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Previously Cacadu District Municipality

POLICY DOCUMENT

ASSET MANAGEMENT

MAY 2015

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1. INTRODUCTION

This policy document is provided to assist management and employees of Cacadu District Municipality in implementing and maintaining consistent, effective and efficient fixed asset management principles. This policy document supersedes all previous fixed asset management policy instructions that have been issued.

This policy does not supersede, but only complements all other Municipal policies indirectly related to fixed asset management, such as municipal land valuations (Municipal Rates Policy); and the Supply Chain Management Policy.

2. DEFINITIONS

Every effort has been made to use definitions established through legislation, standards of account and other guidance on asset management, hence reference has been made to sources. Where definitions do not exist, terminology has been defined for the purposes of this Policy.

An **active market** is a market in which all the following conditions exist:

(a) the items traded within the market are homogeneous;
(b) willing buyers and sellers can normally be found at any time; and
(c) prices are available to the public. (GRAP 102)

Asset Custodian is a person in any position or level in the organisation entrusted with the safeguarding and use as well as maintaining any specific asset.

Asset Life-Cycle is the cycle of activities that an asset goes through – including planning, design, initial acquisition and/or construction, cycles of operation and maintenance and capital renewal, and finally disposal.

Asset Management is a broad function and includes a structured process of decision-making, planning and control over the acquisition, use, safeguarding and disposal of assets to maximise their service delivery potential and benefits, and to minimize their related risks and costs over their entire lives.

Asset Controller is any official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the municipality's assets in accordance with the entity's standards, policies, procedures and relevant guidelines.

Asset Register is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirement/s.

The asset register should also facilitate proper financial reporting and is ultimately the responsibility of the Chief Financial Officer (CFO).

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. (GRAP 1)

Capital assets are all assets with a life cycle of greater than one year and above the capitalization threshold (where applicable) that is owned by the municipality. For example, this would include property, plant and equipment (infrastructure network, furniture, motor vehicles, computer equipment, etc.), intangible assets, and investment property. The words **capital assets** in this Policy are synonymously used with the words **fixed assets.**

Capital budget is the plan of proposed capital expenditure and the means for financing assets, and the timing thereof.

Capital budgeting is the process of choosing investment projects by considering the present value of cash flows and deciding how to raise the funds required for the investment.

Capital commitment is an undertaking in terms of a contract or of a policy decision to place funds in expansion or replacement of fixed assets.

Capital expenditure is expenditure to acquire or improve fixed assets.

Capitalisation threshold is the value above which assets are treated as capital assets and entered into an asset register from which reporting in the financial statements (specially the Statement of Financial Position) is extracted.

Carrying Amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses. (GRAP 17)

Community assets are any asset that contributes to the community's wellbeing. Examples are parks, libraries and fire stations.

Component is a part of an asset with a significantly different useful life and significant cost in relation to the rest of the main asset. Component accounting requires that each such part should be separately accounted for and is treated separately for depreciation, recognition and derecognition purposes. It is also referred to as separately depreciable parts.

Cost of an Asset is the amount of cash or cash equivalent/s paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction. The cost of acquisition will include all expenditure needed to bring the asset to the condition and position for its intended use which usually includes:

- Purchase cost (less any discounts given)
- Delivery cost
- Installation cost
- Professional fees, e.g. engineering fees
- Site development fees

Current Replacement Cost is the cost of replacing an existing asset with a modern asset of equivalent capacity. (DPLG Guidelines)

Depreciable Amount is the cost of an asset, or other amount substituted for cost, less its residual value. (GRAP 17)

Depreciated Replacement Cost is a measure of the current value of an asset based on its current replacement cost less an allowance for deterioration of condition (based on the fraction of remaining useful life/expected useful life).

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. (GRAP 17)

Economic Life is either:

a) The period over which an asset is expected to yield economic benefits or service potential to one or more users, or
b) The number of production or similar units expected to be obtained from the asset by one or more users. (GRAP 13)

Enhancement/Rehabilitation is an improvement or augmentation of an existing asset (including separately depreciable parts) beyond its originally recognised service potential, for example, remaining useful life, capacity, quality, and functionality.

Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. (GRAP 17)

Financial fixed assets register will be that register controlled by the CFO, specifically used for the administration of assets as prescribed by various GRAP standards.

Financially Sustainable, in relation to the provision of a municipal service, means the provision of a municipal service in a manner aimed at ensuring that the financing of that service from internal and external sources, including budgeted income, grants and subsidies for the service, is sufficient to cover costs.

Fixed asset is an asset as defined in GRAP 17 as a tangible item of property, plant or equipment held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and which is expected to be used during more than one reporting period (financial year).

A fixed asset is thus an asset, **either movable or immovable**, under the **control** of the municipality, that arose from **past transactions or events** and from which the municipality reasonably expects to **derive economic benefit, or reasonably expects to use in service delivery**, **over a period extending beyond one financial year.**

Assets include land, buildings engineering works, machinery, equipment, vehicles, office furniture and equipment, but would exclude minor items that are generally regarded as expendable, even though their useful lives may extend beyond one year, e.g. pens, files, note pads and small tools.

An asset held under a finance lease, shall be recognized as a fixed asset, as the municipality has control over such an asset even though it does not own the asset.

Generally Accepted Municipal Accounting Practice (GAMAP): These accounting standards are applicable to municipalities. These standards will be phased out as the GRAP standards become effective.

Generally Recognised Accounting Practice (GRAP) means an accounting practice complying in material respects with standards issued by the Accounting Standards Board. (PFMA section 1)

Heritage assets are culturally significant resources. Examples are works of art, historical buildings and statues.

Infrastructure assets means assets that usually display some or all of the following characteristics

(a) They are part of a system or network;
(b) They are specialised in nature and do not have alternative uses;
(c) They are immovable; and
(d) They may be subject to constraints on disposal. (GRAP 17)

Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks. Movable assets such as vehicles that are directly used in the delivery of the service (such as waste removal trucks can also be included as part of infrastructure).

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

Maintenance/Refurbishment to an asset will restore or maintain the originally assessed future economic benefits or service potential that an entity can expect from an asset and is necessary for the planned life to be achieved.

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The size or nature of the information item, or a combination of both, could be the determining factor. (GRAP 1)

Modern Equivalent Asset is an asset that replicates the existing asset with the most cost-effective asset performing the same level of service. This includes improvements in technology that may change the nature, life and value of an asset.

Municipal Manager is the person defined as the Accounting Officer of a municipality (MFMA S60). For more information on the accounting officer/municipal manager refer to chapter 8 of the MFMA.

Property, Plant and Equipment (PPE) is tangible items that:

(a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) Are expected to be used during more than one reporting period. (GRAP 17)

Recognition is the process of incorporating in the statement of financial position or statement of financial performance, an item that meets the definition of an element (of financial statements) and satisfies the criteria for recognition, namely:

- It is probable that any future economic benefit or service potential associated with the item will flow to or from the entity and
- The item has a cost or value that can be measured reliably. (Framework for the Preparation and Presentation of Financial Statements paragraph 109 and 110)

Recoverable Amount is the higher of a cash-generating asset's or unit's net selling price and its value in use.

Recoverable Service Amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. (GRAP 17)

Rehabilitation/Enhancement is an improvement or augmentation of an existing asset (including separately depreciable parts) beyond its originally recognised service potential, for example, remaining useful life, capacity, quality, and functionality.

Refurbishment/Maintenance to an asset will restore or maintain the originally assessed future economic benefits or service potential that an entity can expect from an asset and is necessary for the planned life to be achieved.

Remaining Useful Life is the time remaining (of the total estimated useful life) until an asset ceases to provide the required service level or economic usefulness.

Renewal is the work required to replace/enhance/rehabilitate an asset. Expenses on renewal works are considered capital expenditure.

Reproduction Cost is the cost of reproducing the asset in its present physical form (substantially the same materials and design).

The **Residual Value** of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. (GRAP 17)

Senior Manager is a manager referred to in section 56 of the Municipal Systems Act (MSA) as someone reporting directly to the municipal manager. (MFMA paragraph 1)

Service Potential is a tangible capital asset's output or service capacity, normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and useful life.

Useful Life is:

(a) The period over which an asset is expected to be available for use by an entity, or

(b) The number or production of similar units expected to be obtained from the asset by an entity. (GRAP 17)

The useful life of an asset is entity specific.

System in this Policy refers to either an information technology programme or a manual business process, but normally refers to both simultaneously.

3. OBJECTIVES AND SCOPE

The objective of this policy is to prescribe a specific framework and related procedures, but if not specific, then, at least the broad framework, for the management of fixed assets. Thus, as prescribed by, Section 63 of the MFMA; Local Government Capital Asset Management Guideline (NT), the relevant GRAP standards; and the International Infrastructure Maintenance Manual (co-authored by IMESA).

The scope of this policy is to ensure that the following key elements of fixed asset management are addressed:

- Safeguarding assets;
- Establishing and maintaining a system for the planned maintenance of assets;
- Establishing and maintaining of fixed assets registers;
- Establishing and maintaining a management, accounting, information technology and internal control system that accounts for the assets of the Municipality;
- Asset valuation principles in accordance with GRAP; and
- Clarifying responsibilities and accountabilities for the asset management process.

The system used for maintenance management of assets for all departments are not completely integrated with the financial asset management system.

4. RESPONSIBILITY AND DELEGATIONS

The Accounting Officer of the Municipality (the Municipal Manager) shall be the principal custodian of all the Municipality's fixed assets, and shall be accountable for ensuring that the Fixed Asset Management Policy is diligently applied and adhered to.

For the purposes of this Policy the Accounting Officer has delegated the responsibilities placed on him/her to the Senior Manager's of the respective departments.

This delegation implies that all Senior Managers should ensure that:

- The Municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- The Municipality's assets are valued in accordance with standards of generally recognised accounting practice;
- The Municipality has and maintains a system of internal control of assets, including an asset register; and
- Senior Managers and their teams comply with this policy.

The Senior Managers may delegate or otherwise assign responsibility for performing these functions, but will remain accountable for ensuring that these activities are performed.

Managers delegated this responsibility should ensure that:

- Appropriate systems of physical management and control are established and carried out for all assets;
- The Municipal resources assigned to them are utilised effectively, efficiently, economically and transparently;
- Proper accounting processes and procedures are implemented in conformity with the municipal financial policies and the MFMA to produce reliable data for inclusion in the municipal asset register;
- Any unauthorised, irregular, fruitless or wasteful utilisation and losses resulting from criminal or negligent conduct are prevented;
- The asset management systems, processes and control can provide an accurate, reliable and up-to-date account of assets under their control;
- They are able to manage the asset plans, budgets, purchasing,

maintenance and disposal decisions and justify that they optimally achieve the municipality's strategic objectives;

- Manage the assets' life-cycle transactions to ensure that they comply with the plans and legislative and municipal requirements.

The Chief Financial Officer as one of the Senior Managers of the Municipality, shall be accountable for the **financial fixed asset register** of the Municipality, and shall ensure that a complete, accurate and up-to-date fixed asset register is maintained. For the purpose of this Policy the responsibility of this function is delegated to the Manager responsible for asset management in the Finance Department.

The Asset Management Section of the Finance Department will be responsible to substantiate the assets for the Annual Financial Statements and participate in the process of physical control to achieve accurate and reliable asset information with regards to purchases, write-offs, transfers, donations and locations.
In terms of Section 14 (4) of the MFMA, all Senior Managers of Departments and delegated managers will **approve/recommend** all asset **movements**, which relate to:

- **Writing-off** of assets no longer providing a basic level of municipal service (limited to the purchase cost of R10 000);
- **Transferring** of assets (only movable fixed assets);
- Reporting losses of assets to Council, only for assets of which purchase cost is in excess of R2000.

The CFO shall ensure:

- a full assets verification, every year;
- That there are mutually agreed upon procedures (procedures endorsed by all affected officials) and internal controls, in place for the effective financial management of the financial assets register.

5. FINANCIAL MANAGEMENT OF FIXED ASSETS

5.1 CLASSIFICATION OF FIXED ASSETS

There are essentially five major divisions of the fixed assets register namely;

- Property Plant and Equipment;
- Investment Property;
- Inventory Assets;
- Heritage Assets; and
- Intangible Assets.

The CFO shall ensure that all fixed assets are classified under the following headings in the fixed assets register, and heads of departments (Senior Managers) shall in writing provide the CFO with such information or assistance as is required to compile a proper classification.
The detailed breakdown of this classification is contained in Annexure A of the Policy.

5.1.1 Property Plant and Equipment (GRAP 17)

Property Plant and Equipment (PPE) represents a major portion of the asset base of the Municipality and is therefore significant in the presentation of its financial position (balance sheet).

PPE are held for use during more than one accounting period, used for the production of goods or supply of services, held for rental or other social purposes and administrative purposes.

5.1.2 Inventory Assets (GRAP 12)

Inventories can basically be described as assets held for sale in the ordinary course of business or in the form of supplies or consumables to be consumed during the service delivery process.

Inventories include goods purchased and held for resale such as land, refuse bags, water and other property, as well as materials and supplies to be utilised during the delivery of services, e.g. water in the pipes, coal and fuel. Water will be regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally.

Inventory also includes goods held for distribution to others at no cost or for a nominal value, e.g. medicines.

The decision whether a certain item should be classified as inventory depends on the purpose or use to the municipality. Property is recognised as inventory when it is acquired for the specific purpose of being traded or it is being developed with a view to sell for example township developments. Conversely, a decision to sell property previously used as office buildings does not qualify the office buildings to be recognised as inventory, as the property was not held specifically for the purpose of resale.

5.1.3 Investment Property (GRAP 166)

Investment property is land and/or buildings (or part of a building) held to earn rentals and/or capital appreciation and is distinguished from property, plant and equipment that are occupied and used by the municipality.

Investment property is also not land and/or buildings held for sale in the ordinary course of business. As the definition implies, the intention is to earn a return on the investment made in the asset and to benefit from capital appreciation. Houses to employees, hostels, etc will not qualify as investment property as the primary objective of these facilities are to provide a service, e.g. housing, sport and recreation rather than to earn rental revenue or capital appreciation (or both).

In general, investment property will entail property leased under an operating lease to a lessee, where the Municipality acts as lessor. Property leased under a finance lease will however not qualify as investment property (as the property is "sold" to the lessee).

A property constructed by the Municipality that will be held as an investment property should not be treated as such until it is ready for its intended purpose (i.e. until it meets the definition of investment property). Until such time, it should be accounted for according to GRAP 17. Similarly, property being constructed on behalf of a third party does not constitute investment property and should be accounted for as a construction contract in terms of GRAP 11. Properties held for sale in the ordinary course of business should be recognised as inventory and accounted for in terms of GRAP 12.

It should be clear from the above that the classification of land and/or buildings (or part of a building) as investment property depends on the *intention* of management and therefore requires judgement to determine whether a property qualifies as investment property. Criteria therefore have to be developed to ensure that judgement is exercised consistently.

In practice, the classification of an asset as either PPE or investment property is complicated when the asset is used both for investment and administrative purposes. Separate accounting can only be applied if it is possible for the portions to be sold separately or leased out separately under a finance lease.

For example, the Municipality might own a four storey office building and only use the bottom two floors for its administrative function, whist renting out the upper two floors. If the municipality could sell floors separately or lease them out on a finance lease, it should treat the lower half of the building as PPE (owner occupied property) and the upper half as investment property.

Where the portions cannot be sold or leased out separately, the property is only classified as investment property if an insignificant portion is used for service delivery or administrative purposes. It will not be permissible to apportion the property between an "investment" and an "owner occupied" element.

Either the whole building is treated as investment property or as owner occupied property. There is no guidance in the standard as to what constitutes a "insignificant" portion, this is left to the discretion of management based on the specific circumstances of each transaction.

Property that the Municipality owns and which is occupied by a municipal entity (or vice versa) cannot be classified as investment property in the consolidated financial statements. From the perspective of the economic entity, the property is owner occupied and should be treated as PPE.

	Examples of property that would not be classified as investment property
• Property held for long-term capital appreciation • Property leased out by another party under an operating lease. Vacant property held for the purpose of leasing in the future **; and** • Land and buildings held for undetermined use	• **Property that is leased out to another party under a finance lease;** • Property held for sale in the ordinary course of business • Property that is owner occupied • Property that is in the process of being constructed or developed

5.1.4 Heritage Assets (GRAP 17 para 6)

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

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

For the heritage asset to be recognised in accordance with the criteria in (a) and (b) above, the heritage asset needs to be controlled by the Municipality as a result of past events. Even though the Municipality may be restricted from disposing of a heritage asset based on a stipulation imposed by, for example, a trust, statute or law, or from the transferor's stipulations, the heritage asset is still controlled by the Municipality when it is able to generate future economic benefits or service potential from the asset. Accordingly, the Municipality recognizes the heritage asset when the recognition criteria in paragraph (a) and (b) above are met.

Future economic benefits or service potential flowing from a heritage asset may include revenue, for example an entrance fee charged by a museum. The revenue generated by the entity under such circumstances is normally insignificant compared to the operating costs of the museum and will not result in accounting for the heritage asset as an investment property. The revenue generated is rather used towards the maintenance of the heritage asset. The heritage asset should, however, be accounted for in terms of the Grap Standards as the heritage value attached to the specific asset constitutes the heritage asset's service potential.

In some instances, items of property, plant and equipment may be required to safeguard the heritage assets. For example, a museum may maintain a constant room temperature to safeguard a manuscript collection using a specialised air conditioning system. Such items of property, plant and equipment are recognised as assets in terms of GRAP 17 on *Property, Plant and Equipment* and not as part of the cost of the heritage asset.

5.1.5 Intangible Assets (GRAP 102)

An Intangible asset can be described as an asset that meets all the definition requirements of fixed assets (control, past event, future benefit), but lack physical form.

There are many forms of intangible assets, however those specific to the Municipality are:

- Capitalised Development Costs;
- Computer Software; and
- Rights

5.2 FINANCIAL FIXED ASSET REGISTER

The financial fixed asset register shall be maintained in the format determined by generally recognized accounting practice (GRAP) and any other accounting requirements which may be prescribed. The fixed asset register shall reflect the following information:

- a brief but meaningful description of each asset;
- the date on which the asset was acquired or brought into use;
- the location of the asset;
- the department(s)or vote(s)within which the assets will be used;
- the title deed number, in the case of fixed property;
- the stand number, in the case of fixed property;
- where applicable, the identification number;
- the original cost, or the revalued amount determined or the fair value if no costs are available;
- the (last)revaluation date of the fixed assets subject to revaluation;
- the revalued value of such fixed assets;
- who did the (last)revaluation;
- accumulated depreciation to date;
- the depreciation charge for the current financial year;
- the carrying value of the asset;
- the method and rate of depreciation;
- impairment losses incurred during the financial year (and the reversal of such losses, where applicable);
- the source of financing;
- the current insurance arrangements;
- whether the asset is required to perform basic municipal services;
- 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;
- 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 assets register on invoice date.

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

5.2.1 Structure of the Asset Register

The capitalization amount of R 2000.00 is applied as a cut off limit in this document. This amount is to be applied per item purchased. Items below R2000.00 will be considered in terms of their nature and may be capitalized in specific situations.

5.2.1.1 The Capital Register

The purpose of this register is to record and maintain all capital assets in excess of R 2000.00, exclusive of VAT. Categories within the FAR can be explained as follows. Information regarding the value of capital assets, acquisitions, write-offs and sources of financing are disclosed in the financial statements.

- **Property Plant and Equipment**
  - Land
  - Buildings
  - Motor vehicles
  - Furniture and fittings
  - Office Equipment
  - Computer equipment
  - Bins and Containers
  - Electricity infrastructure
  - Specialised vehicles
  - Specialised plant and equipment
  - Street lighting

- **Investment Property**
  - Land
  - Buildings

- **Intangible assets**
  - Computer equipment

5.3 CAPITALIZATION CRITERIA

5.3.1 Material Value

Except in cases where a department considers an item to be capitalized for a specific reason no item with an initial cost or fair value of less than R2 000 (two thousand rand) – or such other amount as the council of the municipality may from time to time determine on the recommendation of the council – shall be recognized as a fixed asset. If the item has a cost or fair value lower than this capitalisation benchmark, it shall be treated as an ordinary operating expense.

Every head of department or section shall, for any item with a value below R2000 (two thousand rand) and with an estimated useful life of more than one year consider appropriateness for capitalisation.

Every head of department shall ensure that the existence of items recorded is verified from time to time, but in any event at least once annually, and any amendments which are made are supported by proper documentation for audit purposes.

5.3.2 Intangible Items

No intangible item shall be recognized as a fixed asset, except where the CFO, acting in compliance with the criteria set out in GRAP 102, recognise such asset as an intangible asset.

5.3.3 Reinstatement, Maintenance and Other Expenses

Only expenses incurred in the enhancement of fixed assets (in the form of improved or increased services or benefits flowing from the use of such asset) or, in the material extension of the useful operating life of a fixed asset, shall such expenses be capitalised. (Material extension of useful life must be read literally i.e. life beyond what was the intended useful life when the asset was originally capitalised).

Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalised, irrespective of the quantum of the expenses concerned.

Expenses that are reasonably ancillary to the bringing into operation of a fixed asset may be capitalised as part of such fixed asset. Such expenses may include but need not be limited to import duties, forward cover costs, transportation costs, and installation, assembly and communication costs.

5.4 PRE-ACQUISITION PLANNING AND REPORTING

As a rule, **planning must take place for all acquisitions,** regardless of whether the acquisition is capitalised or not.

In addition to the normal planning, this section is specifically directed for asset acquisitions that require a business case due to the positive and negative influences such assets have on **social**; **economic** and **environmental** progress, i.e. **sustainability**. Just as the quality of the community's existence in the Municipality, which cannot solely be measured by the strength of economics in the local economy (per capita income), but instead by the value of all three elements of progress collectively. This definition also applies to the business case when a material and influential fixed asset acquisition is envisaged.

This business case will only be required on certain assets identified during the budget process.

Before these identified fixed assets are acquired, the respective department requiring the asset must adequately demonstrate to Council:

- That the asset is identifiable in the integrated development plan and the respective multi year budgets;
- That there is a clear, social/economic/environmental, business case, motivating the asset acquisition;
- That all projected capital and operational costs have been identified over all the financial years that such asset will influence municipal service delivery;
- That future income and tariff implications have been identified;
- That the physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation are considered; and
- Alternatives to this asset purchase.

5.5 APPROVAL TO ACQUIRE PPE

Money can only be spent on a capital project if:

- The Capital and related Operating expenses have been identified and recorded in the Municipality's Integrated Development Plan.
- The Capital and related Operating expenses have been appropriated in the Municipality's Multi Year Budget;
- Evidence of planning is evident; and
- This confirms that funding is available for that specific project. It cannot be assumed by Departments that funding is in place simply because of a budget appropriation.

5.6 FUNDING OF FIXED ASSETS

Within the municipality's ongoing financial, legislative and administrative capacity, the municipality will establish and maintain the funding strategies that optimize the Municipality's ability to achieve its strategic objectives as stated in the integrated development plan.

The acquisition of assets will not be funded over a period longer than the useful life of that asset. Type of funding may comprise any of the following:

- Borrowing;
  - Long term
  - Short term

- Grants and subsidies;
- GRAP permitted reserves;
- Public contributions; and
- Income.

5.7 FINANCIAL DISCLOSURE

The financial statements will disclose, in respect of each class of property, plant and equipment classified under the categories of infrastructure, community, heritage, investment properties and other assets:

(a) The measurement bases used for determining the gross carrying amount and when more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed;
(b) The depreciation methods used;
(c) The useful lives of the depreciation rates used;
(d) Depreciation charged in arriving at net surplus or deficit for the period;
(e) The gross carrying amount and the accumulated depreciation at the beginning and the end of the period; and
(f) A reconciliation of the carrying amount at the beginning and end of the period showing:

    (i) Additions;
    (ii) Disposal;
    (iii) Acquisition through business combinations;
    (iv) Increases or the decreases resulting from revaluations;
    (v) Deductions in carrying amount;
    (vi) Amounts written back;
    (vii) Depreciation;
    (viii) Other movements.

The Annual Financial Statements will also disclose

(a) Whether or not, in determining the recoverable number of items of property, plant and equipment, expected future cash flows have been discounted to their present values;

(b) The existence and restrictions on title and property, plant and equipment pledged as security for liabilities;

(c) The accounting policy for restoration costs relating to items of property, plant and equipment;

(d) The amount of expenditures on account of property, plant and equipment in the course of construction; and
(e) The amount of commitments for the acquisition of property, plant and equipment.

When items of property are stated at revalued amounts, the financial statements will disclose:

(a) The basis used to revalue the assets;

(b) The effective date of revaluation;

(c) Whether an independent value was involved;

(d) The nature of any indices used to determine replacement cost;

(e) The carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried at cost less depreciation;

(f) The revaluation surplus, detailing the movement for the period; and

(g) The portion of the depreciation charge relating to the revaluation.

5.8 ACCOUNTING FOR FIXED ASSETS

Proper accounting and disclosure for capital assets will ensure better financial management, proper control and greater efficiency in the use of the Municipality's assets.

5.8.1 Recognition of Assets

An asset is recognised when it is probable that the future economic benefits or potential service provision will flow to Council and the asset has a cost or value that can be reliably measured.

HERITAGE ASSETS

If no original costs or fair values are available in the case of one or more or all heritage assets, the CFO may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the fixed asset register without an indication of the costs or fair value concerned. For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

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 fixed asset register at its fair value, as determined by the CFO.

5.8.2 Carrying Value of Fixed Assets

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

5.8.3 Control Accounts

The Municipality must maintain separate control accounts in the general ledger for depreciation.

5.8.4 Additions

All costs incurred in the acquisition of new fixed assets will be capitalised as part of the cost of the asset and recorded in the same account.

5.8.5 Purchase of Fixed Assets

The cost of the asset purchase should be debited to the respective asset accounts after it has been authorized for purchase in accordance with the Delegation of Powers and the Supply Chain Management Policy guidelines.

5.8.6 Depreciation

All fixed assets, except land and heritage assets, shall be depreciated – or amortized in the case of intangible assets. 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 generally take the form of an expense both calculated and debited on an annual basis against the appropriate line item in the department or vote in which the asset is used or consumed. The charge will be calculated based on the estimated useful life of the asset. A norm has been established by council and is contained in Annexure A.

However, depreciation shall initially be calculated from the day following the day in which a fixed asset is acquired or – in the case of construction works and plant and machinery – the day following the day in which the fixed asset is brought into use, until the end of the financial year. Thereafter, deprecation charges shall be calculated annually. The CFO shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.

After each depreciation run, a fixed asset report must be printed stating the following:

The following entries must be processed:

- Debit -the relevant depreciation amounts in the operating accounts.
- Credit -the relevant accumulated depreciation accounts.

RATE OF DEPRECIATION

The CFO shall assign a useful operating life to each depreciable asset recorded on the municipality's fixed asset register in accordance with Annexure A.

In the case of a fixed asset not listed in this annexure, the CFO in conjunction with the respective asset manager who is directly responsible for the use of such asset, shall determine a useful operating life.

METHOD OF DEPRECIATION

The CFO shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question in accordance with Annexure A.

5.8.7 Sale and the Scrapping of Fixed Assets

At the outset no fixed assets can be sold or scrapped unless approved by Council in terms of Section 14 of the MFMA. The process here is elaborated on more clearly under the section of this Policy dealing with "procedures".

Whenever a fixed asset item is sold or scrapped, depreciation will be calculated at date of sale.

The following entries need to be processed in the general ledger whenever an asset is scrapped:

ENTRY AMOUNT

Credit: fixed asset account with cost price of the asset written off.

Debit: accumulated depreciation amount of accumulated depreciation

ACCOUNT FOR ASSETS

Debit: loss on donation account with the difference between the cost price and the up to date accumulated depreciation:

If the asset was sold, the profit/loss on the transaction needs to be calculated and recorded against the Profit/ Loss on disposal account.

The following entries need to be made in the general ledger.

ENTRY AMOUNT

With the amount the asset was sold for:

- Debit: Bank/ debtor
- Credit: Asset Account

With the total Accumulated Depreciation amount:

- Debit: Accumulated Depreciation Account
- Credit: Asset Account

With the calculated profit or loss amount:

- Debit/ Credit: Asset Account
- Debit/ Credit: Profit/ Loss on Disposal Account

5.8.8 Financial Controls

The Financial Fixed Asset Register must be reconciled with the following General Ledger accounts on an annual basis.

- Fixed assets accounts;
- Accumulated depreciation accounts; and
- Depreciation accounts.

5.9 SAFEKEEPING OF ASSETS AND INTERNAL CONTROL

Every Senior Manager and their respective managers delegated with the responsibility of asset management shall ensure that there are proper controls and safeguards to ensure that assets:

- are protected against improper use;
- are adequately protected from loss and theft;
- are adequately protected from malicious and accidental damage; and are maintained to the extent necessary for optimal levels of effective , efficient and economic service delivery.

This implies that Senior Managers and their respective managers shall ensure that administrative processes and internal controls are in place to implement sound asset safekeeping and that the asset identification system approved for the Municipality is scrupulously applied in respect of all fixed assets controlled or used by the departments.

5.10 VALUATION OF ASSETS

All assets shall be reflected at cost less accumulated depreciation. Only Municipal land and buildings will be subject to revaluation to fair value based on the re-evaluation done.

5.10.1 Land and Buildings

All land and buildings recorded in the Municipality's fixed asset register shall be revalued annually. For consistency purposes, a Property Valuer will be appointed on a three year basis as regulated by the Supply Chain Management Principles.

The CFO 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, provided s/he is satisfied that such value reflects the fair value of the fixed asset concerned.

The CFO shall also, where applicable, create a revaluation reserve for each such fixed asset equal to the difference between the value as recorded in the valuation and the carrying value of the fixed asset before the adjustment in question. The fixed asset concerned shall, in the case of buildings, thereafter be depreciated on the basis of its revaluation 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 or vote controlling or using the fixed asset in question.

The CFO shall ensure that an amount equal to the difference between the new (enhanced) depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question, is transferred from the revaluation reserve to the municipality's appropriation account.

If the amount recorded on the valuation is less than the carrying value of the fixed asset recorded in the fixed asset register, the CFO shall adjust the carrying value of such asset by increasing the accumulated depreciation of the fixed asset in question by an amount sufficient to adjust the carrying value to the value as recorded in the valuation. Such additional depreciation expenses shall form a charge, in the first instance, against the balance in any revaluation reserve previously created for such asset, and to the extent that such balance is insufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the asset in question. Revalued land and buildings shall be carried in the fixed assets register, and recorded in the annual financial statements, at their revalued amounts, less accumulated depreciation (in the case of buildings).

5.11 INSURANCE OF ASSETS

The section of the MFMA relating to Asset Management (chapter 8 section 63(1)(a)) has been delegated by the accounting officer (Municipal Manager) to the CFO.

All administration relating to insurance cover and insurance claims will be done through the Department of the CFO.

5.12 ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS

Only the CFO may amend the useful operating life assigned to any fixed asset.

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

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 impaired/ scrapped 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 impaired/ scrapped 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 fixed asset register and the replacement treated as a new acquisition.

In all the before mentioned 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 before mentioned events arise 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.

5.13 PROCEDURES

In compliance with the principles and prescriptions of the Municipal Finance Management Act, the management of fixed assets needs to be accompanied by a sound administrative system, the principle framework of procedures of which is described hereunder. It is also an imperative that the implementation of these procedures is consistent with the Municipality’s Supply Chain Management Policy.

5.13.1 General Requirements

In order to appropriately record movement of items, the Financial Asset Management Section must be notified by the Supply Chain Management Department or department concerned with the movement of an item, **within 7 days** of any of the following possible movements:

- Purchases of all items with a life span of more than one year and a value in excess of R2000.00.
- Donations of all items
- Additions/Improvements
- Auctions
- Loss, damage or theft
- Transfers
- Land Sales

The Council shall ensure that the alienation of any fixed asset takes place in compliance with Section 14 of the Municipal Finance Management Act, 2003. The municipality will not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a non-current asset needed to provide the minimum level of basic municipality services.

The Municipality shall transfer ownership or otherwise dispose of a noncurrent asset other than one contemplated above, but only after the Council, in a meeting open to the public, has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services, and has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

The decision that a specific non-current asset is not needed to provide the minimum level of basic municipal services will not be reversed by the Municipality after that asset been sold, transferred or otherwise disposed of.

5.13.2 Loss, Theft, Destruction or Impairment of Fixed Assets

Every Departmental Head 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 CFO and – in cases of suspected theft or malicious damage – also to the South African Police Service.

5.13.3 Disposal of Assets

Every Senior Manager shall report in writing to the CFO by 31 January of each financial year on all fixed assets controlled or used by the department concerned who wish to alienate such assets. The CFO shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the Council or as prescribed in the Supply Chain Management Policy, as the case may be, recommending the process of alienation to be adopted.

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

The Asset transfer/ Disposal form (refer to Annexure B) must be submitted by the relevant senior manager for any asset which has to be disposed of, to the Financial Asset Management Section before the asset will be removed from the Financial Assets Register. Once the document has been received by the Financial Assets Management Section, such asset will be removed from the system before month end.

5.13.4 Transfer of Assets

The Senior Managers shall approve all asset movements, which relate to the transfer of assets from one department to the other. When a department transfers an asset or interdepartmentally, the Asset Transfer Form (refer to Annexure B) must be forwarded to the department receiving the asset (Annexure “B” being the Asset Transfer Form attached). A copy of this form is to be forwarded to the Financial Asset Management Section for the update of the Financial Assets Register.

5.13.5 Writing off of Items

All items to be written off must be approved by the Council after recommendation by the Accounting Officer. If approved, the disposal procedure will be followed in the system. The only reasons for writing off fixed assets, other than the alienation of such fixed assets, shall be the loss, theft, and destruction or material impairment of the fixed asset in question. In every instance where a not fully depreciated fixed asset is written off, the CFO shall immediately debit to such department or vote, impairment expenditure to the full carrying value of the asset concerned.

5.13.6 Resignations

At the resignation of an employee the applicable Manager or his/her duly delegated representative must complete the relevant asset form and forward it to the Human Resources Section.

This form is a statement that the asset items entrusted to the employee to execute his/her daily duties are in good order, or are transferred to another employee.

5.13.7 Donations

When a donation is received, the item will be recorded in the asset register at a value prescribed by the CFO. The responsible department must complete the asset form and submit this to the Financial Asset Management Section.

5.13.8 Additions / Improvements

Depending upon the type of addition or improvement to a specific asset the responsible department must notify the Financial Asset Management Section of the change in status. The asset will be recorded at its increased value on receipt of the required asset form from the responsible department.

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

5.13.9 Replacement Norms

Assets are replaced as soon as the asset has no economic value / service potential to the municipality. Senior managers should annually identify possible replacement needs and inform the CFO of capital items to be included in the capital budget for approval.

Where assets are damaged to such extent that it can no longer be used and is needed in the daily operations of the municipality, the senior manager to which this asset relates will submit a report to council to request for an adjustment budget and approval to replace the said asset.

5.13.10 Asset Verification Process for PPE

Fixed asset verification will ensure that all new assets are bar-coded and created on the system. Every employee will be notified within 7 days in advance of the verification process. It will be the responsibility of the Financial Asset Management Section to organize and coordinate the stock taking process. A comprehensive stock taking process will take place annually.

5.13.11 Office Furniture Lists

Duplicate furniture lists on the document management system will be created / produced and handed to every employee assigned to an office or defined work place annually. The furniture lists will be verified by that specific employee and signed.

One furniture list will be handed to the Financial Asset Management Section and the other one will be attached to the back of the employee's office door or defined work place. If there are any inaccuracies on the list, it will immediately be rectified.

5.13.12 Purchase of a New Asset

All new assets will receive a bar code number and description before being captured to the Financial Assets Register. The CFO must ensure that appropriate procedures are in place to ensure that every asset is recorded appropriately in the Fixed Asset Register. It is the responsibility of each senior manager to ensure that the CFO is informed of any new assets purchased.

Annexure A

Description	Years
Buildings	50
Specialised vehicles	5 - 20
Electricity	5 - 30
Motor vehicles	5 - 10
Water	5 - 20
Office equipment	2 - 10
Sewerage	15 - 20
Furniture and fittings	7 - 15
Bins and Containers	5 - 10
Specialised plant and equipment	5 - 15
Computer Equipment	2 - 10

Annexure B

Asset Transfer/ Disposal Form

We need to recreate the form and split into:

Form A – Asset transfer form
Form B – Asset take on forms
Form C – Asset disposal form
Form D – Asset confirmation with regard to employee resignation