municipality within the guiding principles of sections 62(1)(a), 63(1)(a) and 63(2)(a) of the Municipal Finance Management Act (MFMA), National Treasury Guidelines, Generally Recognised Accounting Practices (GRAP), Accounting Standards and to promote good financial management practices.
- In order to produce a comprehensive and complete asset register that is compliant to the guidelines above, the Chief Financial Officer must ensure that the Municipality maintains an Asset Identification System which shall be operated in conjunction with its computerised Asset Register.
- This policy is applicable to all offices and officials within the Municipality who utilise and/or manage assets.

AIMS

1. To apply consistent, effective and efficient Asset Management principles to ensure to compliance with the regulatory framework pertaining to Asset Management.

OBJECTIVES

1. To ensure the effective and efficient control, utilization, safeguarding and management of LNM's Property, Plant and Equipment
2. To ensure all responsible parties are aware of their responsibilities in regards of infrastructure and community assets
3. To set out the standards of physical management, recording and internal controls to ensure PPE are safeguarded against inappropriate loss or utilization
4. To specify the process required before expenditure on PPE occurs
5. To ensure that assets are recorded in an official FAR
6. To prescribe the accounting treatment of assets acquired and used in accordance with the applicable accounting standards approved by National Treasury
7. To ensure that Fixed Assets are not written off and disposed off without proper authorization.

SECTION 2

ROLE OF THE MUNICIPAL MANAGER

As accounting officer of the municipality, the Municipal Manager shall be the principal custodian of all the municipality's assets, and shall be responsible for ensuring that the Asset Management Policy is scrupulously applied and adhered to.

Section 60 of the MFMA further states that the Accounting Officer must:

- ❖ Exercise their functions and powers assigned to them in terms of the Act; and
- ❖ To provide guidance and advice on compliance with MFMA, to:
 - ✓ Political structures, political office bearers and officials of the LNM

The AO of a Municipality is responsible for the management of the assets of that Municipality in terms of **section 63** of the MFMA which prescribes the following the following:

- ❖ Safeguarding and maintenance of assets
- ❖ Implementation of an information system that accounts for the assets
- ❖ Ensure that assets are valued in terms of Generally Recognised Accounting Practice
- ❖ Maintaining a system of internal control of assets

SECTION 3

ROLE OF THE CHIEF FINANCIAL OFFICER

The Chief Financial Officer shall be the custodian of the assets management system of the Municipality, and shall ensure that a complete, accurate and up-to-date computerised assets management system is maintained. No amendments, deletions or additions to the assets management system shall be made other than by the Chief Financial Officer or by an official acting under the written instruction of the Chief Financial Officer.

3.1 The Asset Management Section

- Shall ensure that complete records of asset items are kept, verified and balanced regularly.
- Shall ensure that all assets (movable and immovable assets) **are properly accounted for and numbered with unique identification number**
- **Shall conduct an annual physical assets verification of all the assets belonging to the municipality**
- The asset verification report shall
 - Reflect a complete list of all assets found during the verification;
 - Reflect whether appropriate records have been maintained indicating what articles should have been found during verification;
 - Reflect any discrepancies between the articles found during verification and the record referred to above;
- Shall ensure that the assets management system is balanced annually with the general ledger and the annual financial statements in conjunction with the CFO.
- Shall ensure adequate bar codes **are available at all times** to exercise the function relating to asset control.
- Provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the assets management system.
- Ensure that all audit queries are resolved in a timely manner.
- Shall ensure that depreciation is calculated in terms of assets guidelines and relevant legislation.
- Shall ensure that asset acquisitions are allocated to the correct asset code.

- Shall ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset disposal form, countersigned by the Asset Section is presented.
- Shall ensure that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from Business Units.
- Shall compile a list of the items to be auctioned in accordance with their guidelines in the Supply Chain Management (SCM) Policy.
- Shall compile and circulate a list of unused movable assets to enable other Business Units to obtain items that are of use to them.
- Shall ensure that the SCM Unit is notified of any auctioning or disposing of written-off asset or asset inventory items.

3.2. **Supply Chain Management Unit**

- Shall dispose of assets – via auction – in accordance with the provisions in the Supply Chain Management (SCM) Policy.

SECTION 4

ROLE OF OTHER BUSINESS UNITS

4.1 Human Resources Business Unit

The Human Resources Business Unit:

- Shall ensure that no monies are paid out on termination of service without receiving the relevant asset resignation form signed off by the relevant Head of Department or Unit Manager. (See also 23.6)
- Shall ensure that every asset resignation form is counter signed by the Asset Management Section before processing the termination of service.

4.2 All Business Units (Department)

- Shall ensure that employees in their Business Units adhere to the approved Asset Management Policies.
- Shall ensure that assets are properly maintained in accordance with respective asset maintenance policy.
- Shall ensure that the assets and / or inventory items of the Municipality are not used for private gain.
- **Shall ensure that all their movable assets as reflected on the Fixed Asset Register and are bar-coded**
- Shall certify in writing that they have assessed and identified impairment losses on all assets at year end.
- Shall ensure that all obsolete and damaged asset items, accompanied by the relevant asset form and attached disposal forms, are handed in to the Asset Management Section without delay.
- Shall ensure that the correct vote number and description are being used before authorising any requisitions.
 - Shall inform the Assets Management Section of any delivery of the assets procured or donated.
 - Shall ensure that assets assigned to them are utilized effectively, efficiently, economically and transparently
 - Shall ensure that the assets of the Council are not used for private gain
 - Shall notify the Assets Management Section of all obsolete, damaged and stolen assets, without delay

- Shall ensure that all assets in their possession remain bar coded
- Shall ensure that on termination of service; they return the assets to their supervisors and complete a termination assets clearance form
- Shall notify the Assets Management Section of the movement and transfer of assets assigned to them by completing an asset transfer form
- Shall ensure that they comply with the operational procedures
- The detailed projects as created must be categorized and clearly identified as follows:
 - Immovable Assets:
 - ✧ Infrastructure assets i.e roads, storm water, bridges
 - ✧ Buildings
 - ✧ Land
 - ✧ Community Assets
 - ✧ Recreational Facilities
 - ✧ Asset under construction (Only an asset after completion)
 - ✧ Investment Properties
 - ✧ Intangible assets
 - ✧ Agricultural assets
 - ✧ Heritage assets
 - Movable Assets:
 - ✧ Office Equipment
 - ✧ Furniture and Fittings
 - ✧ Bins and Containers
 - ✧ Emergency Equipment
 - ✧ Motor Vehicles
 - ✧ Plant and Equipment

SECTION 5

DEFINITION OF AN ASSET

5.1 Definition of an Asset

A fixed asset is an asset, either movable or immovable, owned by or under the control of the municipality, and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year, which cost or fair value can be measured reliably.

Fixed assets will include Property, Plant and Equipment (as defined in GRAP 17), Intangible Assets (as defined in GRAP 102), Investment Property (as defined in GRAP 16), Heritage Assets (as defined in GRAP 103), as well as Assets held under a finance lease, in accordance with the principles contained in GRAP 13.

To be recognised as a fixed asset for accounting purposes, an asset must also meet the criteria referred to in part 11 below.

5.2 Role of Assets

The role of assets is to support the delivery of a service to the public. Assets should exist to **support programme delivery**.

SECTION 6

FORMAT OF THE FIXED ASSET REGISTER

6.1 Format

The fixed asset register shall be maintained in the format determined by the CFO, which format shall comply with the requirements of Generally Recognised Accounting practice (GRAP) and any other accounting requirements which may be prescribed.

Without in any way detracting from the compliance criteria mentioned in the preceding paragraph, the fixed asset register shall reflect at least the following information:

- a brief but identifiable description of each asset;
- the date on which the asset was acquired or commissioned;
- the location of the asset;
- the departments or cost centre within which the assets will be utilised;
- Who is accountable and how it is being safeguarded;
- the title deed number, in the case of fixed property;
- the stand number(And Physical Address), 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) revaluation date of the fixed assets subject to revaluation;
- the re-valued value of such fixed assets;
- accumulated depreciation to date;
- the carrying value of the asset;
- the method and rate of depreciation;
- accumulated impairment losses to date;
- impairment recovery;
- the source of financing ;
- whether the asset has been used to secure any debt, and if so, the nature and duration of such security arrangements;
- the date on which the asset is disposed of;
- the disposal price; and
- the date on which the asset is retired from use, if not disposed of.

A fixed asset shall be capitalised, that is, recorded in the fixed asset register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as Assets under construction (WIP) until it is available for use, where-after it shall be appropriately capitalised as a fixed asset.

A fixed asset shall remain in the fixed asset register for as long as it is still in use and not only physically in existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing-off such an asset.

6.2 Different categories of registers

The following is an outline of the requirements relating to the various types of asset registers that the Municipality will maintain:

- The Chief Financial Officer is responsible for ensuring that complete accounting records of asset items are kept, verified and balanced regularly.
- The Fixed Asset Register (FAR) for the Municipality will contain the following types of assets categorized as immovable or movable assets:

Immovable Assets:

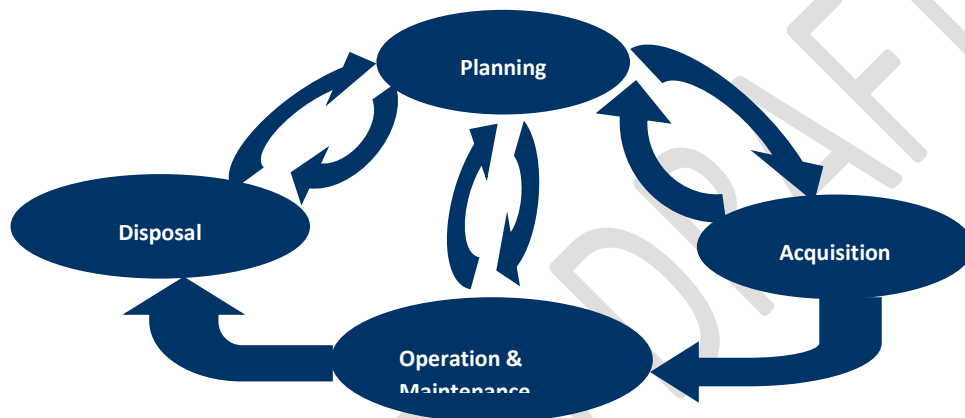
- Infrastructure assets:
 - Electricity assets
 - Roads and Stormwater
- Land and Buildings
- Investment properties
- Community assets
- Heritage assets
- Intangible assets
- Agricultural assets

Movable Assets:

- Office Equipment
 - Furniture and Fittings
 - Bins and Containers
 - Emergency Equipment
 - Motor Vehicles
 - Computer Equipment
 - Plant & Equipment
- **Immovable assets** on the FAR will not be physically numbered with barcode labels but will have a unique asset master record number (GPS coordinates).
- **Capital work-in-progress.** An asset under construction is stated at historic cost. Depreciation only commences when the asset is commissioned into use.

ASSET MANAGEMENT process (structure)

- Asset Management is the process of guiding all the key asset management activities undertaken to make the most of asset service delivery potential and the management of the related risks and costs over the entire asset life cycle.
- The asset life cycle embraces the following inter-related processes or phases:
 - Planning deals with definition of asset;
 - Acquisition deals with the recognition, measurement and valuation of assets;
 - Operation and Maintenance deals with maintenance, refurbishment, enhancement and depreciation of the asset; and
 - Disposal deals with asset disposals.



Asset planning

- The Municipality shall develop asset strategies covering the acquisition, safeguarding, maintenance, refurbishment, redeployment and disposal together with the capital and operating cost
- Asset Planning shall be the process through which the asset requirements of a municipality are matched to service delivery requirements.
- Asset Planning shall be informed by the principle that a public institution shall not hold assets unless it is reasonably necessary for the economical, effective and efficient delivery of services.
- Managers must align activities in the Strategic Plan and the budgetary allocations with the asset requirements of the office and develop an Asset Acquisition Plan.
- The Asset Acquisition Plan must be informed by the future service or economic benefits to be derived directly or indirectly from the asset in support of service delivery.
- A cost-benefit analysis must be conducted when determining whether a major asset should be leased, purchased, transferred from another entity or obtained through a Public Private Partnership.
- The Asset Acquisition Plan must detail all assets that will be purchased and/or leased in a particular financial year with expenditure projections for each month of that year.
- The Managers are required to recommend for approval the Asset Acquisition Plan prior to the commencement of any purchases of assets.

- Asset Budgeting shall be the process through which the Asset Planning Strategy is financially quantified and shall entail allocating financial resources to the Asset Planning Strategy.
- Asset Budgeting must be conducted to include the asset life cycle stages, i.e. Acquisition, Operation, Transfers, Maintenance and Disposal.
- It is the responsibility of the Heads of Departments to communicate the Asset Budgeting Strategy to the Chief Financial Officer within the municipality.

Acquisition

- The decision to acquire asset shall be informed by both the Asset Planning Strategy and Asset Budgeting Strategy.
- The descriptions utilised for the asset that is being acquired must be consistent with the Standardised Asset Description Lists of the Municipality.
- Asset descriptions can only be created after obtaining the approval of the Chief Financial Officer.

Asset register

- The municipality shall maintain an asset register in a format determined by the Chief Financial Officer. The format must comply with GRAP and any other applicable standards.

Recognition of assets

- Assets will only be capitalised as an asset in the Statement of Financial Position when the following criteria are met.
- Future economic benefits or potential service delivery associated with the asset will flow to Lepelle-Nkumpi Municipality.
- The cost of the asset can be measured accurately.
- All risks and rewards relating to an asset item have been passed to Lepelle-Nkumpi Municipality and therefore Council controls the asset item.
- A valid invoice to Council or other transfer document that transfers ownership to Council exists.
- A self constructed asset with a lifespan of more than a year will be capitalised as an asset when all criteria for an asset stated on 15.1 has been met. The total cost of construction of the assets will be capitalised. Example of the cost are
 - Cost of employee benefits arising from construction of the assets
 - Cost material allocated for the construction
 - Cost of site preparation if any
 - Professional fees incurred in the construction
 - Improvement on assets will be capitalised if the improvement increase the lifespan of the asset otherwise it will be written off as repair and maintenance.

- Building infrastructure improvement: removable items such as the air conditioners, curtains and etc will be capitalised separately from the cost of improvement on building and bar coded as such.

Safeguarding of assets

- The responsibility for the safeguarding of assets vests with each official to whom assets have been allocated.
- Every asset holder will be directly responsible for ensuring that all assets are properly maintained in a manner which will ensure that such assets attain their useful operating lives.
- All assets used by employees must be returned upon termination of employment.

Verification of assets

- All movable assets must be physically verified and confirmed biannual, while Infrastructure must be verified annually.
- All assets must be at least physically verified at each reporting date (End of Financial Year) as prescribed on the accounting standard and is not practical to verify the infrastructure assets every quarter. But the movable will be verified biannual In a financial year
- The physical verification must be performed by either the physical scanning of the barcode attached to an asset or manually verified.
- The verified information must be reconciled to the Asset Register.
- The Chief Financial Officer must approve all adjustments that will correct the identified variances.

Movement of assets

- All movements of assets must be duly authorised by supervisor (Manager or Executive Manager) of the releasing and receiving official
- All movements of assets together with the relevant authorisation must be recorded in the Asset Register.

SECTION 7

CLASSIFICATION AND IDENTIFICATION OF FIXED ASSETS

7.1 Classification

In compliance with the requirements of GRAP, the Chief Financial Officer shall ensure that all fixed assets are classified under the following headings, and Heads of Departments shall in writing provide the Chief Financial Officer with such information or assistance as is required to compile a proper classification:

- land (not held as investment assets)
- infrastructure assets (assets which are part of a network of similar assets)
- community assets (resources contributing to the general well-being of the community)
- heritage assets (culturally significant resources)
- other assets (ordinary operational resources)
- housing (rental stock or housing stock not held for capital gain)
- investment properties (resources held for capital or operational gain).

The Chief Financial Officer shall adhere to the classifications indicated in the annexure on fixed asset lives (as per Assets Procedure Manual), and in the case of a fixed asset not appearing in the annexure shall use the classification applicable to the asset most closely comparable to the asset in question.

PROPERTY, PLANT AND EQUIPMENT

- **Land** (not held as investment assets);
- **Buildings** excluding buildings classified as investment assets, buildings 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; and
 - 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.
- **Finance Lease** assets are defined as assets financed by a Capital Lease if it transfers substantially all the risks and rewards incident to ownership of the asset from the lessor to the municipality, in return for a payment or series of payments by the municipality to the lessor.
- **Other assets** are defined as movable assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

LAND 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 or equipment or investment property in the municipality's balance sheet, at a value equal to the lower of cost and net realisable value, in accordance with GRAP 12. The CFO will do a comparison on balance sheet data, and adjustments to the previous year's recorded value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.

Such Non-current assets shall be recorded in the assets management system in the same manner as other fixed assets, but a separate section of the assets management system shall be maintained for this purpose.

Land that was purchased for township development will initially be accounted for in terms of GRAP 12 as Non Current Asset for Sale and as Inventory.

RECOGNITION LAND ASSETS HELD FOR SALE

Inventories shall be recognised as an asset if, and only if,

- (a) it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- (b) the cost of the inventories can be measured reliably

MEASUREMENT AT RECOGNITION OF LAND ASSETS HELD FOR SALE

Inventories that qualify for recognition as assets shall initially be measured at cost.

Where inventories are acquired at through a non-exchange transaction, their cost shall be measured at their fair value as at the date of acquisition.

MEASUREMENT AFTER RECOGNITION OF LAND ASSETS HELD FOR SALE

Inventories shall be measured at the lower of cost and net realisable value, except where

Inventories shall be measured at the lower of cost and current replacement cost where they are held for:

- (a) Distribution through a non-exchange transaction
- (b) Consumption in the production process of goods to be distributed at no charge or for a nominal charge

NET REALISABLE VALUE

The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale, exchange or distribution have increased. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of the future economic benefits or service potential expected to be realised from their sale, exchange, distribution or use.

A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realisable value. This occurs, for example, when an item of inventory that is carried at net realisable value, because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

INVESTMENT PROPERTY

Investment assets shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment 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 a finance lease, to earn rental revenues or for capital appreciation or both.

Investment assets shall be recorded in the assets management system in the same manner as other fixed assets, but a separate section of the assets management system shall be maintained for this purpose.

Investment assets shall not depreciated, but shall be valued in line with the valuation period. Investment assets shall be recorded in the Statement of Financial Position at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the Department or service controlling the assets concerned.

A professional valuer shall be engaged by the municipality to undertake the initial valuations where after the values will be based on the future New Valuation Roll value in terms of the Municipal Property Rates Act .

7.2 Identification

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

The identification system shall be determined by the Municipal Manager, acting in consultation with the Chief Financial Officer and other HEAD's of Departments, and shall comply with any legal prescriptions, as well as any requirements of the Auditor-General, and shall be decided upon within the context of the municipality's budget.

Every Head of a Department shall ensure that the asset identification system approved for the municipality is scrupulously applied in respect of all fixed and movable assets controlled or used by the Strategic Business Unit in question.

7.3 Verification

Every Head of Department shall at least once during every financial year, and in compliance with the relevant written directives issued by the Chief Financial Officer, undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.

The directives issued by the Chief Financial Officer shall stipulate the date(s) when such verification shall be undertaken, and such date(s) shall be as close as possible to the end of each financial year.

Every Head of Department shall promptly and fully report in writing to the Chief Financial Officer in the format determined by the Chief Financial Officer, all relevant results of such fixed asset verification, and the resultant report shall be submitted to the Chief Financial Officer not later than 30 June of the year in question.

7.4 Safekeeping

Section 63 of the Municipal Financial Management Act (Act no. 56 of 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 these assets.

Section 78 of the Municipal Financial Management Act (Act no. 56 of 2003) determines 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 extent necessary. A senior manager or such official must perform the functions subject to the directions of the accounting officer of the municipality.

Every Head of a Department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the Strategic Business Unit in question.

In exercising this responsibility, every Head of a Department shall adhere to any written directives issued by the Municipal Manager to the Strategic Business Unit in question, or generally to all Strategic Business Units in regard to the control of or safekeeping of the municipality's fixed assets.

REVIEWED DRAFT

SECTION 8

HERITAGE ASSETS

8.1 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

8.2 Disclosure of Heritage Assets

Heritage assets shall be carried at its cost less any accumulated impairment losses after recognition as an asset, in accordance with GRAP 103.

If no original costs or reasonable values are available in the case of one or more or all heritage assets, the Chief Financial Officer may, if it is believed that the determination of a reasonable value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the assets management system without an indication of the costs or reasonable value concerned.

For purposes, the Statement of Financial Position existence of such heritage assets shall be disclosed by means of an appropriate note, with reasons why the value of such heritage assets or class of heritage assets, if any, could not be measured reliably.

SECTION 9
DONATED ASSETS

Where a fixed asset is donated to the municipality, or a fixed asset is acquired by means of an exchange of assets between the municipality and one or more other parties, the asset concerned shall be recorded in the assets management system at such reasonable value as the Chief Financial Officer assigns to the asset in question, and the CFO will be authorised to utilise the services of valuers, if deemed necessary.

REVIEWED DRAFT

SECTION 10

BIOLOGICAL ASSETS

Accounting for biological assets shall take place in accordance with the requirements of GRAP 101.

The Chief Financial Officer, in consultation with the head(s) of department concerned, shall ensure that all biological assets, such as Plantation forest, livestock and crops, are valued at 30 June each year at fair value less estimated point-of-sales costs. Such valuation shall be undertaken by a recognised valuer in the line of the biological assets concerned. Any losses on such valuation shall be debited to the department or vote concerned as an operating expense, and any increase in the valuation shall be credited to the department or vote concerned as operating revenue.

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

Records of the details of biological assets shall be kept in a separate section of the fixed assets register or in a separate accounting record, and such details shall reflect the information which the Chief Financial Officer, in consultation with the Head of Department concerned and the internal auditor, deems necessary for accounting and control purposes.

The Chief Financial Officer shall annually insure the municipality's biological assets, in consultation with the head(s) of department concerned, provided the Council of the municipality considers such insurance desirable and affordable.

SECTION 11

CAPITALISATION CRITERIA

11.1 Tangible Assets

All the assets will be capitalised on the FAR as long as the item meet the definition of an assets as prescribed by the accounting standard

11.2 Intangible Assets

Items belonging to the category “**intangible**” do not have a physical form and meets the identification criterion in the definition of an intangible asset when it:

- is separate, i.e. is capable of being separated or divided from the entity 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, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations;

and can be further classified as:

- Intangible assets with a finite useful life; and
- Intangible assets with an infinite useful life.

An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Examples of intangible items are:

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

Intangible assets are also subject to the asset threshold as stated for Tangible assets.

Intangible items are treated in accordance with the provisions of GRAP 102 **and in applying the cost model** are initially recorded at their cost price. After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Retirements and disposals

An intangible asset shall be de-recognised:

- on disposal; or
- when no future economic benefits are expected from its use or disposal.

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.

REVIEWED DRAFT

SECTION 12

CALCULATION OF CAPITALISATION COST OF ASSETS

12.1 Initial Cost

The initial recording of an asset is dealt with as follows in GRAP 17:

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 costs, and
- Professional fees such as for architects and engineers;
- The estimated cost of dismantling the asset and restoring the site, 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.

12.2 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:

Enhancement / 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, and 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 entity 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 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;
- Increase the capacity of the asset;
- Prolong the expected working life of the asset;
- Increase the size of the asset; or
- Change the shape of the asset.

Maintenance / Refurbishment:

Expenditure related to repairs or maintenance of property plant and equipment are made to restore or maintain the future economic benefits or service potential that an entity 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.

Thus 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.

SECTION 13

DEPRECIATION OF ASSETS

13.1 Definition

Depreciation may be defined as the monetary quantification of the extent to which a fixed asset is used or consumed in the provision of economic benefits or the delivery of services.

Depreciation shall 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, from the date that the asset is brought into use.

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 other fixed assets.

13.2 Which assets must be depreciated

All fixed assets, except Land, Investment property, Non-current assets held for sale, and heritage assets, shall be depreciated – or amortised in the case of intangible assets.

Although typically disclosed together, land and buildings are separable assets and because land normally has unlimited life it is not depreciated whilst building 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 should therefore be impossible to determine their useful lives.

13.3 Determining useful lives of assets

The Chief Financial Officer shall assign a useful operating life to each depreciable asset recorded on the municipality's Fixed Asset Register. In determining such a useful life, the Chief Financial Officer shall adhere to the useful lives set out in the annexure to this document (refer **Annexure A**) or to the recommendation of the head of the department involved.

In the case of a fixed asset which is not listed in this annexure, the Chief Financial Officer shall determine a useful operating life, if necessary in consultation with the Head of the Department who shall control or use the fixed asset in question, and shall 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 the

likely pattern in which the asset's economic benefits or service potential will be consumed.

The residual value and the useful life of an asset shall be reviewed at each reporting date.

The amortisation period of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life, and reviewed at least at each reporting date. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be amended accordingly.

13.4 Depreciation Calculation

13.4.1 Tangible assets

The municipality uses 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 $1/60^{\text{th}}$ of the vehicle will be depreciated.

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 brought into commission 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 brought into commission. 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.

13.4.2 Intangible assets

Amortisation period and amortisation method

- 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 of the 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 entity. 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 this or another Standard permits or requires it to be included in the carrying amount of another asset.

➤ Infinite useful life

No amortisation will take place

The amortisation period and the amortisation method 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. 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.

13.5 Amendment Of Asset Lives And Diminution In The Value Of Fixed Assets

Only the Chief Financial Officer may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs the Chief Financial Officer shall inform the Council of the municipality of such amendment.

The Chief Financial Officer 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 it's useful operating life will not be attained, based on the reports submitted from departmental heads.

If 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 such fixed asset shall be fully depreciated in the financial year in which such diminution in value occurs.

Similarly, if a fixed asset has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the fixed asset has physically ceased to exist, it shall be written off the assets management system.

In all the foregoing instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.

If any of the foregoing event arises in the case of a normally non-depreciable fixed asset, and such fixed asset has been capitalised at a value other than a purely nominal value, such fixed asset shall be partially or fully depreciated, as the case may be, as though it were an ordinary depreciable asset, and the department or vote controlling or using the fixed asset in question shall bear the full depreciation expenses concerned.

13.6 Alternative Methods of Depreciation In Specific Instances

The Chief Financial Officer may employ the sum-of-units method of depreciation in the case of fixed assets which are physically wasted in providing economic benefits or delivering services.

The Chief Financial Officer shall only employ this method of depreciation if the Head of Department controlling or using the fixed asset in question gives a written undertaking to the Municipal Manager to provide:

- estimates of statistical information required by the Chief Financial Officer to prepare estimates of depreciation expenses for each financial year; and
- actual statistical information, for each financial year.

The Head of Department concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the Chief Financial Officer.

Where the Chief Financial Officer decides to employ the sum-of-units method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the Chief Financial Officer shall inform the Council of the municipality of the decision in question.

13.7.1 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.

13.8 Disclosure Requirements

According to GRAP 17 the following information relating to depreciation should be disclosed in the financial statements:

➤ **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 (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:

- Opening Balance
- Additions
- Disposals
- Acquisitions through business combinations
- Increases or decreases resulting from revaluations
- Reductions in carrying amount (impairment losses)
- Depreciation and Accumulated Depreciation
- Other movements

When property, plant and equipment is disposed of whether by selling or destroyed, the asset values must be offset against the proceeds, if any, resulting in a profit or loss on the particular item of property, plant and equipment. If this item was previously financed from a Government Grant and there is still a balance left regarding this item on the Deferred Income Account: Government Grant, this balance must then be transferred to the Accumulated Surplus / Deficit account.

SECTION 14

REVALUATION OF FIXED ASSETS

14.1 Revaluation Process

All land and buildings utilized for service delivery, recorded in the municipality's assets management system as Property, Plant and Equipment, shall be revalued with the adoption by the municipality of each new valuation roll (or, if the land and buildings concerned fall within the boundary of another municipality, with the adoption by such municipality of each new valuation roll). The Chief Financial Officer 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.

In accordance with GRAP 17, after recognition as an asset, an item of property, plant and equipment whose 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.

14.2 Revaluation Reserve

The Chief Financial Officer 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.

14.3 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, and 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 operating account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary.
- If the amount recorded on the valuation roll is less than the carrying value of the fixed asset recorded in the fixed asset register, the Chief Financial Officer shall adjust the carrying value of such asset by increasing the accumulated depreciation of the fixed assets in question by an amount sufficient to adjust the carrying value

to the value as recorded in the valuation roll. Such additional depreciation expenses shall form an immediate additional charge against the department or vote controlling or using the asset in question.

14.4 Investment Property

Investment properties will be revalued on an annual basis, and any increases or decreases will be recorded against the Revaluation Reserve. Any gains or losses on the disposal shall be accounted for as below, and the carrying value will be written off against the Revaluation Reserve.

The CFO can also utilize the services of a valuer to determine the values of Non-current assets held for sale, where it is expected that the Net Realisable Value, as calculated from the values reflected in the Valuation roll, differ materially from what can be expected, due to changes in market conditions since the fixed date used for the determination of market values in the valuation roll. Any adjustments made in this regard will be accounted for as gains or losses in the municipality's operating account.

SECTION 15

DISPOSAL OF ASSETS

15.1 Disposal

In compliance with the principles and prescriptions of the Municipal Financial Management Act (**Annexure B**), the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the municipality's Supply Chain Management Policy.

Every Head of Department shall report in writing to the Chief Financial Officer on a quarterly basis and then before June of each financial year on all fixed assets controlled or used by the department concerned which such Head of Department wishes to dispose by public auction or public tender. The Chief Financial Officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the Council of the municipality, 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 Management Section for safekeeping. No items will be received by the Asset Management Section without a completed asset disposal form counter-signed by the Asset Management 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 Management Section.

The Council shall ensure that the disposal of any fixed asset takes place in compliance with Section 14 of Municipal Financial Management Act of 2003 and the Supply Chain Management Policy.

Every Head of a Department 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 Asset Management Section by using the asset disposal form to 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, the Chief Financial Officer shall remove the relevant records from the fixed asset register.

DISPOSAL OF TABLET

A Councillor is expected to use and care for the tablet in his or her custody for the period of 3 years of its life span. At the end of the tablet life span, tablet must be forwarded to the Budget and Treasury – Assets Section for disposal.

The criteria for the disposal of tablet subject to sections 14 and 90 of the Act and the Supply Chain Management Policy, are as follows: Assets may be disposed of by –

- (i) Donating or transferring the tablet to another organ of state e.g. Public Schools in jurisdiction of Lepelle-Nkumpi Local Municipality
- (ii) Transferring the tablet to another organ of state at market related value or, when appropriate, free of charge;
- (iii) Selling/Auctioning the tablet; or
- (iv) Destroying the tablet

15.2 Other write-offs

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

Every Head of a Department shall annually report to the Chief Financial Officer on any fixed assets which such Head of the Department wishes to have written off, stating in full the reason for such recommendation. The Chief Financial Officer 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.

15.3 Proceeds / Loss on Disposal of Assets

When assets are disposed of whether by disposal or written off the carrying value should be offset against the proceeds. If the proceeds of the disposal are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the vote of the Business Unit concerned.

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

All losses on the disposal of assets shall remain as expenses on the cost centre of the department concerned. If, however, both gains and losses arise in any one financial year in respect of the disposal of assets of any department, only the net gain (if any) on the disposal of such assets shall be appropriated.

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15.4 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.

REVIEWED DRAFT

SECTION 16

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 Business Unit;
- 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 probably that any future economic benefits or service potential associated with the asset will flow to the entity);
- 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 of 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 entity expects to recover from their continued use and ultimate disposal.**

SECTION 17

FUNDING SOURCES

The main sources of finance utilised to acquire assets are:

- External Loans
- Grants, Subsidies and Public Contributions
- Revenue Contributions

The sources of finance that may be utilised to finance assets are utilised in accordance with the provisions of Section 19 of the Municipal Finance Management Act.

There will be a departure from GRAP 1.144 regarding Capital Reserves, in accordance with GRAP 1.22 and .23, read with GRAP 3.07, as the inclusion of capital receipts applied for the purchase of Property, Plant and Equipment in the Accumulated surplus will lead to a misinterpretation by users, particularly Council and Ratepayers/Consumers. These Reserves will be disclosed in accordance with GRAP 1.86.

17.1 External Loans

Major expenditure on PPE, especially Infrastructure and major items of Plant, can be financed from external financing sources, if the municipality complies to the requirements of the MFMA in this regard. Costing of this source of finance must include finance costs and depreciation against the Statement of Financial Performance over the period of financing. The period of financing should ideally be aligned to the estimated lifespan of the assets thus financed, but should never exceed such.

17.2 Grants, Subsidies and Public Contributions

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/(deficit) to the Grants Reserve equal to the Grant recorded as revenue in the Statement of Financial Performance. When such items of property, plant and equipment are depreciated, a transfer is made from the Reserve to the accumulated surplus/(deficit). The purpose of this procedure is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from Grants.

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, 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 government 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. Thereafter an equal amount is transferred to the Grant Reserve. This account must have equal book value of assets purchased from conditional government grants and is utilised to offset depreciation charged on assets purchased out of conditional government grants.

When an asset, previously financed by a conditional government grant, is disposed off with a balance left on the Grants Reserve account such a balance must be transferred to the Accumulated Surplus account.

17.4 Revenue Contributions

Revenue contributions finance those all the movable assets. These items will be taken up into the asset register and bar-coded for control purposes.

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SECTION 18

IMPAIRMENT LOSSES

18.1 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.

Recoverable amount is the amount that the municipality expects to recover from the future 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 amounts of the smallest grouping of assets for which it is possible to make an assessment of recoverable amounts.

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

- The item has been damaged,
- The item has become technologically obsolete.
- The item remains idle for a considerable period of 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 subsidized housing developments, where the subsidy is less than the purchase price.
- **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.
-

18.2 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 recognise in the statement of financial performance during the period and impairment losses reversed in the statement of financial performance during the period.

18.3 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.
- 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 19

INVESTMENT PROPERTY

Investment Property shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment 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 a finance lease, to earn rental revenues or for capital appreciation or both.

Investment assets shall be recorded in the assets management system in the same manner as other fixed assets, but a separate section of the assets management system shall be maintained for this purpose.

Investment assets shall not depreciated, but shall be valued in line with the valuation period. Investment assets shall be recorded in the Statement of Financial Position at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.

A professional valuer shall be engaged by the municipality to undertake such valuations.

If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as an investment property.

19.1 Definition of Investment Property

Investment Property is defined as:

- Property (land or a building – or part of a building – or both) held 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.

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; and
- 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.
- Property that is being constructed or developed for future use as investment property

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;
- Own-occupied property, including (among other things) property held for future use as own-occupied property, property held for future development and subsequent use as own-occupied property, property occupied by employees such as housing (whether or not the employees pay rent at market rates) and own-occupied property awaiting disposal;
- 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; and
- Property held for strategic purpose 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.

19.2 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.
- 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 entity and the cost or fair value of the investment property can be measured reliably.

19.3 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 entity. 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 R 5,000 per month rental income. In this case the renovation cost will be added to the carrying amount of the investment property.

- After initial recognition of the investment property the municipality will reflect the investment property at fair value.
- The fair value of investment property is usually its market value. Fair value is measured as the most probable price reasonably obtainable in the market at the reporting date in keeping with the fair value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. After initial recognition, an entity that chooses the fair value model should measure all of its investment property at its fair value at each Statement of Financial Position date. A gain or loss arising from a change in the fair value of investment property should be included in net surplus/deficit for the period in which it arises. No depreciation will be calculated on this property.

For Example: The municipality purchases four houses at a cost of R 200,000 each for purposes of leasing them out to senior manager of the municipality at market related rates. The legal fees and transport duties relating to the transaction amount to R 16,000. At the end of the financial year the fair value of the houses is determined to be R 900,000. This means that the municipality will recognise a fair value gain in the Statement of Financial Performance for the year of R 84,000. (R 900,000 – R 816,000).

- If, after initial recognition, the municipality chooses 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 depreciation and accumulated impairment losses.

19.4 Transfers and Disposals of Investment Properties

19.4.1 Transfers

- Transfers to, or from, investment property should be made when, and only when, there is a change in use, evidenced by:
 - Commencement of own-occupation, for a transfer from investment property to own-occupied property;
 - Commencement of development with a view to sale, for a transfer from investment property to inventories;
 - End of own-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.
- For a transfer from investment property carried at fair value to own-occupied property or inventories, the property's cost for subsequent accounting under the relevant GRAP Standards on PPE or inventories should be its fair value at the date of change in use.
- If an own-occupied property becomes an investment property that will be carried at fair value, an entity should apply the relevant GRAP standard on PPE up to the date of change in use. The municipality should treat any difference at that date between the carrying amount of the property and its fair value in the same way as a revaluation under the relevant GRAP Standard on PPE by crediting a reserve.
- For a transfer from inventory to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its

previous carrying amount should be recognised in net surplus/deficit for the period.

- When the municipality completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognised in net surplus/deficit for the period.

19.4.2 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 Statement, the gain or loss should be included in the Statement of Financial Performance as an item of revenue or expense.

19.5 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.
- Fair value gains that are expected to be obtained on investment properties that will be held during the next financial year.
- Depreciation on investment properties that are intended to be transferred to own-occupied properties during the next financial year.
- The effect of reduced depreciation on own-occupied properties that are intended to be transferred to investment properties during the next financial year.
- Revenue through operating lease income; and
- Fair values gains where the intention to sell a building (inventory) is changed and the inventory is held as an investment property on which rental income and capital appreciation will be earned by the municipality in the next financial year.

19.6 Disclosure

The disclosure requirements adhered disclosing information on investment property **reflected at fair value:**

- The criteria developed by the municipality to distinguish investment property from own-occupied property and from property held for sale in the ordinary course of operations;
- The methods and significant assumptions applied in determining the fair value was supported by market evidence or was more heavily based on other factors (which the entity should disclose) because of the nature of the property and lack of comparable market data;
- The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact should be disclosed;
- The amounts included in the Statement of Financial Performance for:
 - Rental revenue from investment property;
 - Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and
- Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period;
- The existence and amounts of restrictions on the reliability of investment property or the remittance of revenue and proceeds of disposal;
- Material contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements;
- A reconciliation of the carrying amount of investment property at the beginning and end of the period showing the following:
 - Additions, disclosing separately those additions resulting from acquisitions and those resulting from capitalised subsequent expenditure;
 - Additions resulting from acquisitions through entity combinations;
 - Disposals;
 - Net gains or losses from fair value adjustments;
 - The net exchange differences arising on the translation of the financials statements of a foreign entity;
 - Transfers to and from inventories and owner-occupied property; and

- Other movements.
- The fair value of the investment property. In the exceptional cases, when the municipality cannot determine the fair value of the investment property reliably, the entity should disclose:
 - A description of the investment property;
 - An explanation of why fair value cannot be determined reliably; and
 - If possible the range of estimates within which fair value is highly likely to lie.

REVIEWED DRAFT

SECTION 20

REPLACEMENT STRATEGY

The Municipal Manager, in consultation with the Chief Financial Officer and other Heads of Department shall formulate strategies and standards for the replacement of all operational property, plant and equipment. 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 21

ASSET RISK MANAGEMENT

21.1 Insurance

Departments are responsible for managing the risks associated with their activities.

The Municipal Manager shall ensure that all movable fixed assets are insured at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.

The Municipal Manager 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 recommendation shall take due cognisance of the budgetary resources of the municipality.

It is the responsibility of the custodian of assets to report any stolen or lost assets immediately to the nearest Police Station. And also report to Accounting Officer with attached police report and pictures of proof of force entry within 30 days of incident. Budget and Treasury will request the insurance for replacement of the assets. If for any reason the insurance reject the claim due to negligence the custodian will be required to replace the assets.

Insurance for tablet

It is the responsibility of the Councillor as custodian of tablet to report any stolen or lost tablet immediately to the nearest Police Station. And also report to Accounting Officer with attached police report and pictures of proof of force entry within 30 days of incident. Budget and Treasury will request the insurance for replacement of the tablet. If for any reason the insurance reject the claim due to negligence the custodian will be required to replace the assets. Councillors to be liable for the excess fee in case of any claim.

21.2 Other risk reducing methods

Departmental regulations or “operating policies” can also reduce risks. Departments should investigate their operations and set operating policies as to how personnel should operate and use property, plant and equipment to minimize 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 and 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 licences;
- 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 22

MAINTENANCE OF ASSETS

22.1 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 Head of Department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000.00 (One Hundred Thousand Rand) or more is promptly 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 Head of Department 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.

22.2 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 Head of Department controlling or using such asset shall re-determine the useful operating life of the fixed asset in question, if necessary consultation with the Asset Control Unit, and the Asset Control Unit shall recalculate the annual depreciation expenses accordingly.

22.3 General Maintenance

Every Head of a Department 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.

REVIEWED DRAFT

SECTION 23

GENERAL REQUIREMENTS

23.1 Tagging

Tagging means to place a control number(bar-code) on a piece of equipment or property.

All movable assets and movable “Insignificant assets” must be tagged.

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

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.

23.2 Physical Inventory of all Movable Assets

A physical inventory of movable assets is taken to verify assets recorded in the Asset register. Inventories are taken at least quarterly and shall be completed prior to the financial reporting due date.

The Asset Control Unit will conduct a physical inventory of movable assets annually. They will require the co-operation of departmental personnel in accomplishing the physical inventory task and will attempt to minimize the time demanded of them.

The designated officials in the different Business Units 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 Unit.
- 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 Unit must be notified by the relevant Business Unit within 14 days of any of the following possible movements:
 - Donations
 - Additions / Improvements
 - Departmentally manufactured items
 - Loss or damage
 - Transfers
 - Terminations
 - Land Sales

23.3 Acquisition

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.

23.4 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 Council's assets.

23.5 Additions / Improvements

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

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 Unit.

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 Unit.

23.6 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 Management 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 Unit concerned or its relevant Department for further investigation in the case of missing assets.

23.7 Transfer of Assets

When a Department transfers an asset or inventory item within the Strategic Business Unit, the asset movement form must be completed and forwarded to the Asset Control Unit. 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 Unit.

23.8 Sale of Land and Buildings

The Executive Manager: Planning and LED must submit the properly completed asset disposal forms together with copies of all relevant approvals, in terms of the Land Disposal policy, for the sale of land and buildings to the Asset Management Section.



LEPELLE-NKUMPI MUNICIPALITY

Appendices

Appendix A: Useful lives - Estimated useful lives per category of asset (as adopted from the NT guideline "MFMA-Local Government Capital Asset Management guideline") are as follows:

In the event that assets are fair valued, the useful lives of those assets is the estimated remaining useful life on take on date.

TABLET LIFESPAN

A Councillor is expected to use and care for the tablet in his or her custody for the period of 3 years of its life span and will be depreciated over three years

MAIN CLASS	CATEGORY	ESTIMATED USEFUL LIFE IN YEARS
LAND		
	DEVELOPED LAND	n/a
	UNDEVELOPED LAND	n/a
BUILDINGS		
DWELLINGS		
	CARAVANS	10
	CHILDREN'S HOMES	30
	HOMES FOR THE AGED	30
	HOSTELS	30
	MOBILE HOMES	10
	PLACES OF SAFETY	30
	RESIDENCES (PRESIDENTIAL, EMBASSIES)	30
	RESIDENCES (PERSONNEL) INCL GARAGES AND PARKING	30
	SECURE CARE CENTRES	30
	RECREATIONAL / HOLIDAY ACCOMMODATION	30
NON RESIDENTIAL STRUCTURES		

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	AIRPORT AND ASSOCIATED BUILDINGS	30
	BUS TERMINALS	30
	BUS SHELTERS	15
	CIVIC THEATERS	30
	CLINICS AND COMMUNITY HEALTH FACILITIES	30
	COMMUNITY CENTRES AND PUBLIC ENTERTAINMENT BUILDINGS	30
	DRIVER AND VEHICLE TESTING CENTRES	30
	FIRE STATIONS	30
	HOSPITALS AND AMBULANCE STATIONS	30
	INDUSTRIAL BUILDINGS	30
	LABORATORIES	30
	LIBRARIES	30
	MUSEUMS AND ART GALLERIES	30
	OFFICE BUILDINGS (INCL AIR CONDITIONING SYSTEMS)	30
	PUBLIC PARKING (COVERED AND OPEN)	30
	POLICE STATIONS (AND ASSOCIATED BUILDINGS)	30
	RESEARCH FACILITIES (INCLUDING WEATHER)	30
	STADIUMS	30
	TAXI RANKS	15
	UNIVERSITIES, COLLEGES, SCHOOLS	30
	WAREHOUSES (STORAGE FACILITIES INCLUDING DATA)	30
	SPORT AND RECREATIONAL FACILITIES (TENNIS COURTS, SOCCER FIELDS, ETC.)	30
	NON RESIDENTIAL PERIMETER PROTECTION	25
	ABLUTION / PUBLIC FACILITIES	30
	CAR PORTS	15
	WORKSHOPS / STORE ROOMS	30
	MARKETS / SHOPS	30

	STRUCTURES FOR AGRICULTURAL PURPOSES	30
	NURSERIES	30
OTHER STRUCTURES (INFRASTRUCTURE)		
ELECTRICITY		
	COOLING TOWERS	30
	MAINS	20
	METERS PREPAID	20
	METERS CREDIT	25
	POWER STATIONS COAL	60
	POWER STATIONS GAS	60
	POWER STATIONS HYDRO	60
	POWER STATIONS NUCLEAR	80
	ELECTRICITY SUPPLY / RETICULATION	25
	TRANSFORMERS	50
	LINES UNDERGROUND	45
	LINES OVERHEAD	30
	CABLES	45
	SUBSTATION SWITCHGEAR	30
	SUBSTATION EQUIPMENT OUTDOOR	30
	SUBSTATION EQUIPMENT GIS	30
	SUBSTATION EQUIPMENT INDOOR	40
	ELECTRICAL PANELS	5
	TELEMETRY	15
	ELECTRICITY PERIMETER PROTECTION	25
	STRUCTURE FOR ELECTRICAL PURPOSE	35
	HIGH MAST LIGHTS	15
	RING MAIN UNIT	50

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	BUILDING FOR ELECTRICAL PURPOSE	30
	MINI SUB STATION	30
ROADS		
	BRIDGES VEHICLE CONCRETE	80
	BRIDGES VEHICLE STEEL	50
	BRIDGES VEHICLE TIMBER	40
	BRIDGES PEDESTRIAN CONCRETE	80
	BRIDGES PEDESTRIAN STEEL	50
	BRIDGES PEDESTRIAN TIMBER	40
	BRIDGES RAILWAY CONCRETE	80
	BRIDGES RAILWAY STEEL	50
	BRIDGES RAILWAY TIMBER	40
	BRIDGES REINFORCED RETAINING WALLS EARTH	15
	BRIDGES REINFORCED RETAINING WALLS CONCRETE	30
	BRIDGES EXPANSION AND CONSTRUCTION JOINTS	20
	STORM WATER CULVERTS STEEL	40
	STORM WATER CULVERTS	60
	STORM WATER CULVERTS ARCO	40
	STORM WATER DRAINS EARTHWORKS	100
	STORM WATER DRAINS CONCRETE LINING	50
	STORM WATER STOP BANKS	50
	STORM WATER PIPES	50
	ROADS KERB AND CHANNELS	60
	ROADS MUNICIPAL ASPHALT SURFACE	20
	ROADS MUNICIPAL ASPHALT BASIS/STRUCTURE	50
	ROADS MUNICIPAL CONCRETE SURFACE	30
	ROADS MUNICIPAL CONCRETE BASIS/STRUCTURE	50
	ROADS MUNICIPAL GRAVEL SURFACE	10

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	ROADS CRASH BARRIERS	30
	ROADS RETAINING WALLS	60
	ROADS OVERLOAD CONTROL CENTRES	20
	ROADS OVERLOAD ELECTRONIC HARDWARE	15
	ROADS OVERLOAD EQUIPMENT OTHER	20
	ROADS PEDESTRIAN FOOTPATHS	30
	ROADS STREET LIGHTING	40
	ROADS SUBWAYS	50
	ROADS TRAFFIC ISLANDS	50
	ROADS TRAFFIC LIGHTS	20
	ROADS TRAFFIC SIGNS	15
	ROADS PAVED SURFACE	30
	ROADS PAVED BASIS/STRUCTURE	30
	ROAD CALMING MEASURES	30
	ROAD PERIMETER PROTECTION	20
	ROAD RESERVES	0
	ATTENUATION PONDS	25
TELKOM SLEEVES		
	TELKOM SLEEVES	40
AIRPORTS		
	AIRPORTS AND RADIO BEACONS	30
	APRONS	30
	RUNWAYS	20
	TAXIWAYS	20
	SPECIALIZED EQUIPMENT LUGGAGE MOVEMENT	25
	SPECIALIZED EQUIPMENT COMMUNICATION	15
	AIRPORT PERIMETER PROTECTION	25
WATER		

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	DAMS STRUCTURE CONCRETE	100
	DAMS STRUCTURE EARTH	50
	DAMS MECHANICAL AND ELECTRICAL	40
	WATER METERS	20
	STANDPIPES	20
	WATER METALWORK	30
	PUMP STATIONS STRUCTURE	55
	PUMP STATIONS ELECTRICAL	40
	PUMP STATIONS MECHANICAL	40
	PUMP STATIONS PERIMETER PROTECTION	25
	RESERVOIR STRUCTURE	50
	RESERVOIR ELECTRICAL	40
	RESERVOIR MECHANICAL	40
	RESERVOIR PERIMETER PROTECTION	25
	WATER SUPPLY / RETICULATION	50
	UNDERGROUND CHAMBERS VALVES	25
	UNDERGROUND CHAMBERS METERS	20
	UNDERGROUND CHAMBERS TRANSITION	15
	UNDERGROUND CHAMBERS OTHER	10
	WATER PURIFICATION WORKS STRUCTURE	55
	WATER PURIFICATION WORKS ELECTRICAL	40
	WATER PURIFICATION WORKS MECHANICAL	40
	WATER PURIFICATION WORKS PERIMETER PROTECTION	25
	WATER PURIFICATION WORKS METERS	15
	WATER TELEMETRY	15
	BOREHOLES	50
SEWERAGE		
	BULK PIPELINES RISING MAINS	50

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	BULK PIPELINES GRAVITY MAINS	50
	SEWERAGE PUMP STATIONS STRUCTURE	55
	SEWERAGE PUMP STATIONS ELECTRICAL	40
	SEWERAGE PUMP STATIONS MECHANICAL	40
	SEWERAGE PUMP STATIONS PERIMETER PROTECTION	25
	WASTE PURIFICATION WORKS STRUCTURE	55
	WASTE PURIFICATION WORKS ELECTRICAL	40
	WASTE PURIFICATION WORKS MECHANICAL	40
	WASTE PURIFICATION WORKS PERIMETER PROTECTION	25
	WASTE PURIFICATION WORKS METERS	15
	SEWERS / RETICULATION	60
SOLID WASTE DISPOSAL		
	COLLECTION VEHICLES	10
	COLLECTION CONTAINERS / BINS	15
	TRANSFER STATIONS AND PROCESSING FACILITIES STRUCTURE	55
	TRANSFER STATIONS AND PROCESSING FACILITIES ELECTRICAL	40
	TRANSFER STATIONS AND PROCESSING FACILITIES MECHANICAL	40
	TRANSFER STATIONS AND PROCESSING FACILITIES PERIMETER PROTECTION	25
	LANDFILL SITE EARTHMOVING AND COMPACTION EQUIPMENT	15
	LANDFILL SITE PREPARATION	0
	LANDFILL SITE STRUCTURE	55
	LANDFILL SITE WEIGHBRIDGE MECHANICAL	40
	LANDFILL SITE WEIGHBRIDGE ELECTRICAL	40
	LANDFILL SITE PERIMETER PROTECTION	25
RAILWAYS		
	RAILWAY POWER SUPPLY UNITS	30
	RAILWAY SIDINGS	30
	RAILWAY TRACKS	20

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	RAILWAY SIGNALING SYSTEM	20
	RAILWAY SHUNTING YARDS	30
	RAILWAY PERIMETER PROTECTION	25
CEMETERIES		
	CEMETERIES	30
	CEMETERIES PERIMETER PROTECTION	15
OTHER		
MACHINERY AND EQUIPMENT		
	AUDIOVISUAL EQUIPMENT	10
	BUILDING AIR CONDITIONING SYSTEMS	15
	TABLET	3
	CELLULAR ROUTERS	5
	DOMESTIC EQUIPMENT (NON KITCHEN APPLIANCES)	5
	ELECTRIC WIRE AND POWER DISTRIBUTION EQUIPMENT (COMPRESSORS / GENERATORS)	7
	EMERGENCY / RESCUE EQUIPMENT	10
	ELEVATOR SYSTEMS	20
	FARM / AGRICULTURAL EQUIPMENT	15
	FIRE FIGHTING EQUIPMENT	5
	GARDENING EQUIPMENT	4
	IRRIGATION EQUIPMENT	15
	KITCHEN APPLIANCES	10
	LABORATORY EQUIPMENT AGRICULTURAL	7
	LABORATORY EQUIPMENT MEDICAL TESTING	7
	LABORATORY EQUIPMENT ROADS AND TRANSPORT	7
	LAUNDRY EQUIPMENT AND INDUSTRIAL SEWING MACHINES	15
	LEARNING, TRAINING SUPPORT AND LIBRARY MATERIAL	10

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	MACHINES FOR METALLURGY	10
	RAIL	10
	MACHINES FOR TEXTILE PRODUCTION	15
	MEDICAL AND ALLIED EQUIPMENT	10
	MUSIC INSTRUMENTS	15
	PHOTOGRAPHIC EQUIPMENT	7
	PUMPS, PLUMING, PURIFICATION AND SANITATION EQUIPMENT	10
	RADIO EQUIPMENT	7
	ROAD CONSTRUCTION AND MAINTENANCE EQUIPMENT	15
	SADDLES AND OTHER TACK	7
	SECURITY EQUIPMENT/ - SYSTEMS / - MATERIAL FIXED	5
	SECURITY EQUIPMENT/ - SYSTEMS / - MATERIAL MOVABLE	5
	SHIP AND MARINE EQUIPMENT	10
	SPORT AND RECREATIONAL EQUIPMENT	10
	SURVEY EQUIPMENT	7
	TELECOMMUNICATION EQUIPMENT	5
	TENTS, FLAGS AND ACCESSORIES	10
	WOODWORKING MACHINERY AND EQUIPMENT	10
	WORKSHOP EQUIPMENT AND LOOSE TOOLS FIXED	10
	WORKSHOP EQUIPMENT AND LOOSE TOOLS MOVABLE	5
FURNITURE AND OFFICE EQUIPMENT		
	ADVERTISING BOARDS	5
	AIR CONDITIONERS INDIVIDUAL FIXED AND MOVABLE	5
	CUTLERY AND CROCKERY	10
	DOMESTIC AND HOSTEL FURNITURE	15
	LINEN AND SOFT FURNISHING	10
	OFFICE EQUIPMENT INCLUDING FAX MACHINES	7
	OFFICE FURNITURE	7

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	PAINTINGS SCULPTURES ORNAMENTS	10
COMPUTER EQUIPMENT		
	COMPUTER HARDWARE INCLUDING OPERATING SYSTEMS	5
	COMPUTER NETWORKS	10
TRANSPORT ASSETS		
	AIRCRAFT	15
	AIRCRAFT ENGINES	7
	AIRPORT TRANSPORT EQUIPMENT	15
	BUSSES	15
	CYCLES	7
	EMERGENCY VEHICLES	10
	MOBILE CLINICS	15
	MOTOR VEHICLES	7
	RAILWAY ROLLING STOCK	15
	TRAILERS AND ACCESSORIES	10
	Specialised Vehicle	15
HERITAGE ASSETS		
	AREAS OF LAND OF HISTORIC OR SPECIFIC SIGNIFICANCE	n/a
	CULTURALLY SIGNIFICANT BUILDINGS	n/a
	NATIONAL MONUMENTS	n/a
	NATIONAL PARKS / RESERVES	n/a
	PAINTINGS	n/a
	SCULPTURES / STATUES	n/a
	MUNICIPAL JEWELLERY	n/a

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	WORKS OF ART	n/a
	OTHER ANTIQUES AND COLLECTIONS	n/a
INTANGIBLE ASSETS		
	COMPUTER SOFTWARE	5
INVESTMENT PROPERTY		
	INVESTMENT PROPERTY	n/a

APPENDIX B: RESIDUAL VALUES

Residual Values - Estimated residual values per category of asset are as follows:

CLASS	RESIDUAL VALUE	COMMENT
Land	None	No depreciation on land
Buildings	None	Not trading in open market
Dwellings	None	Not trading in open market
Non Residential	None	Not trading in open market
Infrastructure Assets		
Infrastructure –Electricity	None	Not trading in open market
Infrastructure –Roads	None	Not trading in open market
Infrastructure –Sewer	None	Not trading in open market
Infrastructure –Water	None	Not trading in open market
Infrastructure -Telkom sleeves	None	Not trading in open market
Solid Waste	None	Not trading in open market
Bins & Containers	10%	Scrap metal value
		10% of the cost price.
- Collection Trucks	10%	The municipality does not replace vehicles after a fixed period, but rather once it has reached the end of its functional life.
Other Assets		
Furniture and Office Equipment	10%	Typical internal tender proceed
Machinery and Equipment	10%	Typical internal tender proceed

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Computer Equipment	8%	Computers have no scrap value due to Technology changes. No active market.
Motor Vehicles	10%	10% of the cost price. The municipality does not replace vehicles after a fixed period, but rather once it has reached the end of its functional life.
Heritage Assets	None	No active market
Intangible Assets		
Software	None	Computer software has no scrap value due to Technology changes. No active market.

Council Approval

Date	
Resolution Number	
Signature	

