

# ULM Asset Management

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**UMZIMVUBU**

— LOCAL MUNICIPALITY —

**FIXED ASSETS**

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## **PART 1 OBJECTIVES OF THE POLICY**

To ensure the effective and efficient control of the municipality's capital assets through:

- (a) proper recording of capital assets from authorisation to acquisition and to subsequent disposal;
- (b) providing for safeguarding procedures;
- (c) setting proper guidelines as to authorised utilisation; and
- (d) prescribing for proper maintenance.

To assist officials in understanding their legal and managerial responsibilities with regard to capital assets.

## PART 2 DEFINITIONS

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

“**Amortisation**” is the systematic allocation of the depreciable amount of an intangible capital asset over its useful life.

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

“**Capital Assets**” (PPE) means tangible and intangible assets that:

- (a) are held by a 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 have a useful life extending for more than one financial year.

“**Capital asset categories**” are the six main asset categories defined as follows:

- **Infrastructure assets** – are defined as those capital assets that form part of a network in delivering basic services to consumers, e.g. electricity transformers which form part of an electricity network. General characteristics of infrastructure assets are that they are:
  - part of a system or network;
  - specialised in nature and have not alternative uses;
  - immovable; and
  - subject to constraints on disposal.

An easy way to determine whether an asset represents infrastructure is to determine whether more than one consumer will be affected when the service is not rendered.

When more than one consumer is affected, the asset will usually qualify as infrastructure. When only one customer is affected the asset most probably does not represent infrastructure e.g a delivery vehicle.

- **Community assets** - are defined as those assets utilized to the social well-being of the community. Examples are parks, libraries, and recreational facilities.

- **Intangible assets** – are an identifiable non-monetary asset without physical substance.
- **Other assets** – are defined as capital assets utilised in normal operations administrative function of the municipality, Examples are plant equipment, office buildings, motor vehicles, office equipment and furniture and fittings etc.

“**Capital asset register**” (**CAR**) is the control register recording the financial and other key details for all municipal capital assets recognised in accordance with this policy

“**Basic Municipal Services**” means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment.

“**Capitalisation**” is the recognition of expenditure as a capital asset in the financial records and in the Capital Asset Register.

“**Carrying amount**” is the amount at which a capital asset is included in the financial statements after deducting any accumulated depreciation and accumulated impairment thereon from the recorded value thereof.

- **Heritage assets** – are defined as assets that have a cultural, **environmental, historical, natural, scientific, technological or artistic significance and** are held indefinitely for the benefit of present and future generations.. Examples are works of art, historical buildings and statues.
- **Investment properties** – are defined as properties (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:
  - use in the production or supply of goods or services or for administrative purposes, or
  - sale in the ordinary course of operations.

“**Control items**” are items of a capital nature that are not significant enough for financial recognition but are valuable enough to warrant special safeguarding

**Cost**” is the amount of cash or cash equivalents paid, or the fair value of the other consideration given or received to acquire a capital asset at the time of its acquisition or construction.

“**Cost of acquisition**” is all the costs incurred in bringing a capital asset item to the required condition and location for its intended use.

“**Depreciation**” is the systematic allocation of the depreciable amount of a capital asset over its useful life.

**“Depreciable amount”** is the cost of a capital asset, or other amount substituted for cost in the financial statements, less its residual value.

**“Fair value”** is the amount for which a capital asset could be exchanged between knowledgeable willing parties in an arm’s length transaction.

**“GRAP”** is Standards of Generally Recognised Accounting Practice

**“Impairment loss” of a cash-generating asset** is the amount by which the carrying amount of a capital asset exceeds its recoverable amount.

**“Impairment loss” of a non-cash-generating asset** is the amount by which the carrying amount of a capital asset exceeds its recoverable service amount.

**“Manager”** means each senior manager and each municipal official exercising financial management responsibilities.

**“Prescribe”** means as prescribed by the Minister of Finance by regulation.

**“Property, plant and equipment” (PPE)** means tangible capital assets use for the powers and functions allocated to the Municipality in terms of the Constitution that:

- (a) are held by a 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 reporting period.

**“Recoverable amount”** is the higher of a cash-generating asset’s net selling price and its value in use.

**“Residual value”** is the estimated amount that an entity would currently obtain from disposal of the capital asset, after deducting the estimated costs of disposal, if the capital asset were already of the age and in the condition expected at the end of its useful life.

**“Useful life”** is either:

- (a) the period over which a capital asset is expected to be available for use by an entity.

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

### **PART 3 STATUTORY AND REGULATORY FRAMEWORK**

This policy must comply with all relevant legislative requirements including:

- The Constitution of the Republic of South Africa, 1996
- Municipal Structures Act, 1998
- Municipal Systems Act, 2000
- Division of Revenue Act (enacted annually)
- Municipal Finance Management Act No 56 of 2003

Also, this policy must comply with the standards specified by the Accounting Standards Board. The relevant currently recognised accounting standards include:

- GRAP 17 - Property, Plant and Equipment;
- GRAP 16 - Investment Properties;
- GRAP 100 - Non-current assets held for sale
- GRAP 101 - Agriculture; and
- GRAP 102 - Intangible assets;
- GRAP 103 - Heritage assets.

This policy does not overrule the requirement to comply with other policies such as Supply Chain Management or Budget policies.

### **PART 4 DEFINITION OF A FIXED ASSET**

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

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

To be recognized as a fixed asset, an asset must also meet the criteria referred to in parts 13, 14 and 15 below.

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

## **PART 5 ROLE OF MUNICIPAL MANAGER**

**The Accounting Officer** is responsible for the management of the capital assets of the municipality, including the safeguarding and the maintenance of these capital assets.

The Accounting Officer must take all reasonable steps to ensure that:

- The municipality has and maintains a management, accounting and information system that records all the capital assets of the municipality;
- The municipality's capital assets are valued in accordance with recognised standards as prescribed by statutes and/or regulations;
- That the municipality has and maintains a system of internal control of capital assets, including a capital asset register; and
- That Senior Management complies with this policy.

## **PART 6 ROLE OF CHIEF FINANCIAL OFFICER**

**The Chief Financial Officer** is responsible to the Accounting Officer to ensure that the financial investment in the municipalities' capital assets is properly recorded.

The Chief Financial Officer must take all reasonable steps to ensure that:



- Appropriate systems of financial management and internal controls are established and carried out diligently;
- The financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently;
- Any unauthorised, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- The systems, processes and registers required to substantiate the financial values of the municipality's capital assets are maintained to standards sufficient to satisfy the requirements of all statutes;
- Financial processes are established and maintained to ensure the municipality's financial resources are optimally utilised through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
- The Accounting Officer is appropriately advised on the exercise of powers and duties pertaining to the financial administration of capital assets; and
- The Executive Managers and Executive Management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of capital assets;

The Chief Financial Officer may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.

## **PART 7 ROLE OF EXECUTIVE MANAGERS**

**The Executive Managers** must take all reasonable steps to ensure that:

- Appropriate systems of physical management and controls are established and carried out for capital assets in their areas of responsibility;
- The municipal resources assigned to them are utilised effectively, efficiently, economically and transparently;

- The capital assets under their control are appropriately safeguarded and maintained to the extent necessary and that risk management systems are in place and applied;
- Any unauthorised, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- The asset management systems and controls can provide an accurate, reliable and up to date record of capital assets under their control;
- They are able to justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives;
- The purchase of capital assets complies with all municipal policies and procedures;
- All moveable capital assets is duly processed and identified and inspected as being in order before it is received into their stewardship;
- All moveable capital assets received into their stewardship are appropriately safeguarded against inappropriate use or loss. This will include control over the physical access to these capital assets and regular stock takes to ensure that no losses have occurred. Any known losses should be immediately reported to the Chief Financial Officer; and
- Capital assets are appropriately utilised for the purpose for which the municipality acquired them.

The **Executive Managers** may delegate or otherwise assign responsibility for performing these functions but will remain ultimately accountable for ensuring these activities are performed.

## **PART 8 FINANCIAL MANAGEMENT**

### Pre-Acquisition Planning

- Before a capital project is included in the budget for approval, the Senior Manager must demonstrate and the Council must consider;
  - The projected cost over all the financial years until the project is operational;
  - The future operational costs and revenue of the project, including tax and tariff implications;
  - The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
  - The physical and financial stewardship of that capital asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation;
  - The inclusion of this capital project in the integrated development plan and future budgets: and
  - Alternatives to this capital purchase.
- The Chief Financial Officer is accountable to ensure the Senior Managers receive all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

#### Approval to acquire Capital Assets

- Expenditure can only be incurred on a capital project if:
  - The funds have been appropriated in the capital budget;
  - The project, including the total cost and funding sources, has been approved by Council;
  - The Chief Financial Officer confirms that funding is available for that specific project; and
  - Any contract that will impose financial obligations beyond two years after the budget year is appropriately disclosed.

#### Funding of capital projects

- Within the municipality's financial, legislative and administrative capacity, the Chief Financial Officer will establish and maintain the funding strategies that optimise the municipality's ability to achieve its strategic objectives as stated in the integrated development plan.
- The acquisition of capital assets will not be funded over a period longer than the useful life of that asset.

## Disposal of capital assets

- The municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services, unless such capital asset is obsolete or surplus to requirements or beyond a state of good repair or being replaced and provided that the delivery of the minimum level of basic municipal services is not compromised as a result of the disposal of the capital asset.
- The municipality may transfer ownership or otherwise dispose of a capital asset other than one contemplated above or moveable capital assets having an estimated carrying value above R50 000, but only after the Council, in a meeting open to the public:
  - *Has decided on reasonable grounds that the capital asset is not needed to provide the minimum level of basic municipal services; and*
  - *Has considered the fair market value of the capital asset and the economic and community value to be received in exchange for the capital asset.*
- The decision that a specific capital asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that capital asset had been sold, transferred or otherwise disposed of.
- The disposal of an item of capital assets must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management and the Supply Chain Management Policy of the municipality.
- The transfer of capital assets to another municipality, municipal entity, national department or provincial department is excluded from these provisions, provided such transfer is being done in accordance with a prescribed regulatory framework.

The disposal of moveable capital assets up to a carrying amount of R 50 000 may be authorised under delegated powers by the Accounting Officer after taking the above-mentioned conditions into account.

- Every senior manager shall report in writing to the Chief Financial Officer on 31 October and 30 April of each financial year on all capital assets controlled or used by the department concerned which such manager wishes to alienate by public auction or public tender. The Chief Financial Officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the Council or the

Accounting Officer of the municipality, as the case may be, recommending the process of alienation to be adopted.

- Once capital assets are alienated, the Chief Financial Officer shall adjust the capital asset register for the current year and shall delete the capital asset from the accounting records and in the capital asset register once it is no longer required for the compilation of comparative figures.
- All gains and losses realised on the alienation of capital assets shall be accounted for according to section 10.12 below (Accounting treatment on disposal).

#### 6.5 Loss, theft, destruction or impairment of capital assets

Every manager shall ensure that any incident of loss, theft, destruction, or material impairment of any capital asset controlled or used by the department in question is promptly reported in writing to the Chief Financial Officer, to the internal auditor, and – in cases of suspected theft or malicious damage – also to the South African Police Services.

### **7. INTERNAL CONTROLS**

#### 7.1 Capital Asset Register

##### 7.1.1 Establishment and management of the Capital Asset Register

- The Chief Financial Officer will ensure the establishment and maintenance of a capital asset register containing key financial data on each item of capital assets that satisfies the criterion for recognition.
- The Senior Accountant: Assets is responsible for establishing and maintaining any additional registers or records to demonstrate to Managers the physical management of capital assets under their control.

##### 7.1.2 Contents and maintenance of the Capital Asset Register

- The capital asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of GRAP and any other accounting requirements which may be prescribed.

- All managers under whose control any capital asset falls shall promptly provide the Chief Financial Officer in writing with any information required to compile the capital asset register, and shall promptly advise the Chief Financial Officer in writing of any material change which may occur in respect of such information.
- A capital asset shall be recorded in the capital assets register as soon as it is acquired. If the capital asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalised as a capital asset.
- A capital asset shall remain in the capital asset register for as long as it is in physical existence. The fact that a capital asset has been fully depreciated shall not in itself be a reason for deleting it from the capital register.

### 7.1.3 Internal Controls over the Capital Asset Register

- Controls relating to the capital asset register should be sufficient to provide Managers with an accurate, reliable and up-to-date account of capital assets under their control, in line with the standards specified by the Chief Financial Officer and as required by relevant statutes.
- These controls will include:
  - (a) details of the physical management
  - (b) the recording of all acquisitions, assignments, transfers, losses and disposals of capital assets
  - (c) regular stock-takes and
  - (d) systems audits to confirm the accuracy of the records.
- Identification of capital assets:

The Chief Financial Officer will establish a system to ensure that each moveable capital asset bears a unique identification number/ barcode/GIS ID which shall be recorded in the capital asset register.

Every manager shall ensure that the capital asset identification system approved for use by the municipality is scrupulously applied to all capital assets controlled or used by the department in question.

## 7.2 Physical Controls and Management

### 7.2.1 Responsibilities of the Logistics and Assets Management Officer

- The Logistics and Assets Management Officer will undertake an annual stock take of capital assets as part of the annual reporting process.

### 7.2.2 Acquisition Date

- The date of acquisition of capital assets is deemed to be the time when legal title and control passes to the municipality or when final payment for that item is approved.

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### 7.2.3 Depreciation Start Date

- This date is the point of time when the capital asset has been received or when the capital asset is ready for use whichever the latest date is and will be the date when the capital asset starts to depreciate.

## 7.3 Transfers between Managers

### 7.3.1 Permanent transfers to another Manager

- A Manager may transfer a capital asset under his control provided that another Senior Manager agrees in writing to accept responsibility for that capital asset. Copies of such approvals must be submitted to the Finance Directorate.
- The Finance Directorate must appropriately amend the Capital asset register by recording all approved transfers.
- The Manager to whom the capital asset is transferred must assume accountability for the transferred capital asset from a date specified in the written communication referred to above.
- A Manager must ensure that capital assets are appropriately safeguarded for loss, damage or misuse wherever they are located. Safeguarding includes ensuring reasonable physical restrictions.

### 7.3.2 Relocation or Reassignment of Capital assets

- A Manager must advise the Chief Financial Officer, in writing, whenever a capital asset is relocated or reassigned from the location (or base) or cost centre as recorded in the Capital asset Register.

- In the case of capital assets such as vehicles being utilised in the normal course of operations away from its base such reporting is not necessary as long as the cost centre do not change.

#### 7.4 Verification of Capital assets

- Every manager shall at least annually undertake a complete physical verification of all capital assets under his control. The results of such verification shall be reported to the Chief Financial Officer in the format as required by the Chief Financial Officer.
- The annual verification should be conducted as close to 30<sup>th</sup> June as possible with the verification report reaching the Chief Financial Officer by not later than 30<sup>th</sup> June.

#### 7.5 Insurance of capital assets

- The Chief Financial Officer shall ensure that all movable capital assets are insured against loss:
  - Movable capital assets should at least be covered against fire and theft and
  - Municipal buildings and infrastructure capital assets identified by individual managers should at least be covered against fire and allied perils.
- The Chief Financial Officer shall determine the insured value based on recommendation of the responsible manager.
- The insured value to be applied to the assets is Current Replacement Cost (CRC) with the exceptions of all vehicle types. Vehicles should be insured for the AA determined book value of the vehicle.
- Such recommendation by the responsible manager shall take due cognisance of the budgetary resources of the municipality.
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## **PART 9 FORMAT OF FIXED ASSET REGISTER**

The fixed asset register shall be maintained in the format determined by the chief financial officer, which format shall comply with the requirements of generally recognised accounting practice (GRAP) and generally accepted municipal accounting practice (GAMAP) and any other accounting requirements which may be prescribed.

The fixed asset register shall reflect the following information:

- a brief but meaningful description of each asset
- the date on which the asset was acquired or brought into use
- the location of the asset
- the department(s) or vote(s) within which the assets will be used
- the title deed number, in the case of fixed property
- the stand number, in the case of fixed property
- where applicable, the identification number, as determined in compliance with part 11 below
- the original cost, or the revalued amount determined in compliance with part 26 below, or the fair value if no costs are available
- the (last) revaluation date of the fixed assets subject to revaluation
- the revalued value of such fixed assets
- who did the (last) revaluation
- accumulated depreciation to date
- the depreciation charge for the current financial year
- the carrying value of the asset
- the method and rate of depreciation
- impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- the source of financing
- the current insurance arrangements
- whether the asset is required to perform basic municipal services

- whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements
- the date on which the asset is disposed of
- the disposal price
- the date on which the asset is retired from use, if not disposed of.

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

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

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

## **PART 10 CLASSIFICATION OF FIXED ASSETS**

In compliance with the requirements of the National Treasury, the chief financial officer shall ensure that all fixed assets are classified under the following headings in the fixed assets register, and heads of departments shall in writing provide the chief financial officer with such information or assistance as is required to compile a proper classification:

### **PROPERTY, PLANT AND EQUIPMENT**

- land (not held as investment assets)
- infrastructure assets (assets which are part of a network of similar assets)
- community assets (resources contributing to the general well-being of the community)
- heritage assets (culturally significant resources)
- other assets (ordinary operational resources)

## **INVENTORY**

- housing (rental stock or housing stock not held for capital gain)

## **INVESTMENT PROPERTY**

- investment assets (resources held for capital or operational gain)

The chief financial officer shall adhere to the classifications indicated in the annexure on fixed asset lives (see part 33 below), and in the case of a fixed asset not appearing in the annexure shall use the classification applicable to the asset most closely comparable to the asset in question.

### **PART 11 INVESTMENT PROPERTY**

Investment assets shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of position.

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

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

Investment assets shall not be depreciated, but shall be annually valued on balance sheet date to determine their fair (market) value. Investment assets shall be recorded in the balance sheet at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.

An expert valuer shall be engaged by the municipality to undertake such valuations.

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

## **PART 12 FIXED ASSETS TREATED AS INVENTORY**

Any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the municipality's statement of position.

Such inventories shall, however, be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

## **PART 13 RECOGNITION OF HERITAGE ASSETS IN THE FIXED ASSET REGISTER**

If no original costs or fair values are available in the case of one or more or all heritage assets, the chief financial officer may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the fixed asset register without an indication of the costs or fair value concerned.

For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

## **PART 14 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 its fair value, as determined by the chief financial officer.

### **PART 15 SAFEKEEPING OF ASSETS**

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

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

### **PART 15 IDENTIFICATION OF FIXED ASSETS**

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

The identification system shall be determined by the municipal manager, acting in consultation with the chief financial officer and other heads of departments, and shall comply with any legal prescriptions, as well as any recommendations of the Auditor-General as indicated in the municipality's audit report(s), and shall be decided upon within the context of the municipality's budgetary and human resources.

Every head of department shall ensure that the asset identification system approved for the municipality is scrupulously applied in respect of all fixed assets controlled or used by the department in question.

### **PART 16 PROCEDURE IN CASE OF LOSS, THEFT, DESTRUCTION, OR IMPAIRMENT OF FIXED ASSETS**

Every head of department shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is

promptly reported in writing to the chief financial officer, to the internal auditor, and – in cases of suspected theft or malicious damage – also to the South African Police Service.

## **PART 17 CAPITALISATION CRITERIA: REINSTATEMENT, MAINTENANCE AND OTHER EXPENSES**

Only expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset) or in the material extension of the useful operating life of a fixed asset shall be capitalised.

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

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

## **PART 18 MAINTENANCE PLANS**

Every head of department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 (one hundred thousand rand) or more is promptly prepared and submitted to the council of the municipality for approval.

If so directed by the municipal manager, the maintenance plan shall be submitted to 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, not later than in July, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned.

## **PART 19 DEFERRED MAINTENANCE**

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset (see part 13 above), the chief financial officer 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 chief financial officer shall redetermine 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.

## **PART 20 GENERAL MAINTENANCE OF FIXED ASSETS**

Every head of department shall be directly responsible for ensuring that all assets (other than infrastructure assets which are dealt with in part 13 and part 14 above) are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

## **PART 21 DEPRECIATION OF FIXED ASSETS**

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

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

Depreciation shall generally take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed.

However, depreciation shall initially be calculated from the day following the day in which a fixed asset is acquired or – in the case of construction works and plant and machinery – the day following the day in which the fixed asset is brought into use, until the end of the calendar month concerned. Thereafter, depreciation charges shall be calculated monthly.

Each head of department, acting in consultation with the chief financial officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.

The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other fixed assets.

## **PART 22 RATE OF DEPRECIATION**

The chief financial officer shall assign a useful operating life to each depreciable asset recorded on the municipality's fixed asset register. In determining such a useful life the chief financial officer shall adhere to the useful lives set out in the annexure to this document (see part 31 below).

In the case of a fixed asset which is not listed in this annexure, the chief financial officer shall determine a useful operating life, if necessary in consultation with the head of department who shall control or use the fixed asset in question, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

## **PART 23 METHOD OF DEPRECIATION**

Except in those cases specifically identified in part 20 below, the chief financial officer shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question.



## **PART 24 AMENDMENT OF ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS**

Only the chief financial officer may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs the chief financial officer shall inform the council of the municipality of such amendment.

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

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

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

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

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

## **PART 25 ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES**

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

The chief financial officer shall only employ this method of depreciation if the head of department controlling or using the fixed asset in question gives a written undertaking to the municipal manager to provide:

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

The head of department concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the chief financial officer.

Where the chief financial officer decides to employ the sum-of-units method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the chief financial officer shall inform the council of the municipality of the decision in question.

## **PART 26 CREATION OF NON-DISTRIBUTABLE RESERVES FOR FUTURE DEPRECIATION**

*NOTE: Part 22 has been prepared on the assumption that these reserves are allowed.*

The chief financial officer shall ensure that in respect of all fixed assets financed from the municipality's asset financing reserve, or from grants or subsidies or contributions received from other spheres of government or from the public at large, as well as in respect of fixed assets donated to the municipality, a non-distributable reserve for future depreciation is created equal in value to the capitalised value of each fixed asset in question.

The chief financial officer shall thereafter ensure that in the case of depreciable fixed assets an amount equal to the monthly depreciation expenses of the fixed asset concerned is transferred each month from such non-distributable reserve to the municipality's

appropriation account. Where there is a difference between the budgeted monthly depreciation expenses and the actual total depreciation expenses for each financial year, the chief financial officer shall appropriately adjust the aggregate transfer from the non-distributable reserve for the year concerned.

### **PART 27 CARRYING VALUES OF FIXED ASSETS**

All fixed assets shall be carried in the fixed asset register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation.

The only exceptions to this rule shall be revalued assets (see part 24 below) and heritage assets in respect of which no value is recorded in the fixed asset register (see part 8 above).

### **PART 28 REVALUATION OF FIXED ASSETS**

All land and buildings recorded in the municipality's fixed asset register shall be revalued with the adoption by the municipality of each new valuation roll (or, if the land and buildings concerned fall within the boundary of another municipality, with the adoption by such municipality of each new valuation roll).

The chief financial officer shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed asset as recorded in the valuation roll, provided the chief financial officer is satisfied that such value reflects the fair value of the fixed asset concerned.

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

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

The chief financial officer shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred each month from the revaluation reserve to the municipality's appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary (see part 22 above).

If the amount recorded on the valuation roll is less than the carrying value of the fixed asset recorded in the fixed asset register, the chief financial officer shall adjust the carrying value of such asset by increasing the accumulated depreciation of the fixed asset in question by an amount sufficient to adjust the carrying value to the value as recorded in the valuation roll. Such additional depreciation expenses shall form a charge, in the first instance, against the balance in any revaluation reserve previously created for such asset, and to the extent that such balance is insufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the asset in question.

Revalued land and buildings shall be carried in the fixed asset register, and recorded in the annual financial statements, at their revalued amount, less accumulated depreciation (in the case of buildings).

## **PART 29 VERIFICATION OF FIXED ASSETS**

Every head of department shall at least once during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.

Every head of department shall promptly and fully report in writing to the chief financial officer in the format determined by the chief financial officer, all relevant results of such fixed asset verification, provided that each such asset verification shall be undertaken and completed as closely as possible to the end of each financial year, and that the resultant report shall be submitted to the chief financial officer not later than 30 June of the year in question.

## **PART 30 ALIENATION OF FIXED ASSETS**

*NOTE: The reference to the asset financing reserve below is based on the assumption that the reserve is allowed.*

In compliance with the principles and prescriptions of the Municipal Finance Management Act, the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.

Every head of department shall report in writing to the chief financial officer on 31 October and 30 April of each financial year on all fixed assets controlled or used by the department concerned which such head of department wishes to alienate by public auction or public tender. The chief financial officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the council or the municipal manager of the municipality, as the case may be, recommending the process of alienation to be adopted.

Once the fixed assets are alienated, the chief financial officer shall delete the relevant records from the fixed asset register.

If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the income statement of the department or vote concerned. If the proceeds of the alienation, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the income statement of the department or vote concerned.

All gains realised on the alienation of fixed assets shall be appropriated annually to the municipality's asset financing reserve (except in the cases outlined below), and all losses on the alienation of fixed assets shall remain as expenses on the income statement of the department or vote concerned. If, however, both gains and losses arise in any one financial year in respect of the alienation of the fixed assets of any department or vote, only the net gain (if any) on the alienation of such fixed assets shall be appropriated.

Transfer of fixed assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.

## **PART 31 OTHER WRITE-OFFS OF FIXED ASSETS**

A fixed asset even though fully depreciated shall be written off only on the recommendation of the head of department controlling or using the asset concerned, and with the approval of the council of the municipality.

Every head of department shall report to the chief financial officer on 31 October and 30 April of each financial year on any fixed assets which such head of department wishes to have written off, stating in full the reason for such recommendation. The chief financial officer shall consolidate all such reports, and shall promptly submit a recommendation to the council of the municipality on the fixed assets to be written off.

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

In every instance where a not fully depreciated fixed asset is written off, the chief financial officer shall immediately debit to such department or vote, as additional depreciation expenses, the full carrying value of the asset concerned (see also part 22).

## **PART 32 REPLACEMENT NORMS**

The municipal manager, in consultation with the chief financial officer and other heads of departments, shall formulate norms and standards for the replacement of all normal operational fixed 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.

## **PART 33 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 reserve (assuming such reserve to be allowed), the chief financial officer shall annually determine the premiums payable by the departments or votes 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 chief financial officer, the basis of the insurance to be applied to each type of fixed asset: either the carrying value or the replacement value of the fixed assets concerned. Such recommendation shall take due cognizance of the budgetary resources of the municipality.

The chief financial officer shall annually submit 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 reserve.

#### **PART 34 BIOLOGICAL ASSETS**

Accounting for biological assets shall take place in accordance with the requirements of GRAP 27.

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

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

Records of the details of biological assets shall be kept in a separate section of the fixed assets register or in a separate accounting record altogether, and such details shall reflect the information which the chief financial officer, in consultation with the head of department concerned and the internal auditor, deems necessary for accounting and control purposes.

The chief financial officer shall annually insure the municipality's biological assets, in consultation with the head(s) of department concerned, provided the council of the municipality considers such insurance desirable and affordable.

## **PART 35 ANNEXURE: FIXED ASSET LIVES**

### **INFRASTRUCTURE ASSETS**

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

*	Roads	
	Motorways	(15)
	Other roads	(10)
	Traffic islands	(10)
	Traffic lights	(20)
	Street lights	(25)
	Overhead bridges	(30)
	Stormwater drains	(20)
	Bridges, subways and culverts	(30)
	Car parks	(20)
	Bus terminals	(20)
*	Pedestrian malls	
	Footways	(20)
	Kerbing	(20)



Paving	(20)
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*	Public transport
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Runways	(20)
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Aprons	(20)
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Taxiways	(20)
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Airport and radio beacons	(20)
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*	Security measures
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Access control systems	(5)
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Security systems	(5)
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Security fencing	(3)
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### **COMMUNITY ASSETS**

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

*	Buildings and other assets
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Ambulance stations	(30)
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Aquariums	(30)
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Beach developments	(30)
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Care centres	(30)
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Cemeteries	(30)
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Civic theatres	(30)
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Clinics and hospitals	(30)
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Community centres	(30)
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Fire stations	(30)
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Game reserves and rest camps	(30)
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Indoor sports	(30)
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Libraries	(30)
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Museums and art galleries	(30)
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Parks	(30)
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	Public conveniences and bath houses	(30)
	Recreation centres	(30)
	Sports and related stadiums	(30)
*	Recreation facilities	
	Bowling greens	(20)
	Tennis courts	(20)
	Swimming pools	(20)
	Jukskei pitches	(20)
	Outdoor sports facilities	(20)
	Organs (that is, pipe organs that are fixtures in a municipal hall or other centre)	(20)
	Lakes and dams	(20)
	Fountains	(20)
	Flood lighting	(20)

## **HERITAGE ASSETS**

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

- Museum exhibits
- Works of art (which will include paintings and sculptures)
- Public statues
- Historical buildings or other historical structures (such as war memorials)
- Historical sites (for example, an Iron Age kiln, historical battle site or site of a historical settlement)

## **INVESTMENT ASSETS**

It is not possible to provide an exhaustive list of investment assets, as the actual list will depend very much on the local circumstances of each municipality. However, the following will be among the most frequently encountered:

- Office parks (which have been developed by the municipality itself or jointly between the municipality and one or more other parties) (30)
- Shopping centres (again developed along similar lines) (30)
- Housing developments (that is, developments financed and managed by the municipality itself, with the sole purpose of selling or letting such houses for profit) (30)

### **OTHER ASSETS**

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

*	Buildings	
	Abattoirs	(30)
	Asphalt plant	(30)
	Cable stations	(30)
	Caravan parks	(30)
	Compacting stations	(30)
	Hostels used to accommodate the public or tourists	(30)
	Hostels for municipal employees	(30)
	Housing schemes	(30)
	Kilns	(30)
	Laboratories	(30)
	Fresh produce and other markets	(30)
	Nurseries	(30)
	Office buildings	(30)
	Old age homes	(30)

	Quarries	(30)
	Tip sites	(30)
	Training centres	(30)
	Transport facilities	(30)
	Workshops and depots	(30)
*	Office equipment	
	Computer hardware	(5)
	Computer software	(3)
	Office machines	(3)
	Air conditioners	(5)
*	Furniture and fittings	
	Chairs	(7)
	Tables and desks	(7)
	Cabinets and cupboards	(7)
*	Bins and containers	
	Household refuse bins	(5)
	Bulk refuse containers	(10)
*	Emergency equipment	
	Fire hoses	(5)
	Other fire-fighting equipment	(15)
	Emergency lights	(5)
*	Motor vehicles	
	Ambulances	(5)
	Fire engines	(20)
	Buses	(15)
	Trucks and light delivery vehicles	(5)
	Ordinary motor vehicles	(5)
	Motor cycles	(3)

* Plant and equipment	
Graders	(10)
Tractors	(10)
Mechanical horses	(10)
Farm equipment	(5)
Lawn mowers	(2)
Compressors	(5)
Laboratory equipment	(5)
Radio equipment	(5)
Firearms	(5)
Telecommunication equipment	(5)
Cable cars	(15)
Irrigation systems	(15)
Cremators	(15)
Lathes	(15)
Filling equipment	(15)
Conveyors	(15)
Feeders	(15)
Tippers	(15)
Pulverising mills	(15)
* Other	
Aircraft	(15)
Watercraft	(15)

**PART 36 ANNEXURE: PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT 2003**

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

A municipality may alienate any other capital asset, but provided

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