FIXED ASSET MANAGEMENT

POLICY, PROCESSES & PROCEDURES

RECOMMENDED

THAT the **Fixed Asset Management Policy** and the contents thereof be tabled at the Mayoral Committee for recommendation for approval by Council.

Version	Version 1.2019		
Date	April 2019		
Document Name	**Fixed Asset Management Policy and Procedures**		
Reviewed By			
	______________________ **INTERNAL AUDITOR**	**Date**:	______________________
Supported By			
	______________________ **CHIEF FINANCIAL OFFICER**	**Date**:	______________________
Signature	______________________ **MUNICIPAL MANAGER**	**Date**:	______________________
Adopted by the Mayoral Committee			
	______________________ **CHAIRPERSON**	**Date**:	______________________
Approved by the Council	Approved: A1532 1st Review: A1631 ______________________ **RESOLUTION**	**Date**:	08 June 2016 31 May 2017 ______________________
Effective date	**01 July 2019**		
Next revision date	**April 2020**		

Contents

1. Policy

1.1 Overview

This policy document is provided to assist management and employees of Sedibeng District Municipality in implementing and maintaining consistent, effective and efficient asset management principles.

Sedibeng District Municipality in fulfilling its constitutional mandate and recognising its:

i. community orientation;
ii. compliance with Generally Recognised Accounting Practice (GRAP);

has devised the necessary fixed asset management policy in a manner which will lead to a compliant chart of accounts as required by The Accounting Standards Board.

1.2 Purpose

This policy document serves to assist management and employees of the Sedibeng District Municipality to implement and maintain consistent, effective and efficient asset management principles.

It serves as an internal dynamic document aimed at recognizing and detailing the manner in which Sedibeng District Municipality as custodian and trustee of the communities it services acts with regards to the fixed assets placed under its control. It seeks to define the stewardship of the fixed assets both in terms of the:

i. Financial administration by the Chief Financial Officer; and
ii. Physical Administration by the asset managers.

In so doing, Sedibeng District Municipality recognizes the need for accurate recording and accounting.

1.3 Objective

The objective of this document is:

1.3.1 To safeguard fixed assets of Sedibeng District Municipality and to ensure the effective control, utilization, safeguarding and management thereof;

1.3.2 To emphasize a culture of accountability over fixed assets by asset managers,

1.3.3 To defray loss through inappropriate standards of physical control, and lack of internal controls and recording;

1.3.4 To ensure that effective controls are communicated to management and staff through clear and comprehensive written documentation, and

1.3.5 To provide a formal set of financial procedures that can be implemented to ensure that Sedibeng District Municipality's financial asset policies are achieved and are in compliance with the Municipal Finance Management Act (MFMA), both with the acquisition of and disposal of fixed assets;

1.3.6 To ensure that with accurate reporting the necessary Asset Management (AM) return is completed and returned to National Treasury.

1.4 Business Process framework

1.4.1 Legislative Framework

The policy subscribes to the various legislative requirements, accounting standards and GRAP framework and Directives of which the following are the most important, but not exhaustive:

- The Constitution of the Republic of South Africa, 1996

- Municipal Systems Act (MSA) (No. 32 of 2000);

- Municipal Finance Management Act (MFMA) (No. 56 of 2003),

- Municipal Structures Act 117 of 1998;

- ***MFMA Municipal Standard Chart of Accounts Regulations, (No. 37577 of 22 April 2014)***

- The ***King IV Code on Corporate Governance in South Africa (2016).***

- GRAP 17 Property, plant and equipment (PPE)

- GRAP 100 Noncurrent assets held for sale and discontinued operations

- IAS 36 Impairment of Assets

- IPSAS 21 Impairment of noncash generating assets

and other applicable legislation informs and seeks to regulate the functioning of fixed asset management so as to lead to the early detection of irregular and unauthorised, activity, and allow for reporting thereof in terms of Schedule 1 and Schedule 2 of the MSA: the Code of conduct for Councillors and Municipal Staff Members.

1.4.2 Accounting Framework

The responsibility of fixed asset management lies with the Municipal Manager and the Chief Financial Officer. The performance of this function has to be delegated to the fixed asset Accountant. This however, does not alleviate the responsibility of the Municipal Manager and the Chief Financial Officer. The Municipal Manager and the Chief Financial Officer will need to ensure that all the fixed assets are adequately insured against loss, theft and damage of any nature.

No amendments, deletions or additions to the fixed asset register shall be made other than by the Chief Financial Officer or by an official acting under the instruction of the Chief Financial Officer.

The policy complies with the standards as prescribed by the Accounting Standards Board.

1.5 Recommendations

- **i.** This policy, processes and procedures document supersedes all previously issued fixed assets management policies;
- **ii.** This policy, processes and procedures document be recognised as identifying, characterizing and addressing the various stages of the fixed asset management transaction cycle;
- **iii.** This policy, processes and procedures document be recognised as denoting all internal control mechanisms relevant to the efficient and effective discharge of fixed asset management;
- **iv.** This policy document is adopted by the Executive Management and the broader Council of Sedibeng District Municipality as the framework for Fixed Asset Management.

2. Processes

2.1 Definitions

"Accounting Standards Board" was established by the Public Finance Management Act to set standards of Generally Recognized Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa.

“Assets” are resources controlled by an entity as the result of past events and from which future economic benefits or potential service provision are expected to flow to the entity.

“Asset Manager” is the “senior manager” who has the functional accountability for and control of the physical management of a particular set of assets in order to achieve the municipality’s strategic objectives relevant to his/her directorate. The execution of this responsibility will require the asset manager to control the acquisition, utilization, management and disposal of this set of assets to optimize the achievement of these objectives.

“Asset Management Return” as per MFMA Circular No. 70 is identified as an extension of the information contained in Appendix B to the Annual Financial Statements – Analysis of property, plant and equipment with the relevant notes.

“Asset Categories” are the five main asset categories defined by GAMAP 17 and GRAP 17. These are:

- **Infrastructure assets –** are defined as any asset that is part of a network of similar assets. It is specialized in nature and do not have an alternative use. It is immovable and may be subject to constraints on disposal. Examples are roads, water reticulation schemes, sewerage purification and trunk main, transport terminals and car parks.

- **Community assets –** are defined as any asset that contributes to the community’s wellbeing. Examples are parks, libraries and fire stations.

- **Heritage assets –** are defined as culturally significant resources, and are shown at cost due to the uncertainty as to the useful life of the asset. Examples are works of art, historical buildings and statues.

- **Land and buildings –** are defined as owner-occupied property held by the owner, or by the lessee under a finance lease, for use in the production or supply of goods and services or for administration purposes.

- **Other assets –** are defined as asset utilized in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

"Asset Champion" is a senior official appointed by the Asset Manager in his/her Department or Section to assist the Asset Manager in performing his/her functions and duties.

"Capitalization" is the recognition of expenditure as an Asset or Attractive Item in the Financial Asset Register.

"Carrying amount" is the amount at which an asset included in the Statement of Financial Position after deducting any accumulated depreciation thereon.

"Cost" is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction plus costs incidental to the acquisition or acquirement. Trade discounts, rebates, dismantling costs and asset removal and restoration are also netted into the cost. It is also known as historical cost/value.
When the asset is acquired through a non –exchange transaction, then its cost is deemed to be fair value as at acquisition.

"Cost of acquisition" is all the costs incurred in bring an item of plant, property and equipment to the required condition and location for its intended use.

"Deferred maintenance" is the extent of preventative maintenance that has not been performed.

"Depreciation" is the systematic allocation of the depreciable amount of asset over its useful life.

"Depreciable amount" is the cost of an asset, or other amount of an asset, or other amount substituted for cost in the financial statements, less its residual value.

"Fair value" is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.

"Financial asset register" is the controlled register recording the financial and other key details for all municipal assets recognized in accordance with this policy (FAR).

"**Fixed Assets"** Fixed assets are assets with a useful life of more than one year and where economic benefit is being derived from the asset by SDM in its normal business usage.

"GAMAP" stands for "generally accepted municipal accounting practice".

“GRAP” stands for “generally recognized accounting practice”.

“Impairment” is when the recoverable amount of an asset is less than the carrying value of such an asset.

“Preventative maintenance” is the maintenance which is required on a systematic basis to ensure that the originally assessed future economic benefits or potential service position of the relevant asset is realised hence that the fixed asset reaches it estimated useful life.

“Property, plant and equipment” are tangible assets that:

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

b) *Are expected to be used during more than one period*

c) *Is stated at cost less accumulated depreciation and accumulated impairment.*

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

“Recognition” is the process by which expenditure is included in the Financial Asset Register as an asset or attractive item.

“Replacement Value” is the amount which is needed in current terms to replace an asset.

“Residual Value” is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs for disposal.

“Senior manager” is a manager referred to in Section 56 of the Municipal Systems Act being someone reporting directly to the Municipal Manager.

“Senior management teams” are the incumbents of post level 1,2 and 3 in each directorate being the “senior manager” and everyone up to two levels below them.

“Stewardship” is the act of taking care of and managing property, plant or equipment on behalf of another.

“Useful Life” is either:

a) *The estimated period of time over which the future economic benefits or future service potential embodied in an asset is expected to be consumed by the municipality; or*

b) *The estimated total service potential expressed in terms of production or similar units that are expected to be obtained from the asset by the municipality.*

2.1.1 GRAP Accounting Policies

ASSET CAPITALISATION

Definition of property, plant and equipment (ppe)

An item is accounted for as an item of PPE and is raised on the Asset Register as such if it meets the definition of PPE found in GRAP 17.

The item of PPE is capitalised according to the guidelines set out below:

Property, plant and equipment are tangible assets that:

(a) Are held by the municipality 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 period.

An item of property, plant and equipment shall be **recognized** as an asset when it is probable that future economic benefits or service potential associated with the asset will flow to the municipality and the cost or fair value of the asset to the municipality can be measured reliably.

To be categorized as an asset the item should also comply with the definition of an asset according to GRAP 0. The item must be a resource which is controlled by the municipality as a result of a past event from which future economic benefits or service provision can be expected. Major spare parts and stand-by equipment qualify as an asset when the municipality expects to use them during more than one period once issued.

Assets held under leases

Finance leases are leases, which in effect transfer all risks and rewards associated with the ownership of an asset from the lessor to the lessee. Assets held under finance leases are capitalized by the municipality and reflected as such in the fixed assets register. It will be capitalized at its leased value at commencement of the lease, which will be the price stated in the lease agreement. The asset is then depreciated over its expected useful life.

The following are examples of finance leases:

- Legal ownership of the asset transfers to the lessee either during or at the end of the lease term;
- The lease has an option to purchase in it;
- The present value of the lease repayments are equivalent to the fair value of the leased goods.

Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due. Assets held under operating leases are not accounted for in the asset registers of the municipality.

2.1.2 Classification of Assets

According to GRAP 17, PPE should be classified according to the following definitions on the Fixed Asset Register and in the general ledger:

2.1.2.1 Infrastructure assets are defined as any asset that is part of a network of similar assets. 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.

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

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

2.1.2.4 Investment properties are defined as 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.

2.1.2.5 Other assets are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

2.2 Asset Capitalisation Limits.

The capitalisation limits are as follows:

2.2.1 Acquisitions with a value of R500.00 or less (DIR)

Purchases per item, with a value of R500.00 each or less, inclusive of non-claimable VAT, must be purchased against the operating budget and will not be bar coded or recorded in the asset register. These items will normally include equipment such as books, calculators, letter trays, waste bins, brooms, spades, rakes, tools and electric equipment. The control over these items will be the responsibility of the directorate that purchases and utilises these items. These items are to be recorded in the Asset Inventory Register.

2.2.2 Acquisitions with values of more than R500.00 but less than R1000.00

Asset purchases, with a value of more than R500.00 but less than R1000.00 each, inclusive of non-claimable VAT must be purchased against the operating budget, but will be bar coded and recorded in the Asset Inventory Register.

2.2.3 Acquisitions exceeding R1 000.00

Asset purchases exceeding the amount of R1 000.00 each, inclusive of non-claimable VAT, will be against the capital budget. These items will be capitalized to create asset records in the Asset Register and bar coded on receipt by the relevant asset officials in the devolved functions. These purchases provide a lasting benefit to the Sedibeng District Municipality and will normally be financed over a period of longer than one financial year.

2.3 Functional Responsibilities and Accountabilities

This section allocates responsibilities for the Sedibeng District Municipality

2.3.1 The **Executive Mayor** must:

a. Approve the temporary and/or permanent transfer of all moveable assets exceeding approved limits, as stipulated in the “Powers of Delegation” of the municipality.
b. Approve the writing off, disposal of obsolete or redundant assets.

2.3.2 The **Municipal Manager** is responsible for the management of assets of the municipality, including the safeguarding and the maintenance of those assets. As principal custodian either he or his delegated official in terms of section 79(4) must ensure:

a. Compliance with and implementation of the approved asset management policy as per S63 of the Municipal Finance Management Act (MFMA)

b. The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;

c. The municipality's assets are valued and accounted for in accordance with GRAP

d. The municipality has and maintains a system of internal control of assets, including an asset register; and

e. Report in writing, where applicable all asset losses to Council;

f. Verify Council assets on an annual basis;

g. Approve temporary and/or permanent transfers of a movable asset between departments as determined in the "Powers of Delegation" of the municipality.

2.3.3 The **Chief Financial Officer** is responsible to the Municipal Manager, as per delegated authority in terms of section 79(1)(b)(ii) to ensure that the financial investment in the municipalities' assets is safeguarded and maintained. The chief financial officer must ensure that:

a. Appropriate systems of financial management and internal control are established and carried out diligently;

b. The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;

c. Any unauthorized, irregular or fruitless and wasteful expenditure, and losses resulting from criminal or negligent conduct are prevented;

d. The systems, processes and registers required to substantiate the financial values of the municipality's assets are maintained at standards sufficient to satisfy the requirements of the Auditor-General.

e. Financial processes are established and maintained to ensure that the municipality's financial resources are optimally utilized through an appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.

f. The senior managers and asset champions are appropriately advised on their powers and duties pertaining to the financial administration of assets.

g. The chief financial officer may delegate or otherwise assign responsibility for performing these functions but they will remain accountable for ensuring these activities are performed.

i. The policy and supporting procedures or guidelines are established, maintained and effectively communicated.

j. Approve the temporary or permanent transfers of movable assets between departments as determined in the “Powers of Delegation” of the municipality.

k. Ensure that municipal assets are accounted for according to GRAP.

l. Ensure that the acquisition of all assets is in accordance with supply chain requirements.

m. Ensure the general ledger is reconciled with the fixed asset register and review such reconciliation.

n. Provide the Auditor-General or his personnel with the records pertaining to the fixed assets upon request.

2.3.4 The mandated **Finance Manager** must ensure that:

a. Approved budgeted capital expenditure be translated into a project which details the target asset to be acquired, and the funding source;

b. Funds for the acquisition only be released after written authority attached to the project description;

c. Capital Budget amendments be communicated to the asset Manager;

d. Collate depreciation information;

e. Manage the account payables function at the acquisition stage of fixed assets;

2.3.5 The **Asset Manager** must ensure that:

a. Appropriate physical management and control systems are established and maintained for all assets in their area of responsibility;

b. Annual asset verification is completed and the results thereof are reported to the Municipal Manager or Council;

c. The Asset register is balanced annually with the general ledger and the financial statements;

d. Assist the Auditor General during their audit with the financial records relative to the Asset Register;

e. All audit queries are resolved timeously;

f. The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;

g. Any unauthorized, irregular or fruitless or wasteful utilization and losses of assets resulting from criminal or negligent conduct are prevented;

h. Their asset management system and controls can provide an accurate, reliable and up to date account of assets under their control.

i. They are able to justify that their asset plans, budgets and purchasing, maintenance and disposal decisions optimally achieve the municipality’s strategic objectives.

j. The asset manager may delegate or otherwise assign responsibility for performing these functions but will remain accountable for these activities.

k. Certify in writing at the end of each financial year-end, that he/she has assessed and identified impairment losses on all assets under his/her control.

l. Report in writing to the Chief Financial Officer the full facts in the event of an asset or attractive item being demolished, destroyed, and damaged or occurrence of any other event materially affecting its value.

a. Approve the temporary or permanent transfers of a movable asset between departments as determined in the "Powers of Delegation" of the municipality.

2.3.6 The **Asset Champion** must:

a. Assist the Asset Manager in performing his/her functions and duties in terms of asset management.
b. Ensure inventory lists are verified, kept current and balanced in collaboration with the Finance Department.
c. Identify obsolete and redundant assets and attractive items once per financial year, compile a report and obtain the necessary approval for the disposal thereof.
d. Maintain an asset verification report which :
e. Reflects a complete list of assets verified;
f. Reflects appropriate records as to the fixed assets life;
g. Reflects any discrepancies between the assets verified and the recorded life;
h. Reflects commentary by the asset managers on the discrepancies logged;
i. Maintain adequate stock of bar codes and equipment for effective asset management at all times;
j. Maintain a register of bar codes issued relative to assets;
k. Maintain an asset condemnation form and register for usage with obsolete and damaged assets;
l. Maintain a list of assets which are to be auctioned;
m. Circulate a list of unused assets for review by other directorates;
n. Inform the Finance Directorate of any intended auctioning or disposing of written off assets.

The Support services to the management of fixed assets are:

2.3.7 ***Supply Chain***

a. Code the intended asset acquisition for future work flow;

b. Ensure tender procedures are complied with in the bid process;

c. Ensure that items of a capital nature i.e. acquisitions exceeding R1,000 shall not be acquired from operating expenses.

2.3.8 ***Human Resource***

a. Verify that asset resignation forms are signed off prior to any termination benefits are paid out upon resignation of officials;

b. Have the asset resignation form counter signed by Asset Managers prior to processing termination of employment.

3. Procedures

3.1 Calculation of the Initial Cost Price of Items of PPE

The initial recording of an item of PPE is dealt with as follows in GRAP 17

3.1.1 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:

i. The cost of site preparation,
ii. Initial delivery and handling costs,
iii. Installation costs, and
iv. Professional fees such as for architects and engineers.

3.1.2 The cost of performing feasibility studies is written off when incurred.

3.2 Expenditure Incurred in respect of Existing PPE Subsequent to the Initial Recording of the Cost Price.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery of the asset is enhanced in excess of the originally assessed standard of performance. If expenditure only restores the originally assessed standard of performance, then it is regarded as repairs and should be expensed. Accounting procedures need to be implemented to ensure that operating expenditure is not capitalised.

The following matrix will assist in distinguishing capital expenditure from maintenance expenditure: -

3.2.1 Capital Expenditure Maintenance

3.2.1.1 Acquiring a new asset

3.2.1.2 Replacing an existing asset

3.2.1.3 Restoring an asset so that it can continue to be used for its intended purpose

3.2.1.4 Enhancing an existing asset so that its use is expanded

3.2.1.5 Further developing an existing asset so that its original useful life is extended

3.2.1.6 Maintaining an asset so that it can be used for the period for which it was initially intended.

3.3 Depreciation of Property, Plant & Equipment.

3.3.1 GRAP Principles

The accounting treatment relating to the depreciation of Property, Plant & equipment is outlined in **GRAP 17.** The following is a summary of the relevant aspects:

The **depreciable amount** of an item of property, plant and equipment, should be **allocated** on a systematic basis **over its useful life** in a manner which reflects the pattern of consumption. Depreciation is an expense and should be recognised as such unless it is to be included in the carrying value of another item of property, plant and equipment.

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

The Appendix to GRAP 17 sets out the generally accepted **useful lives** of all municipal property, plant and equipment. These useful lives must be used unless the **exemptions** set out below exist:

3.3.1.1 The item is not properly maintained and it is unlikely that the item can be used for its originally expected useful life. The estimated remaining useful life must be used rather than that in the Appendix. **It should be noted that this exemption does not permit an extension to the useful lives set out in the Appendix.**

3.3.1.2 The item can no longer be used for its intended purpose. In this circumstance, the asset must be written-off. There will no longer be a depreciation charge.

3.3.1.3 If the estimated useful life of an item of property, plant and equipment changes significantly due to technological changes then the depreciation rate should be adjusted for the current and remaining future periods.

The method used for depreciation charges by the municipality will be the straight-line method except for extraordinary circumstances. Capitalisation of assets will be on a quarterly basis during a particular financial year, i.e. September, December, March and June where after depreciation will be calculated.

When **depreciation** is **calculated**, a corresponding **accumulated depreciation** account is created. The accumulated depreciation account is a balance sheet 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 use. The balance on the accumulated depreciation account can never exceed the cost or valuation of the specific item of property, plant and equipment to which it relates.

Where the useful lives of assets are reviewed and need adjustment the depreciation charge for the current and future periods should be adjusted.

3.3.2 Disclosure Requirements Relating To Depreciation

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

3.3.2.1 **In the accounting policy notes**

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

3.3.2.2 **In the notes to the balance sheet**

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.

3.3.2.3 **In the notes to the income statement**

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

3.3.2.4 **In Annexure B and C to the financial statements: -**

These Annexures disclose a more detailed analysis of the various classes of assets (Annexure B) as well as a detailed analysis on the allocation of assets to the various departments and functions (Annexure C). These Annexures must show a reconciliation of the carrying amount at the beginning and end of the period showing:

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

3.4 Profit or Loss On The Sale Of Property, Plant & Equipment.

3.4.1 GRAP Principles

The accounting treatment relating to the profit or loss on the sale of property, plant & equipment is outlined in **GRAP 17.** The following is a summary of the relevant aspects:

Profits and losses, which are disclosed in total in the financial statements,
are calculated by use of the following formula:

Proceeds Sales value, trade-in value or proceeds received from insurance if the asset was damaged or stolen.

Less: Carrying value Cost, or if valued, revaluation amount, less accumulated depreciation up to the date of sale or when asset can no longer be used for its intended purpose.

Equals PROFIT or If proceeds greater than carrying value,

or

Equals LOSS If proceeds less than carrying value.

3.4.2 Disclosure Requirements Relating To Profit Or Loss On The Sale Of PPE

According to GRAP 3 the nature and amount of the profit or loss on the disposal of PPE should be disclosed on the face of the Income Statement.

3.5 Impairment Losses

3.5.1 GRAP Principles:

The accounting treatment relating to impairment losses is outlined as follows in **GRAP 17:**

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 use of an asset, including its residual value on disposal. When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately, unless it reverses a previous revaluation in which case it should be charged to a non-distributable reserve in accordance with GRAP 17.

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

The following may be indicators that an item of PPE has become impaired:

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

3.5.1.1 Example

An example of where the municipality has suffered an impairment loss is the purchase of land for an amount of R 5 000 000. The land will be utilized for new subsidized housing developments. If at year end the expectation is that the City will receive only R1 000 000 by way of subsidies an impairment loss of R4 000 000 needs to be recognized. The recoverable amount (R1m) is calculated as being the larger of:

3.5.1.1.1 **Net Selling price** of the land: This 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.

3.5.1.1.2 **Value in use** of the land: This 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.

3.6 Procedures To Identify, Budget And Account For Impairment Losses

The following needs to be done to ensure that impairment losses that are identified by the above indicators are budgeted for during the operating budget cycle and are accounted for in the next financial year.

3.6.1 The following steps will have to be performed during the operating budget cycle:

Finance Directorate Asset Control shall issue a memo to all directorates requesting them to identify assets that:

3.6.1.1 Are in a state of damage at the start of the operating budget cycle.

3.6.1.2 Are technologically obsolete at the start of the operating budget cycle.

This can be facilitated if directorates require that Finance Directorate Asset Control supply them with a Fixed Asset Register printout pertaining to immovable assets showing the remaining useful lives of assets. The directorates can then assess and indicate cases where the assessed remaining useful life is shorter than the remaining useful life on the printout.

3.6.1.3 Have remained idle for a considerable period either prior to them being put into use at the start of the operating budget cycle or during their useful life.

3.6.1.4 Are subject to impairment losses because the subsidies to be received in exchange for assets are less than the carrying amounts.

An example of this is Land that is purchased at market value and is to be utilized for subsidized housing developments.

The **recoverable amounts** of these assets need to be calculated by calculating the Net selling Price per asset as defined above.
The **impairment loss** per asset needs to be calculated as the difference between the Net selling price and the book value of the asset.
The impairment loss needs to be budgeted for.

3.6.2 The following steps will have to be performed regularly during the year to account for impairment losses:

Directorates will identify and inform Finance Directorate Asset Control of assets that:

3.6.2.1 Are in a state of damage at year end.
3.6.2.2 Are technologically obsolete at year end.

This can be facilitated if directorates require Finance Directorate Asset Control to supply them with a Fixed Asset Register printout pertaining to immovable assets showing the remaining useful lives of assets. The directorates can then assess and indicate cases where the assessed remaining useful life is shorter than the remaining useful life on the printout.

3.6.2.3 Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life.
3.6.2.4 Are subject to impairment losses because the subsidies to be received in exchange for assets are less than the carrying amounts.

An example of this is Land that is purchased at market value and is to be utilized for subsidized housing developments.

The **recoverable amounts** of these assets need to be calculated by calculating the Net selling Price per asset as defined above.

The **impairment loss** per asset needs to be calculated as the difference between the Net selling price and the book value of the asset.
The impairment loss needs to be accounted for by identifying the relevant funding source.

3.6.3 Disclosure Requirements Relating To Impairment Losses

All material impairment losses need to be disclosed in the notes to the income statement as a separately disclosable item. They are normally disclosed as part of the note on the amounts that are included in the calculation of the Net Surplus or Deficit for the year.

3.7 Evaluation of Assets (Land & Buildings Only)

Subsequent to initial recognition as an asset, an item of **land and buildings** may be carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations shall be made with sufficient regularity such that the carrying amounts do not differ materially from those which would be determined using fair value at the balance sheet date.

The fair value of land and buildings will be based on their market value indicated in the valuation roll. This value will normally be determined by a professional valuer. The revaluation of land and buildings cannot be limited to specific sets of land or buildings but shall include the entire class of property to which such an asset belongs.

Any increase as a result of a revaluation in the carrying amount will be credited under the heading “Revaluation Surplus”, however a revaluation increase shall be recognised as revenue to the extent that it reverses a revaluation decrease previously recognised as an expense. Depreciation on the re-valued amount will be charged to the income statement and a transfer will be made to offset this depreciation in the statement of changes in equity.

Where a decrease arises such a decrease should be recognised as an expense but may be charged directly against any revaluation surplus to the extent of the balance of such a revaluation surplus.

3.8 Fixed Asset Registers

3.8.1 The following is an outline of the requirements relating to the various types of asset registers that the municipality will maintain Corporate Asset Control is responsible for ensuring that complete records of asset items are kept, verified and balanced regularly. The **Corporate**

Asset Register (CAR) for the municipality will contain the following main types of assets categorized as immovable or movable assets by using the asset classes prescribed by GRAP:

3.8.1.1 Immovable Assets:

- Infrastructure assets
- Roads
- Buildings
- Land
- Pedestrian Malls
- Airports
- Recreational Facilities
- Security Measures
- Assets under construction (Only an asset after completion)
- Town Development
- Investment Properties

3.8.1.2 Movable Assets:

- Office Equipment
- Furniture and Fittings
- Bins and Containers
- Emergency Equipment
- Motor Vehicles
- Aircraft
- Watercraft
- Plant and Equipment

3.8.2 The CAR will consist of all the asset master records with a value of more than R1 000.00 each inclusive of non claimable VAT, which have been capitalized. These assets must be numbered with the approved barcode labels.

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

3.8.4 The **Corporate Asset Inventory Register (CIR)** will consist of all the asset master records with a value of more than R500.00 and less than R1 000.00 each inclusive of non claimable VAT, which will be created by the different business areas and that, have not been capitalized.

These assets must be bar coded but no financial values will be allocated in the Corporate Inventory Register.

3.8.5 **Directorates Asset Inventory Records (DIR)** .The devolved inventory records will consist of items acquired via the operational budget with a value less than R500.00 each inclusive of non claimable VAT. These items will normally include equipment such as books, calculators, letter trays, waste bins, brooms, spades, rakes, tools and electric equipment. These items will not be bar coded for the BAUD inventory register but must be controlled by the Directorates. These inventory records must be available and kept up to date at all times for inspection by the Internal or External Auditors.

3.8.6 **Leased Assets.** Assets held under finance leases will be categorized separately in the CAR and must be bar coded where they include movable assets.

3.8.7 **Asset Under Construction**. Incomplete construction work is stated at historic cost. Depreciation only commences when the asset is commissioned into use.

3.8.8 The details included in the CAR will include:

- The measurement bases used.
- The depreciation methods used.
- The useful live.
- Depreciation charged.
- The gross carrying amount
- The accumulated depreciation.
- Date of acquisition
- Date of disposal (if relevant)
- Increases or the decreases resulting from revaluations (if relevant)
- Location.
- Asset Class
- Asset Type
- Asset Master Record Number

3.9 Funding Sources

Four main sources of finance are utilized to acquire assets, namely:

- The Asset Financing Reserve (AFR)
- The External Financing Fund (EFF)

- 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 S19 of the MFMA.

3.9.1 The Asset Financing Reserve (AFR)

Council must annually approve the basis and the amounts for which contributions should be appropriated to the AFR in conjunction with the availability of funds and the requirements of the capital program for that financial year.

The funds in the AFR are accumulated by:
- An annual contribution from revenue
- The cash backed profit on the sale/disposal of assets

When an amount is advanced to a borrowing service to finance the acquisition of an asset, the money must be transferred to an FDR created for the purpose of acquiring a specific asset and the accumulated funds in the AFR must be reduced by the amount of the advance.

The balance of the accumulated funds in the AFR will therefore represent the amount that is available to finance assets in future periods. This balance must be cash backed at all times.

The balance in the FDR is transferred to the income statement over the estimated life of assets financed by the AFR to offset the depreciation charge included in the income statement relating to fixed assets.

3.9.2 The External Financing Fund (EFF)

When loans are obtained from external sources, they must be paid into the EFF. The corresponding cash should be invested until utilized for the purpose of acquiring fixed assets. When the external loan is utilized to finance fixed assets in a service entity it should be recorded in an “advances” account in the EFF.

Where a loan has a fixed period the installments should be calculated to determine the cash that should be set-aside in the EFF. This is done so that there will be sufficient money to repay the loan when it matures as well as any interest charges as they occur.

When the loan is an annuity loan, the cash required to be paid into the EFF should be based on the actual loan repayments. Once the money has been received by the EFF, the cash would be used to repay the loan.

When the EFF is consolidated with the various services, the “advances made” account in the EFF will contra with the “advances received” account in the various service entities.

3.9.3 Grants, Subsidies and Public Contributions (Capital Receipts)

Unutilised conditional grants are reflected on the Balance Sheet as a Creditor called Creditor (Unutilised conditional grants). They represent unspent government grants, subsidies and contributions from the public. This creditor always has to be backed by cash. The following provisions are set for the creation and utilisation of this creditor:

i. The cash which backs up the creditor is invested until it is utilised.
ii. 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 it is the municipality’s interest it is recognised as interest earned in the income statement.
iii. Whenever an asset is purchased out of the unutilised conditional grant an amount equal to the cost price of the asset purchased is transferred from the Unutilised Capital Receipts into the income statement as revenue. Thereafter an equal amount is transferred on the statement of changes in equity to a reserve called a future depreciation reserve (FDR). This reserve is equal to the remaining depreciable value (book value) of assets purchased out of the Unutilised Capital Receipts. The FDR is used to offset depreciation charged on assets purchased out of the unutilised Capital Receipts to avoid double taxation of the consumers.
iv. If a profit is made on the sale of assets previously purchased out of Unutilised Capital Receipts the profit on these assets sold is reflected in the notes to the income statement and is then treated in accordance with council policy.

3.9.4 Revenue Contributions

These fixed assets are financed from the municipality's operating cash flow. The fixed asset is capitalised at cost and the payment is credited against the bank balance. Normal depreciation will apply.

3.10 Financial Management

3.10.1 Pre-Acquisition Planning

Before a capital project is included in the draft municipal budget for approval, the Asset Manager must prove that they have considered:

a. The projected acquisition and implementation cost over all the financial years until the project is operational;
b. The future operational costs and revenue on the project, including tax and tariff implications;
c. The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
d. The physical and financial stewardship of the asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation;
e. The inclusion of the capital project in the Integrated Development Plans and future budgets; and
f. Alternatives to this capital purchase.

The ***Chief Financial Officer*** is accountable to ensure that the Asset Managers receive all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

3.10.2 Approval to Acquire Property Plant and Equipment

Money can only be spent on a capital project if:

a. Each Executive Manager should obtain the necessary information from his/her mayor;
b. The money has been approved in the capital budget;
c. The project, including the total cost, has been approved by the Council;
d. The Chief Financial Officer or mandated official confirms that funding is available for that specific project; and compiles this information into a concept capital budget;

e. The concept capital budget is discussed at a meeting involving the Municipal Manager, CFO ' and mayor, where needs are prioritised;
f. The concept capital budget is presented to the section IOA Finance Committee for approval;
g. Any contract that will impose financial obligations more than two years after the budget year is appropriately disclosed;
h. It is the presented to the mayoral committee for approval; and
i. After these approvals are obtained it is presented to Council for approval;
j. Only after the Council approves the budget and a report served before Council whereby approval for specific items are obtained, can capital items be purchased

3.10.3 Funding of Capital Projects

Within the municipality's ongoing financial, legislative or administrative capacity, the Chief Financial Officer will establish and maintain the funding strategies that will optimise 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.

3.10.4 Disposal of property, plant and equipment

The municipality may 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 municipal services.

The municipality may transfer ownership or otherwise dispose of a non-current asset other than one contemplated above, but only after the Council, in a meeting open to the public:

a. Had decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
b. Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

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

The municipal manager may approve the disposal of an item of property, plant and equipment as delegated by the municipal Council.

The disposal of an item of property, plant and equipment must be fair, equitable, transparent, competitive and cost effective and comply with the municipality’s Supply Chain Management Policy.

Transfer of assets to another municipality, municipal entity, national department or provincial department is excluded from these provisions, but must be done in accordance with a prescribed framework.

3.11 Asset Categories

3.11.1 Fixed Asset

It is a resource controlled by the municipality as a result of past events and which future economic benefits are expected to flow to the enterprise. The cost would include transport costs, labour and any other cost incurred to bring the asset to its present location and condition.

Similar assets of the same sub-category whose individual values, before VAT, are less than R2 000 but cumulatively would exceed R2 000, must be grouped together and capitalised under one line item/narration e.g. Total chairs.

Characteristics of a depreciable fixed asset are the following:

i. It is estimated the asset will be used for more than one financial period;
ii. It has a limited useful life;
iii. It is used in a process of delivering services;
iv. The resource should provide future economic benefits
v. The future economic benefits should accrue to the municipality;
vi. The event giving rise to the municipality's right to the resource and control over the future economic benefits must already have occurred; and
vii. It should be possible to determine the cost of the asset reliably.

3.11.2 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

No intangible item shall be recognised as a fixed asset, except that the Chief Financial Officer, acting in strict compliance with the criteria set out in the GRAP statements dealing with research and development expenses may recommend to council that specific development costs be recognised as fixed assets.

3.12 Capitalisation and Valuation of Assets

Assets whose individual value excluding VAT, is less than R2000 (two thousand rand) must be expensed in the month of purchase.
Every head of department must ensure that any item with a value in excess of R2000 (two thousand rand) excluding VAT, and with an estimated useful life of more than one year, shall be capitalised in the asset register.

3.13 Procurement of Assets

All assets acquired must be in terms of the capital budget. Assets must be procured in such a way that:

i. A proper need for the asset was identified; and
ii. Proper and approved procurement procedures are adhered to.

Authorisation for procurement should be as per the departments' delegation of authority and payment for assets should be in accordance with financial policies and regulations of the Council.

The Municipal Manager, in consultation with the CFO and other head of departments, shall formulate norms and standards for the replacement of all normal operational assets. Such norms and standards shall be incorporated in a formal policy, which shall be submitted to the council of the Municipality for approval. This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such policy shall also provide for the replacement of fixed assets which are required for service delivery but which have become uneconomical to maintain.

3.14 Capital budget

A capital budget must be compiled and approved for all capital acquisitions.

Guideline controls for the preparation of the capital budget:

i. Each Executive Manager should obtain the necessary information from his/her mayor;
ii. The director: Finance/CFO compiles this information into a concept capital budget;

iii. The concept capital budget is discussed at a meeting involving the Municipal Manager, CFO and Executive Mayor, where needs are prioritised;

iv. The concept capital budget is presented to the section 8Oa Finance Committee for approval;

v. It is the presented to the mayoral committee for approval;

vi. After these approvals are obtained it is presented to Council for approval;

Only after the Executive Mayor serves a budget report before Council and it is approved, whereby approvals for specific items are obtained, can capital items be purchased.

3.15 Guideline Procedures for Additions to Fixed Assets

The MM and CFO should inform the council of the acquisition or disposal of significant assets, and the relevant particulars of the transaction have to be submitted to the executive authority for approval. It is the responsibility of the Procurement officer to inform the assets official of all asset purchases.

The following should be updated in the fixed asset register:

i. Supplier's name
ii. Cost of asset
iii. Monthly depreciation
iv. Accumulated depreciation
v. Nett book value. Asset description
vi. Expected useful life
vii. Depreciation rate
viii. Method of payment and financing source
ix. Asset number
x. Cheque or transfer number; and invoice no

3.16 Capitalisation versus Expenditure

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised should be added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise.

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.

3.17 Guidelines for Asset Enhancements:

An item of expenditure is recognised by the municipality as an asset when it has the characteristics defined in the policy.

As the classification of an expenditure item (for instance on repair or an improvement) is often subjective, the following guidelines for enhancements should be used:

1. Modify an item to extend its useful life;
2. Upgrading machine parts to achieve a substantial improvement in the quality of output; or
3. Adopting new production processes enabling a substantial reduction in previously assessed operating costs.

3.18 Disposal of assets

Assets must be disposed in such a way that:

i. Assets disposal must be in line with the MFMA
ii. In financial terms, such disposal is always to the benefit of the municipality, and
iii. During the consideration and acceptance of tenders/quotations or any bid for such assets, the image of the municipality is not impaired.

Authorisation for disposal should be as per the department's delegation of authority. Proof of payment should be obtained before the asset is transferred to the new owner as per the relevant form.

Every head of department shall report in writing to the CFO at least once in the financial year on all fixed assets controlled or used by the department concerned which such head of department is to dispose by public auction or public tender. The CFO shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidation information to the council of the municipality, recommending the process of disposal to be adopted. Once the fixed assets are disposed, the CFO shall delete the relevant records from the fixed asset register.

If the proceeds on disposal are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a Joss on disposal in the income statement of the department concerned. If the proceeds of the disposal are more than the carrying value of the fixed asset concerned, the difference shall be recognised as profit/gain on disposal in the income statement of the department concerned.

All gains realised on the disposal of fixed assets shall be appropriated annually to the municipality's asset financing fund. All losses on the disposal of fixed assets shall remain as expenses on the income statement of the department concerned. If, however, both gains and losses arise in anyone financial year in respect of the disposal of the fixed assets of any department, only the net gain (if any) on the disposal of such fixed assets shall be appropriated.

3.18.1 Guideline Procedures For Disposal Of Fixed Assets

If a department wants to dispose of an asset, the head of department must submit a motivation and an **Asset Disposal Requisition** (ADR) to the fixed asset accountant. The accountant must recommend, by signature, the assets to be disposed of and submit the motivation to the Chief Financial Officer.

The CFO must recommend all disposals whose asset cost is greater than R250,000 and submit motivation to the Municipal Manager after consultation with the department IT Committee, for all electronic equipment and the assets officer for the other assets.

For assets with an initial cost of over R250 000.00, the MM must authorise all disposals of fixed assets by signing the ADR. Once signed the ADR must be handed to the CFO.

The assets officer must update his asset listing on receipt of the authorised ADR and file the ADR, and must submit the updated listing to the CFO for approval.

The assets officer must update the fixed assets register, by detailing the date the assets were transferred for auction or sale on the register, ad file the ADR in the date order.

The following information should be updated in the fixed asset register:

i. Reason for disposal
ii. Information relating to the buyer
iii. Individual requesting disposal
iv. Cost, book value and proposed selling price of the asset in question
v. Date of sale
vi. Method of payment
vii. Receipt number; and
viii. The entire relevant asset information e.g. number, type etc.

The Accounting records should be updated with information regarding the sale. The profit or loss should be recognised in the financial records of the department.

3.18.2 Other Write-Offs of Fixed Assets

A fixed asset shall be written off only on the recommendation of the head of the department controlling or using the asset concerned. The head of department shall report to the Chief Financial Officer by 31 January of each financial year on any fixed assets that such department wishes to have written off, stating in full the reasons for such recommendation. The CFO shall consolidate all such reports, and shall promptly submit a recommendation to the council of the municipality on the fixed assets to be written off.

The only reason for writing off fixed assets shall be because of loss, theft, and destruction or material impairment of the fixed assets in question.

In every instance where a not fully depreciable fixed asset is written off, the CFO shall immediately debit such department, as additional depreciation expense, the full carrying value of the asset concerned.

3.18.3 Guideline Procedures for Scrapping of Fixed Assets

If a head of department wants to scrap off an asset, he/she must submit a motivation, an Asset Scrapping Requisition (ASR) in duplicate and the asset, where possible, to the assets officer. The assets officer must physically inspect and recommend, by signature, the assets to be scrapped and submit the motivation to the CFO.

The CFO must recommend the scrapping and submit the motivation to the Municipal Manager, after consultation with the Departmental IT Committee, for all electronic equipment.

For assets with an initial cost of over R250 000.00, the MM must authorise all scrapings of fixed assets by signing the ASR. Once signed the ASR must be handed to the CFO and the assets officer.

The assets officer must update his asset listing on receipt of the authorised ASR and file the ASR with the monthly register, and submit it to the CFO for approval. On receipt of the authorised ASR the assets officer must update the fixed asset register, by detailing the scrapping date on the register, and file the ASR in date order.

The following information should be updated in the fixed asset register:

i. Reason for disposal
ii. Information relating to the buyer
iii. Individual requesting disposal

iv. Cost, book value and proposed selling price of asset in question
v. Date of sale
vi. Method of payment
vii. Receipt number; and
viii. The entire relevant asset information e.g. number, type etc.

3.19 Transfers

When fixed assets are transferred between the different Municipalities, a document with specific authorisation should be attached to the asset being transferred so as to make sure that authority was given for that specific asset to be transferred. The document should also include full details of the asset being transferred which should include:

i. Asset description
ii. Cost of the asset
iii. Date of acquisition
iv. Unique number
v. Effective date of transfer
vi. Quantity
vii. Authorisation by both transferor and transferee municipalities

The fixed asset accountant must then effect the transactions in the books of accounts on the day the asset leaves the transferor municipality.

3.20 Revaluation of Fixed Assets

All land and buildings recorded in the municipality's fixed asset register shall be re-valued with the adoption by the municipality of each new valuation roll (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 CFO shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed assets as recorded in the valuation roll.

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

The fixed asset concerned shall, in the case of buildings, be depreciated on the basis of its re- valued amount, over its remaining useful operating life. The increase in depreciation expenses shall be budgeted for and debited against the appropriate line item in the department controlling or using the fixed asset in question.

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

3.21 Revision of useful life

It may be necessary to review the useful life of asset, as the original estimate of useful life may become inappropriate. Such an adjustment is deemed to be a change in estimate and the depreciation charge for the current and future periods should be adjusted.

3.22 Guidelines for changes in accounting estimates

As a result of the uncertainties inherent in business activities, many financial items cannot be measured but can only be estimated. The estimation process is based on judgments based on the latest financial information available. Estimates may be required, for example bad debts, inventory obsolescence or the useful lives or expected pattern of consumption of economic benefits of depreciable assets.

An estimate may need to be revised if changes occur regarding the circumstances on which the estimate was based or as a result of new information, more experience or subsequent developments.
In practice the Department may decide to revise the useful life of an asset or a group of assets due to certain circumstances.

The effect of a change in accounting estimates should be included in the determination of net profit or loss in:

i. The period of the change if the change affects the period only, or
ii. The period of change and future periods, if the change affects both.

3.23 Asset Classes and Depreciation Periods

Assets are classified in terms of GRAP. Estimation of useful life is to be made using the best available information. Changes in useful life and depreciation rates are to be approved by the CFO.

The following are asset classes and depreciation periods:

Infrastructure Assets

	Asset life		Asset life
Electricity:		**Gas:**	
Power stations	30	Meters	20
Cooling towers	30	Mains	20
Transformer Kiosks	30	Storage tanks	20
Meters	20	Supply/reticulation	20
Load control equipment	20		
Switch gear equipment	20	**Sewerage:**	
Supply/reticulation	20	sewers	20
Mains	20	outfall sewer	20
Purification works	20		
Sewerage pumps	15		
Sludge machines	15		
Roads:		**Pedestrian Malls:**	
Motorways	15	Footways	20
Other roads	10	Kerbing	20
Traffic islands	10	Paving	20
Traffic lights	20		
Street lighting	25	**Airports:**	
Overhead bridges	30	Aprons	20
Storm-water drains	20	Runways	20
Bridges, subways & culverts	30	Taxiways	20
Car parks	20	Airports/Radio beacons	20
Bus terminals	20		

Community Assets

	Asset life		Asset life
Building:		**Recreational Facilities:**	
Ambulance stations	30	Bowling greens	20
Aquariums	30	Tennis courts	20
Beach developments	30	Swimming pools	20
Care centres	30	Golf courses	20
Cemeteries	30	Jukskei pitches	20
Civic theatre	30	Outdoor sports facilities	20

Clinics/Hospitals	30
Community centers	30
Fire stations	30
Game reserves/Rest camps	30
Indoor sports	30
Libraries	30
Museums/Art galleries	30
Parks	30
Public toilets	30
Recreation centres	30
Stadiums	30
Zoos	30
Mains	20
Rights	20
Reservoirs & Tanks	20

Organ & case	20
Lakes and dams	20
Fountains	20
Floodlighting	20
Security Measures:	
Fencing	3
Security systems	5
Access controls	5
Water:	
Meters	15
Supply/reticulation	20

Other Assets

	Asset life
Building:	
Abattoirs	30
Asphalt plant	30
Cable stations	30
Caravan parks	30
Cinemas	30
Compacting stations	30
Hostels - Public/Tourist	30
Hostels - Workers	30
Housing schemes	30
Kilns	30
Laboratories	30
Markets	30
Nurseries	30
Office buildings	30
Old age homes	30
Quarries	30
Tip sites	30
Training centres	30

	Asset life
Emergency equipment:	
Fire	15
Ambulances	5
Fire hoses	5
Emergency lights	5
Motor vehicles:	
Fire engines	20
Buses	15
Motor vehicles	5
Motorcycles	3
Trucks/Bakkies	7
Aircraft	15
Watercraft:	15
Plant and Equipment:	
Graders	15

Transport facilities	30	Tractors	15
Workshops/depots	30	Mechanical horses	15
Farm equipment	5	Lawnmowers	2
Office Equipment:			
Computer hardware	5	Compressors	5
Computer software	5	Lab equipment	5
Office machines	5	Radio equipment	5
Air-conditioners	7	Firearms	5
Telecom equipment	5		
Furniture & Fittings:		General	5
Chairs	10	Cable cars	15
Tables/ desks	10	Irrigation systems	15
Cabinets/cupboards	10	Crematories	15
Miscellaneous	10	Lathes	15
		Milling equipment	15
Bins and Containers:		Conveyors	15
Households refuse bins	5	Feeders	15
Bulk containers	10	Tippers	15

3.24 Asset Information Kept In the Register

The following information should be kept in respect of each asset:

i. Asset number
ii. Asset type and description
iii. Purchase price iv. Book value
v. Depreciation current period
vi. Accumulated depreciation
vii. Disposal value & date

The fixed asset register shall be maintained in the format determined by the CFO, which format shall comply with the requirements of GRAP and any other requirements prescribed, by law.

All heads of department under whose control any fixed asset falls shall promptly provide the CFO with any information required to compile the fixed asset register, and shall promptly advise the CFO of any material change which may occur in respect of such information.

In compliance with the requirements of GRAP, the CFO shall ensure that all fixed assets are classified under the following headings, and heads of department shall provide the CFO with such information or assistance as is required to compile a proper classification:

- Land
- Infrastructure assets
- Community assets
- Heritage assets
- Investment assets
- Housing
- Donated assets
- Other assets

3.25 Recognition of heritage assets in the fixed asset register

If no costs or reasonable 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 reasonable value for the assets in question will be a laborious or expensive undertaking, record such assets in the fixed asset register without an indication of the costs or reasonable value concerned.

3.26 Recognition of 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 such reasonable value as the CFO assigns to the asset in question.

3.27 Asset verification

To ensure the completeness and correctness of assets on the fixed asset register, all assets must be physically verified and confirmed at least twice in a financial year.
All fixed assets used by employees leaving the employment of the company must be verified on the day such employees leave.

3.28 Guideline procedures for the maintenance of the fixed asset register

- The assets officer must update the asset listing and fixed asset register with the approved asset requisitions, and submit it to the accountant for approval.
- On a monthly basis the assets officer must perform reconciliation between the general ledger values and the fixed assets and inventory register values and submit it to the accountant.
- The accountant must check and sign the fixed assets and inventory reconciliation as correct.
- The changes made to the fixed assets register should be printed and approved by the CFO on a monthly basis.
- Depreciation rates used have to be approved by the CFO before they are applied to the assets.
- The accountant should allocate depreciation rates for each class of assets, and also ensure that the depreciation calculation are correctly applied and posted in the general ledger.
- The assets officer should numerically account for the tag numbers, and the accountant should review the sequence monthly for missing numbers.
- The assets officer must report on the physical verification bi-annually to the CFO.
- The CFO must check the physical verification report, approve and submit a copy to the MM.
- Once approved by the CFO the assets officer must file the report in the date order.

3.29 Insurance of fixed assets

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.

If the municipality operates a self-insurance fund, the Chief Financial Officer shall annually determine the premiums payable by the departments after having received a list of the fixed assets and insurable values of all relevant fixed assets from the heads of departments concerned.

The Municipal Manager shall recommend to the council of the municipality, after consulting with the CFO, on the basis of the insurance to be applied: either the carrying value or the replacement value of the municipality's fixed assets. Such recommendation shall take due cognisance of the budgetary resources of the municipality.

The CFO shall submit annually, a report to the council of the municipality on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance fund.

3.30 Guideline Controls Over Physical Security Of Fixed Assets

Every head of department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by their department.

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

3.30.1 Asset security

All assets should be kept in a secure location, maintained regularly, insured against theft or destruction, utilized economically and efficiently.

The CFO and MM should inform the council of the acquisition or disposal of significant assets, and the relevant particulars of the transaction have to be submitted to the executive authority for approval. (Section 14, 90 of the MFMA).

The disposal of any of the municipality's major assets has to be approved by council.

3.30.2 Assets identification

A fixed assets and inventory register should be maintained, and all fixed assets should be tagged for reference to the fixed assets register.

The municipality should hold title to all assets.

3.30.3 Physical verification

The assets officer must perform a physical verification of all assets bi-annually. A Statement of Existence (SOE) must be issued for assets declaring that all assets listed are on hand and are in a useful working condition. The SOE must be sent to the CFO by relevant cluster heads.

3.30.4 Insurance cover

The Chief Accountant will arrange the necessary insurance cover, including cover for assets that are removed from council property.

3.30.5 Allocation of assets

The assets officer should open an asset allocation register to monitor the use of assets. The assets officer should ensure that assets utilized are restricted to the activities of the Council; by continually monitoring to whom, and for what purpose, the assets are allocated.

The relevant mayor must approve assets that are used by officials not in their work place (e.g. laptops taken home).

The CFO must be notified of such assets leaving the workplace.

3.30.6 Items lost or stolen

When a vehicle is involved in an accident, a report should be submitted to the Chief Accountant by relevant cluster heads.

Quotations should be obtained to establish the extent and value of the damage.
The Chief Accountant will submit a claim to the insurance company and report the incident to the Legal Department.

A hearing should be held to determine if it was negligence on the part of the employee. If found guilty of negligence, the employee will be responsible for any costs incurred by Council.

When it is suspected that an employee abuses assets, this fact should be reported to the CFO. A hearing should be held to determine if this is the case. If found guilty the employee should be subject to the procedure as described in terms of the Standard Conditions of Services.

Assets/consumables lost or stolen should be reported to the CFO as soon as they are discovered.

The following must be submitted:

i. A full report of the incident
ii. Police case number
iii. Quotations for the replacement of the item

The Chief Accountant will submit a claim to the insurance company.

3.30.7 Repairs and maintenance

- A schedule should be kept detailing the regular maintenance required for all relevant assets.
- A schedule should also be kept detailing the council's rights and obligations in respect of all assets - including those under lease.
- All assets should be maintained in accordance with the schedule.
- Repairs should be made to assets as necessary to assets after first checking to assess whether any guarantees exist in respect of the assets.
- Every head of department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 or more is promptly prepared and submitted to the council of the municipality for approval.
- If so directed by the MM, the maintenance plan shall be submitted to the council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.
- The head of department controlling or using the infrastructure asset in question, shall annually, report to the council, detailing the extent to which the relevant maintenance plan has been. complied with, and the likely effect of any non-compliance may have on the useful operating life of the asset concerned.

3.30.8 Deferred Maintenance

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure assets 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 of the municipality 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 CFO shall re- determine the useful operating life of the fixed asset in question, if necessary in consultation with, the head of department controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

3.31 Financial Disclosure Requirements

The financial statements should include disclosure in respect of assets as laid out by GRAP.

3.31.1 Guidelines for Annual Financial Disclosures

3.31.1.1 ***Financial statements*** should include the following disclosures:

i. The measurement basis used for determining the gross carrying amount. When more that one basis has been used, the gross carrying amount for that basis in each category should be disclosed.

ii. The depreciation methods used.

iii. Depreciation charged in arriving at net profit or loss for the period.

iv. The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and the end of the period.

v. A reconciliation of the carrying amount at the beginning and end of the period showing:

a) Additions

b) Disposals

c) Acquisitions through business combinations

d) Increases or decreases during the period resulting from reevaluations under paragraphs and from impairment losses recognized or reversed directly in equity under the statement on impairment of assets, if any.

e) Impairment losses recognized in the income statement during the period on impairment of assets, if any.

f) Impairment losses reversed in the income statement during the period under the statement on impairment of assets, if any.

g) Depreciation

h) The net exchange differences arising on the translation of the financial statements of a foreign entity, and other movements.

3.31.1.2 The financial statements should also disclose the following:

i. The existence and amounts of restrictions on title, and property

ii. The accounting policy for the estimated costs of restoring the site of items of property, plant and equipment.

iii. The amount of expenditures on account of property, plant and equipment in the course of construction.

iv. The amount of commitments for the acquisition of property, plant and equipment.

The selection of the depreciation method, and the estimation of the useful life, is a matter of judgment. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates, provides financial statements with information, which allows them to review the policies selected by management and enables comparisons to be made with other enterprises. For similar reason, it is necessary to disclose the depreciation allocated in a period and the accumulated depreciation at the end of that period.

The Council must disclose the nature and effect of change in accounting estimates that has a material effect in the current period or which is expected to have a material effect in subsequent periods in accordance with the statement on net profit or loss for the period, fundamental errors and changes in accounting policies. Such disclosure may arise from changes in estimate with respect to:

a. Residual values,
b. The estimated costs of dismantling and removing items of property, plant or equipment and restoring the site,
c. Useful lives, and
d. Depreciation method.

3.31.1.3 When items of property, plant and equipment are stated at revalued amounts, the following should be disclosed:

i. The basis used to revalue the assets
ii. The effective date of the revaluation
iii. Whether or not an independent valuer was involved
iv. The nature of any indices used to determine replacement cost
v. 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 under the benchmark treatment.
vi. The revaluation surplus, detailing:
    a. The movement for the period
    b. Any restrictions on the distribution of the balance to shareholders,
    c. The realized and unrealized portions thereof, and
    d. The outside shareholders' share thereof.

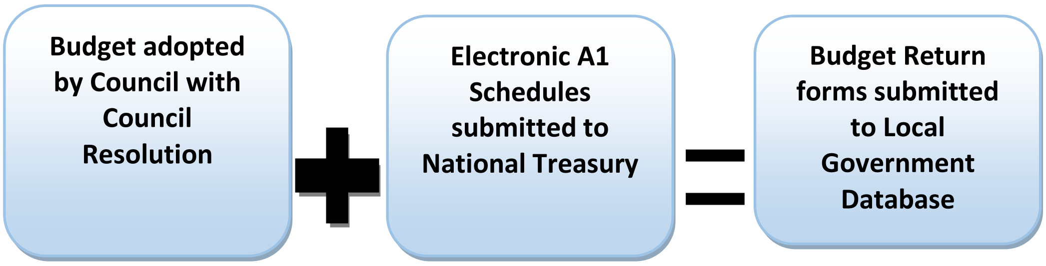
3.31.1.4 Financial statement users also find the following information relevant to their needs:

i. The carrying amount of temporarily idle property, plant and equipment.
ii. The gross amount of any fully depreciated property, plant and equipment that are still in use.
iii. The carrying amount of property, plant and equipment retired from active use and held for disposal.
iv. Where the benchmark treatment is used, the fair value of property, plant and equipment' where this is materially different to the carrying amount.

3.31.2 Guidelines for Annual Financial Disclosure Returns to National Treasury as per MFMA Circular 70

3.31.2.1 Budget Verification

MFMA Circular 70 seeks to enforce the need to reconcile the budget hard copy as adopted by Council with the electronic Schedule A tabular budget document and return forms which need to be returned to National Treasury. The return is predicated on the need to contain the same information and numbers throughout. Graphically the process is depicted as;



All previous year's figures should also be correctly aligned with the audited financials of SDM and any restatement of figures should be accounted for.

3.31.2.2 Completion of the Asset Management (AM) Return to National Treasury

i. The AM return starts with the opening value as being the carrying value of the assets from the previous financial year;
ii. Such carrying value is the difference between the cost/revaluation of the asset minus the accumulated depreciation;
iii. Accumulated Depreciation is the accumulated depreciation of the previous financial year plus the depreciation for the current financial year. The closing total / carrying amount is the reconciliation of the opening value plus the purchase of new and renewal of assets minus disposals and accumulated depreciation;
iv. Information to be included is the new and replaced capital for the financial year;
v. The information included in these columns must be exactly the same per line item as the information disclosed on the Table A9 (AM Return) with the same information depicted on the Capital Acquisition (CA) form;
vi. Only the information on the CA form and information on new and replaced assets will be transferred on to the AM form for reconciliation purposes;
vii. The closing balance to the Asset Inventory in any financial year should be the Opening Balance for the ensuing year.

3.32 Other Definitions

3.32.1 Leased assets

A lease is an agreement whereby the lesser conveys to the lessee in return for payment or series of payments the right to use an asset for an agreed period of time.

A finance lease is a lease that transfers substantially all risks and rewards incident of ownership of an asset.

Examples of situations that would normally lead to a lease being classified as finance lease are:

a. The lease transfers ownership of the asset to the lessee by the end of the lease term;
b. The lessee has the option to purchase the asset at a price, which is expected to be
c. Sufficiently lower than the fair value.
d. The lease term is for the major part of the economic life of the asset even if title is
e. not transferred; and
f. At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

3.32.2 Cost of an asset

Cost of a fixed asset includes the cost of activities (cash equivalent) necessarily incurred to bring the fixed asset to the condition and location essential for its intended use (e.g. purchase price plus transport and installation.

3.32.3 Fair Value

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

3.32.4 Residual Value

Residual value is the net amount that the enterprise is expected to obtain for an asset at the end of its useful life after deducting the expected cost of disposal.

3.32.5 Impairment Loss

An impairment loss is the amount by which the carrying amount of an asset exceeds the recoverable amount.

3.32.6 Carrying Amount

Carrying amount is the amount at which the asset is recognized in the balance sheet after deducting any accumulated depreciation and accumulated impairment losses thereon.

3.32.7 Recoverable Amount

Recoverable amount is the higher of the asset's net selling price and its value in use.

3.32.8 Depreciation

Depreciation is the decline, during the accounting period, in value of fixed assets as a result of physical deterioration, normal obsolescence or normal accidental damage.

During the useful life of the asset the asset will be depreciated from it's actual cost price to its residual value. This value is usually nil.

3.32.8.1 Depreciable Amount

The depreciable amount of an asset is determined after deducting the residual value of the fixed asset.

3.32.8.2 Accumulated depreciation

Accumulated depreciation refers to the total depreciation allocations to a certain point with respect to assets still in use.

3.32.9 Construction Contracts

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or inter dependent in terms of their design, technology and function or their ultimate purpose or use.

3.32.9.1 Contract Costs

Contract costs should comprise:

i. Costs that relate directly to the specific contract,
ii. Costs that are attributable to contract activity in general and can be allocated to the contract, and;
iii. Such other costs are specifically chargeable to the customer under terms of the contract.

3.32.10 Research and development costs

Research is a planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.

3.32.10.1 Research costs

Research costs should be recognized as an expense in the period in which they are incurred and should not be recognized as an asset.

3.32.10.2 Development costs

Development costs of a project should be recognized as an expense in the period in which they are incurred, unless all the following criteria are met:

i. The product or process is clearly defined and the costs attributable to the product or process can be separately identified and reliably measured.
ii. The technical feasibility of the produce and market use the product or process
iii. The existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the enterprise can be demonstrated.
iv. Adequate resource exists, or their availability can be demonstrated, to complete the project and market or use the product or process.

*3.33*Amendment and Review of the policy

The Asset Management Policy shall be reviewed annually and/or at the discretion of the CFO due to changing circumstances as a result of the legislation or otherwise.

Functional Responsibilities and Accountabilities

The Executive Mayor

- *Approve the temporary and/or permanent transfer of all moveable assets exceeding approved limits, as stipulated in the "Powers of Delegation" of the municipality*
- *Approve the writing off, disposal of obsolete or redundant assets*

The Municipal Manager

The Municipal Manager is responsible for the management of assets of the municipality, including the safeguarding and the maintenance of those assets

The municipal manager or his delegated official must ensure that

- *Compliance with and implementation of the approved asset management policy as per S63 of the (MFMA)*
- *The municipality's assets are valued and accounted for in accordance with GRAP 17*
- *The municipality has and maintains a system of internal control of assets, including an asset register*
- *Verify Council assets on an annual basis*
- *Report in writing, where applicable all asset losses to Council*
- *The municipality has and maintains a system of internal control of assets, including an asset register*
- *Approve temporary and/or permanent transfers of a movable asset between departments as determined in the "Powers of Delegation" of the municipality.*

The Chief Financial Officer

The Chief Financial Officer is responsible to the Municipal Manager to ensure that the financial investment in the municipalities' assets is safeguarded and maintained

The chief financial officer must ensure that

- *Appropriate systems of financial management and internal control are established and carried out diligently*
- *The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently*
- *Financial processes are established and maintained to ensure that the municipality's financial resources are optimally utilized through an appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions*
- *The senior managers and asset champions are appropriately advised on their powers and duties pertaining to the financial administration of assets*

The Chief Financial Officer [Contd]

The chief financial officer must ensure that

The senior managers and asset champions are appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets

The chief financial officer may delegate or otherwise assign responsibility for performing these functions but they will remain accountable for ensuring these activities are performed

The policy and supporting procedures or guidelines are established, maintained and effectively communicated

Approve the temporary or permanent transfers of movable assets between departments as determined in the "Powers of Delegation" of the municipality

The Financial Manager

The mandated Financial Manager must ensure

Approved budgeted capital expenditure is translated into a project which details the target asset to be acquired, and the funding source

Funds for the acquisition only be released after written authority attached to the project description

Capital Budget amendments be communicated to the asset Manager [if any]

The Support services to the management of fixed assets are

Collate depreciation information

Manage the account payables function at the acquisition stage of fixed assets

SUPPLY CHAIN

- Code the intended asset acquisition
- Ensure that tender procedures are complied with
- Ensure that items of a capital nature shall not be acquired from operating expenses.

HUMAN RESOURCES

- Verify that asset resignation forms are signed off prior to any termination benefits are paid out
- Have the asset resignation form counter signed by Asset Managers