

# MHLONTLO LOCAL MUNICIPALITY



# ASSET MANAGEMENT POLICY

## Contents

1	Approval and Effective Date	<b>Error! Bookmark not defined.</b>
2	Introduction	12
2.1	Abbreviations	5
2.2	Definitions	5
3	Policy scope and objective	15
3.1	Scope	15
3.2	Out of scope	15
3.3	Objectives of Policy	15
4	Legal and accounting framework	14
4.1	Legislation and guidelines	14
4.2	Accounting Framework	15
4.3	Classification of Assets and GRAP guidance	16
4.3.1	Inventories	16
4.3.2	Leased assets	16
4.3.3	Investment Property	17
4.3.4	Property Plant and Equipment	18
4.3.5	Capital work in Progress	20
4.3.6	Infrastructure Assets	20
4.3.7	Heritage Assets	20
4.3.8	Intangible Assets	21
4.3.9	Agricultural Assets	22
4.3.10	Non-Current Assets Held for Disposal	22
4.4	Role and Responsibilities	22
4.4.1	Municipal Council	22
4.4.2	Municipal Manager	22
4.4.3	Chief Finance Officer	23
4.5	Guiding Principles	23
4.6	Specific	24
5	Acquisition of Assets	
5.1	Asset Register	26
5.2	Accounting Framework for Assets	27
5.2.1	Grp Related Policies	27
5.3	Alignment of technical and financial information of assets	28
5.4	Asset Identification	29
5.5	Asset control and safeguarding	32
5.6	General asset policies	35

6	Asset maintenance and use	38
6.1	Asset maintenance	38
6.2	Asset utilisation and performance	42
7	Asset transfer	44
8	Disposals of assets	45
9	Write-Offs of Assets	47
10	Losses	38
11	Donations	50
12	Policy Review	51
13	Annexure 1 – Possible Asset Lives	40
14	Annexure 2 - Asset Register	47



## Abbreviations

The following abbreviations are used in this policy document

Abbreviation	Description
ASB	Accounting Standard Board
CFO	Chief Financial Officer
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	Generally Recognised Accounting Practise
HOD	Head Of Department
MFMA	Municipal Finance Management Act No. 56 of 2003 as amended
MSA	Municipal System Act No. 32 of 2000, as amended

## Definitions

The following terms are used in this policy document

Term	Description
Agricultural Activity	Is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.
Active Market	Is a market in which all the following conditions exist: The assets traded within the market are homogeneous; Willing buyer and seller can normally be found at any time; and Prices are available to the public.
Agricultural Produce	Is the harvested product of the entity's biological assets.
Amortisation	Is the systematic allocation of the depreciable amount of an intangible asset over its useful life.
Assets	Are resources <b>controlled</b> by an entity as a result of past events and from which <b>future economic benefits</b> or service potential are expected to flow to

	the entity.
Asset's Life-Cycle	Is the cycle of activities that an asset goes through – including planning, design, initial acquisition and/or construction, cycle of operation and maintenance and capital renewal and finally disposal.
Asset Manager	Is any official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the municipality's assets in accordance with the entity's standards, policies, procedures and relevant guidelines.
Asset Register	Is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirements.
Biological Asset	Is a living animal or plant.
Carrying Amount	Is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses.
Chief Financial Officer	Means an officer of a municipality designated by the municipal manager to be administratively in charge of the budgetary and treasury functions.
Class of Property, Plant and Equipment	Means a grouping of assets of a similar nature or function in a municipality's operations, which is shown as a single item for the purpose of disclosure in the financial statements.
Commercial Service	Means a service other than a municipal service - rendered by a private sector party or organ of state to or for a municipality or municipal entity on a commercial basis; and which is procured by the municipality or municipal entity through its supply chain management policy.
Community Assets	Are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.
Cost	Is the amount of cash or cash equivalents paid or the

	<p>fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of Standards of GRAP.</p>
Depreciation	<p>Is the systematic allocation of the depreciable amount of an asset over its useful life.</p>
Depreciable Amount	<p>Is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.</p>
Depreciated Replacement Cost	<p>In relation to capital assets, means an amount equivalent to the cost to replace the capital assets on the date of transfer adjusted by a deemed depreciation at the date of the transfer taking into account the age and condition of the assets.</p>
Disposal	<p>In relation to capital assets, includes –</p> <p>Capital assets needed to provide the minimum level of basic municipal services may not be disposed of.</p> <p>Capital assets (other than those mentioned above) may only be disposed of after the municipal council in a meeting open to the public:</p> <p>Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal service, and</p> <p>Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.</p> <p>Any decision made by the municipal council that the specific capital asset is not needed to provide the minimum level of basic municipal service may not be reversed by the municipality after the asset has been disposed of.</p> <p>The municipal council may delegate its power to make the decision for movable capital assets to the MM subject to limits (e.g. R5 000) prescribed by the municipal council.</p> <p>Any transfer of ownership (disposal) must be fair, equitable, transparent, competitive and consistent with the supply chain management policy.</p> <p>The above does not apply to transfers of capital assets to another municipality, municipal entity, national or provincial organ of state provided that the</p>

	transfers are in accordance with the prescribed framework.
Disposal Management System	Means the system contemplated in regulation 40 of the Municipal Supply Chain Management Regulations, published by General Notice No. 868 of 2005.
Enhancements Rehabilitation	Is an improvement or augmentation of an existing asset beyond its original recognised service potential for example useful life, capacity, quality and functionality.
Fair Value	Is the amount for which assets could be exchanged between knowledgeable, willing parties in an arm's length transaction.
GRAP	Is Standards of Generally Recognised Accounting Practice
Heritage Assets	Heritage assets are assets that government intends to preserve indefinitely because they have unique



	history, cultural, educational, artistic or architectural significance. South African examples are; archives, areas/land of historic significance, cultural buildings, national parks and reserves, national monuments, antiques and collectables, paintings, sculptures, state jeweller and works of art.
Historical Cost	Means the original purchase price or cost of acquisition of the capital assets at the time the assets were acquired
Impairment Loss	In relation to cash generating; assets is the amount by which the carrying amount of assets exceeds its recoverable amount.  In relation to non-cash generating; assets is the amount by which the carrying amount of assets exceeds its recoverable service amount.
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.
Intangible Assets	Are identifiable non-monetary assets without physical substance.
Investment Properties	Are defined as property (land or a building-or part of a building-or both) held (by the owner or by lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:  use in the production and supply of goods or services or for administrative purposes; or  sale in the ordinary course of business.
Municipal Manager	Means the Municipal Manager appointed in terms of Section 82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) and being the head of administration and accounting officer in terms of section 60 of the Local Government: Municipal Systems Act, 2000 ( Act No. 32 of 2000)
Property, Plant and Equipment (PPE)	Are tangible assets that:  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  are expected to be used during more than one period.

Realisable Value	Means the amount of cash or cash equivalents that could currently be obtained by transferring the capital assets, less the estimated cost of completion and the estimated costs necessary to make the transfer.
Recoverable Amount	Is the higher of its “fair value less costs to sell” and “its value in use”.  “Fair value less costs to sell”: Amount obtainable in an arm’s length transaction less costs of disposal.  “Value in use”: Discounted future net cash flows from the continuing use and ultimate disposal of the asset.
Recoverable Service Amount	Is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.
Residual Value	Of assets is the estimated amount that an entity would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and condition expected at the end of its useful life.
Right to Use, Control or Manage	Means a right to use, control or manage the capital assets for a period exceeding one calendar month without ceding legal ownership in the assets. In other words, where the granting of such rights do not amount to the transfer or permanent disposal of the assets, for example when a right is acquired through a leasing, letting or hiring out arrangement.
Senior Manager	Is a manager referred to Section 57 of the Municipal Systems Act (MSA) being someone reporting directly to the municipal manager.
Service Provider	In relation to a municipal service, means a private sector party or organ of state appointed by a municipality in terms of Chapter 8 of the Municipal Systems Act to perform a municipal service in accordance with that Act; or  In relation to a commercial service, means a private sector party or organ of state appointed in terms of the supply chain management policy of a municipality or municipal entity to render a commercial service to or for the municipality or entity as an independent contractor.

Supply Chain Management Policy	Means the supply chain management policy which a municipality or municipal entity is required to have in terms of Chapter 11 of the Act.
The Act	Means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).
Useful Life	Is either: the period of the time over which an asset is expected to be used by the Municipality, or the number of production or similar units expected to be obtained from the asset by the Municipality.

# 1 Introduction

- In terms of the Constitution a municipality must strive, within its financial and administrative capacity, to achieve the objects of local government, namely:
- to provide democratic and accountable government for local communities
- to ensure the provision of services to communities in a sustainable manner
- to promote social and economic development
- to promote a safe and healthy environment; and
- to encourage the involvement of communities and community organisations in the matters of local government.

In line with the powers and functions of municipalities as enshrined in the constitution, and legislation as is applicable to municipalities, the municipality is required to develop an asset management policy in order to provide a framework for the effective management of amounts owed to municipalities.

Furthermore, legislatively, a municipality is also required to develop and administer by-laws for the effective administration of the matters to which it has the right to administer.

In this light, the Mhlontlo Local Municipality has developed the asset management policy, procedures and by-laws as depicted in this document.

This policy replaces all asset management procedures/instructions and memoranda that have been previously issued.

## Useful lives of Assets

Type of Asset	Useful life of asset
1.Information Technology Equipment	5 years
2.Furniture and fittings	7 years
3.Office Equipment	5 years
4.Infra-structure Assets	15 years
5.Buildings	30 years
6.Audio Visual Equipment	5 years
7.Cell phones	2 years
8.Plant	10 years
10.Vehicles	5 years

The processes within asset management are as follows:

### Planning and demand management

- **Needs analysis**

This involves a thorough examination of the need for service and infrastructure provision, whilst considering the full range of options for responding to it.

- **Economic appraisal**

This is the systematic weighing up of the costs and benefits of the various asset based solutions identified. Value management is one technique that assists in this process.

- **Planning process**

Planning is an essential tool for achieving service delivery objectives by means of utilising assets. Divisional asset management plans, decisions and activities must be fully integrated with the organisational planning process including strategic business plans. Risk assessment and allocation must start at the planning stage.

- **Budgeting planning of funding for assets**

Assets require the commitment of funding over their entire lives which include capital expenditure for their purchase or construction and recurrent expenditure for their ongoing maintenance.

- **Pricing the use of assets**

Pricing should be based on the true costs of creating, operating, maintaining and eventually disposing of the asset and should reflect the entity's service objectives and market conditions. The true costs include a rate of return (i.e. the opportunity cost of capital investment), the operating and maintenance expenditure and a depreciation allowance.

- **Acquisition**

Decisions regarding acquisition require thorough examination and economic appraisal and should be done within the preferential procurement borders.

## **Use and Maintenance**

- *Recording, valuation and reporting*

Divisions are accountable for the physical and financial performance of the assets they control, operate and maintain. Information about the performance and conditions of an asset provided by accurate recording, valuation and reporting procedures is critical to the decision to modify, refurbish, find an alternative use for, or dispose of an asset. The maintenance of an asset register that comprises accurate records and valuations of assets will support effective decision-making about asset utilisation.

- *Management of assets in use*

Protecting service delivery potential is a priority when making decisions about the use of assets, their maintenance, physical verification and safeguarding. How long an asset is used depends on how effective it is maintained and safeguarded for its purpose. Additionally, the element of technological advance must also be considered. An outdated asset, though effectively maintained, may hinder service delivery. Post acquisition reviews and evaluations must be carried out periodically to verify that required outcomes are being achieved.

## **Disposal**

Decisions regarding disposal require thorough examination and economic appraisal.



# Policy scope and objective

## 1.1 Scope

The scope of this policy is limited to:

- Acquisition of Assets
- Classification of assets
- Use and maintenance of assets
- Administration and reporting of assets
- Disposal and retirement of assets

## 1.2 Out of scope

This policy specifically excludes matters relating to Supply Chain Management for acquisition and disposal of assets.

## 1.3 Objectives of Policy

The objectives of this policy are:

- To ensure the effective and efficient control, utilisation, , safeguarding and management of Municipal assets;
- To ensure that the accounting treatment of assets acquired and used is in accordance with the applicable accounting standards approved by the (ASB);
- To ensure compliance with the Municipality Supply Chain Management and procurement policies;
- To ensure compliance with applicable legislation and regulations;
- To emphasise a culture of accountability;
- To ensure that all responsible parties are aware of their roles and responsibilities regarding the assets of the Municipality; and
- To ensure accurate recording of asset information and movements.
- Legal and Accounting Framework

## 2 Legal and accounting framework

### 2.1 Legislation and guidelines

The table below summarises the key applicable legislation/regulations and the National Treasury guidelines, as they apply to the Asset Management Policy.

Act/Legislation	Applicable section(s)	Summary
Constitution of South Africa	Chapter 7: Local Government (Sections 151, 152, 153, 156, 160, 162)	The related aspects include: Status of municipalities Objects of local government Development duties of municipalities Powers and functions of municipalities Internal procedures and functions of Municipal Councils Publication of by-laws
Municipal Systems Act No.32 of 2000, as amended by Act No.44 of 2003.	Chapter 3: Municipal functions and powers (Sections 11-15)	The related aspects include: Executive and legislative authority to develop policies and by-laws Legislative procedures
Municipal Finance Management Act of No.56 of 2003.	Chapter 3: part 2, (Section 14) Chapter 8: Section 63	The related aspects include: Disposal of Capital Assets Responsibilities of Municipal Manager



## 2.2 Accounting Framework

The table below reflects the accounting standards applicable to the policy of the Municipality at the date of approval of this document.

GRAP Standards	Effective Date (commencing on or after)	Summary of Standards
GRAP 1	1 April 2009	This Standard describes how assets must be presented on the face of the annual financial statements of an entity as well as the corresponding required disclosures.
GRAP 12	1 April 2009	This Standard describes the accounting treatment of inventory.
GRAP 13	1 April 2009	This Standard describes the accounting treatment of assets and related leases.
GRAP 16	1 April 2009	This standard describes the accounting treatment for assets held as investment property.
GRAP 17	1 April 2009	This standard describes the accounting treatment for assets classified as property, plant and equipment.
GRAP 100	1 April 2009	This standard describes the accounting treatment for assets classified as non current assets held for sale and discontinued operations.
GRAP 101	1 April 2009	This standard describes the accounting treatment for assets classified as Agricultural Assets.
GRAP 102	1 April 2009	This standard describes the accounting treatment for assets classified as intangible Assets.

## 2.3 Classification of Assets and GRAP guidance

### 2.3.1 Inventories

Inventories are defined as assets:

- in the form of materials or supplies to be consumed in the production process;
- in the form of materials or supplies to be consumed or distributed in the rendering of services;
- held for sale or distribution in the ordinary course of operations; or
- in the process of production for sale or distribution.

Examples of inventories include stationery, consumable stores, spare parts (unless they are expected to be used for more than one period), raw materials, work in progress and finished goods.

#### **Recognition:**

Acquisitions that meet the inventory definition should be treated as inventory in line with the accounting standard on inventories.

#### **Definition of Costs**

The cost of inventories comprises all costs of purchases, costs of conversion and other cost incurred in bringing the inventories to their location and condition.

#### **Subsequent measurement**

- All inventory on hand should be subsequently measured at the lower of cost and net realisable value – except where the paragraph below applies.
- Inventories should be measured at the lower of cost and current replacement cost where they are held for:
  - Distribution at no charge or for a nominal charge, (e.g. medicine that will be distributed at a public clinics/ hospitals) ; or
  - Consumption in the production process of goods to be distributed at no charge or for a nominal charge.

### 2.3.2 Leased assets

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

There are two types of leases, namely finance and operating leases. The different types of leases can be defined as follows:

- A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.
- A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Although the following are examples of situations which would normally lead to a lease being classified as a finance lease, a lease does not need to meet all these criteria in order to be classified as a finance lease:

- the lease transfers ownership of the asset to the lessee by the end of the lease term,
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
- the lease term is for the major part of the economic life of the asset even if title is not transferred,
- 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,
- the leased assets are of a such a specialised nature that only the lessee can use them without major modifications, and
- the leased assets cannot easily be replaced by another asset.

### ***Recognition***

- Acquisitions that meet the lease definition should be treated as either an operating lease or finance lease in line with the accounting standard on leases.
- All leases should be recorded in a lease register.
- Only assets which are subject to a finance lease are entered into the Asset Register (meaning that assets which are subject to operating leases should not be entered into the Asset Register and are subject to the same safeguarding controls applicable to own assets).

### **Assets held under finance lease**

#### ***Initial measurement***

- All finance leases should result in the recognition of an asset and liability in the Municipality financial statements – initially measured at the lower of the following:
- fair value of the leased asset
  - the present value (using the interest rate implicit in the lease - if this is practicable to determine - or Municipality incremental borrowing rate) of the minimum lease payments
  - Any initial direct costs attributable to the leased asset is to be added to the above amount recognised.

#### ***Subsequent measurement***

- Assets recognised by the Municipality under finance leases should be depreciated over the shorter of:
  - The period of the asset's useful life; and
  - The lease term.
- If at inception of the lease it is reasonably certain that the Municipality will obtain ownership of the asset by the end of the lease term, the asset should be depreciated over the expected useful life of the asset.

- The relevant accounting and other policies for leased assets is consistent with that for depreciable assets that are owned by Municipality and are reflected in the detailed policy on Property, Plant and Equipment.

### ***Operating lease assets***

- The Municipality, in its capacity as a lessee under an operating lease does not recognise the leased asset on its statement of financial position, nor does it recognise a liability for rentals in respect of future periods.
- Lease payments are recognised as an expense in the surplus or deficit on a straight line basis over the period of the lease.

### **2.3.3 Investment property**

Investment property is defined as property (land or a building-or part of a building-or both) held (by the owner or by lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- use in the production and supply of goods or services or for administrative purposes; or sale in the ordinary course of business

An investment property may comprise:

- Land,
- A building or part of a building, or
- Both ( Land and Building)

### ***Recognition criteria***

Investment property shall be recognised as an asset when, and only when:

- It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and
- The cost or fair value can be measured reliably.

### ***Subsequent measurement model***

GRAP 16 permits entities to choose between a fair value model and a cost model.

Fair value model

Investment property is re-measured at fair value, which is the amount for which the property could be exchange between knowledgeable, willing parties in an arms length transaction. Gains and losses arising from changes in the fair value of investment property must be included in surplus or deficit for the period in which it arises.

### ***Cost model***

After initial recognition, investment property is accounted for in accordance with the cost model as set out in GRAP 17 – cost less accumulated depreciation and less accumulated impairment losses.

## 2.3.4 Property Plant and Equipment

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

- are classified as non-current assets controlled by the municipality from which economic benefits are expected to flow to the municipality. The assets are recorded at cost or valuation, including transport costs, labour and any other cost incurred to bring the assets to the location and condition required for their use.
- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- are expected to be used during more than one reporting period.
- Similar assets of the same sub-category whose individual values, before VAT, are less than R2,000.00 but cumulatively would exceed R2,000.00, must be aggregated/grouped together and capitalised under one line item/narration e.g. total spare parts. Individual fixed assets with a value of less than R2,000.00 that cannot be aggregated/grouped in this manner must be expensed in full in the period in which they are acquired. Fixed assets with a cost or value exceeding R2,000.00 must be classified and recorded as depreciable fixed assets, provided that the event giving rise to the municipality's right to the resource and to control over the future economic benefits must already have occurred.

### ***Recognition criteria***

- Property, plant and equipment should be recognised as an assets when the future economic benefits or service potential associated with the asset will flow to the entity; and
- the cost or the fair value of the asset can be reliably measured.

### ***Exchange of assets***

- Where the Municipality acquires PPE in exchange for a non-monetary asset or assets, or a combination of monetary and non- monetary assets, the cost of such PPE is measured at fair value unless (a) the exchange transaction lacks commercial substance or(b) the fair value of neither the asset received nor the asset given up is reliably measurable.
- The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up.
- If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

### ***PPE Classification***

The following table summarises the adopted classification and treatment of PPE.

Asset	Asset Classification	Summary treatment
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Asset	Asset Classification	Summary treatment
Cost/fair value $\geq$ (xxx)* * Or such other amount as the Council may from time to time determine on the recommendation of the MM	“Major” PPE Asset	Record on the asset register Depreciate over the useful life
Cost/fair value $<$ (xxx)	“Minor” PPE Asset	Record on the Asset register Depreciate in full in the year of acquisition (Recognise as an operating expense)

### ***Depreciation***

- The Municipality should allocate the amount initially recognised in respect of an item of PPE to its significant parts or components and depreciate separately each such part (e.g. pipes and pumps).
- The depreciable amount of an asset should be allocated on a systematic basis over its useful life using the straight line method.
- The residual value, used to determine the depreciable amount, and the depreciation method should be reviewed annually.
- Depreciation of PPE should begin when the item is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
- Any changes in residual value represent changes in estimates and should be accounted for prospectively in accordance with GRAP 3: Accounting policies, changes in accounting estimates and errors.

### **2.3.5 Capital work in progress**

These assets are recognised at cost and are transferred to the relevant class of asset on the date it is available for use. Assets are depreciated from the date the asset is available for use.

### **2.3.6 Infrastructure assets**

Infrastrure assets are treated the same as Property, plant and equipment.

### **2.3.7 Heritage assets**

Heritage assets are assets that are normally held indefinitely for their unique cultural, environmental, historical, natural, scientific, technological or artistic significance for the benefit of future generations.

#### ***Measurement at recognition***

- A heritage asset that qualifies for recognition as an asset shall be measured at its cost.

- Where a heritage asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.
- A heritage asset may be acquired through a non-exchange transaction. For example, a museum may receive a valuable art collection from an estate benefactor. Under these circumstances, the cost of the heritage asset is its fair value as at the date of acquisition.
- The measurement at recognition of a heritage asset acquired through a non-exchange transaction at its fair value does not constitute a revaluation.

#### ***Measurement after recognition***

- An entity shall choose as its accounting policy either the cost model or the revaluation model and shall apply that policy to an entire class of heritage assets.

#### ***Cost model***

After recognition as an asset, a class of heritage assets shall be carried at its cost less any accumulated impairment losses

#### ***Revaluation model***

- After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.
- Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

#### ***Determining fair value***

- The Standard requires all entities to determine the fair value of a class of heritage assets for the purpose of measurement if the entity uses the revaluation model, and for the purpose of the encouraged disclosure of fair value, if it uses the cost model.
- The fair value of a heritage asset is the price at which the heritage asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
- Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances, such as special considerations or concessions granted by anyone associated with the exchange.

#### ***Impairment***

A heritage asset shall not be depreciated but an entity shall assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the entity shall estimate the recoverable amount or the recoverable service amount of the heritage asset.

In assessing whether there is an indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

#### ***External sources of information***

- During the period, a heritage asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- The absence of an active market for a revalued heritage asset.

### ***Internal sources of information***

- Evidence is available of physical damage or deterioration of a heritage asset.
- A decision to halt the construction of the heritage asset before it is complete or in a usable form.

### ***Transfers***

Transfers from heritage assets shall be made when, and only when, the particular asset no longer meets the definition of a heritage asset. . For instance, if an item in an art collection is destroyed in a fire and the remaining paintings in the collection no longer meet the definition of a heritage asset, the remaining value of the collection should be transferred from heritage assets to property, plant and equipment, providing the definition of property, plant and equipment in the Standard of GRAP on *Property, Plant and Equipment* is met.

## **2.3.8 Intangible assets**

An intangible asset is an identifiable non-monetary asset without physical substance

### ***Recognition and measurement***

The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

- the definition of an intangible asset and
- the recognition criteria

### ***Useful life***

- The Municipality should initially assess whether the useful life or service potential of an intangible asset is finite or indefinite.
- For intangibles with a finite useful life:
  - All intangibles with a finite useful life should be subjected to an annual assessment of useful life.
  - The depreciable amount of an intangible asset with a finite useful life should be amortised on a systematic basis over its useful life, using the straight line method.
  - The residual value is assumed to be zero unless an active market exists or a commitment by third party to purchase the intangible asset exists.

Amortisation should begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

## **2.3.9 Agricultural Assets**

The management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

### ***Recognition***

An entity shall recognise a biological asset or agricultural produce when; and only when:

- the entity controls the asset as a result of past events;



- it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
- the fair value or cost of the asset can be measured reliably

### **2.3.10 Non Current Assets held for disposal**

An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

#### ***Measurement of a non-current asset***

- An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.
- If a newly acquired asset meets the criteria to be classified as asset held for sale this will result in the asset being measured on initial recognition at the lower of its carrying amount had it not been so classified (for example, cost) and fair value less costs to sell. Hence, if the asset (or disposal group) is acquired as part of an entity combination, it shall be measured at fair value less costs to sell.

## **2.4 Roles and Responsibilities**

### **2.4.1 Municipal Council**

- Approve the temporary and permanent transfers 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, as stipulated in the powers of dlegation of the municipality.

### **2.4.2 Municipal Manager**

In terms of the MFMA the Municipal Manager is responsible for the management of the assets of the Municipality, including the safeguarding and the maintenance of those assets.

He/she must ensure that:

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

### **2.4.3 Chief Financial Officer**

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

He/she may delegate or otherwise assign responsibility for performing these functions but he/she will remain accountable for ensuring that these activities are performed.

He/she 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 assigned to him/her 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 assets are maintained to standards sufficient to satisfy the requirements of effective management.
- Financial processes are established and maintained to ensure the Municipality's financial resources are optimally utilised through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.
- The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets.
- Ensure implementation of the approved Asset Management Policy.
- Verify assets in possession of the Council quarterly.
- Receive from the Asset Management Section a detailed "outcome report" on the assets verification exercise.
- Keep a complete and balanced record of all assets in possession of the Council.
- Report in writing all asset losses to the Council.
- Ensure that the asset register of the Council is balanced quarterly.
- The senior managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets.

## **Guiding Principles**

### **2.5 Guiding Principles**

#### **General**

The promotion of sound financial management and record keeping through:

- Segregation of duties
- Assigning accountability
- Promoting transparency
- Monitoring of budgeted versus actual results at regular intervals and in a timely manner
- Reconciliation to supporting sources
- Completeness and accuracy of information
- Establishing, promotion and maintaining of an effective control environment
- Adherence to legislation, regulations and reporting standards

## 2.6 Specific

The utilisation and management of PPE, investment property, intangible assets and agricultural assets is the prime mechanism by which the Municipality can fulfil its constitutional mandates for:

- Delivery of sustainable services;
- Social and economic development;
- Promoting safe and healthy environments; and
- Fulfilling the basic needs to the community.

As trustees on behalf of the local community, the Municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service potential invested in assets.

The policy for the management of assets deals with the Municipal rules required to ensure the enforcement of appropriate stewardship of assets.

Stewardship has two components being the:

- Financial administration by the Chief Financial Officer; and
- Physical administration by the relevant managers.

Statutory provisions are being implemented to protect public property against arbitrary and inappropriate management or disposals by local government.

Accounting standards have been approved by the Accounting Standards Board to ensure the appropriate financial treatment for property, plant and equipment, investment property, intangible assets and agricultural assets. The requirements of these new accounting standards include:

- The compilation of asset registers covering all assets controlled by the Municipality.
- Accounting treatment for the acquisition, disposal, recording and depreciation / amortisation of assets.
- The standards to which financial records must be maintained to comply with the new accounting standards. Asset strategy

Policy statements:

### **Accounting and reporting**

**The municipality should adopt and implement an asset strategy that endeavours to maintain the asset base for the benefit of future communities.**

**The infrastructure asset base should each year be restored to at least the level at which it was in the beginning of the year.**

**A five year strategic asset management plan should be drawn up and reviewed each year.**

**The plan should at least cover the asset maintenance strategy, asset information systems and asset utilisation.**

**The detail of the asset information should be sufficient for strategic asset management and compliance with GRAP requirements.**

**Senior Managers need to manage assets under their control to provide the required level of service or economic benefit at the lowest possible long-term cost.**

Procedures – Strategic asset management planning

Procedure	Responsibility
Drafting and implementation of asset management plan	Accounting Officer
Adopt the asset management plan.	Council
Perform a review of the annual maintenance performed on assets in relation to the asset management plan and compile a report on the variances identified setting out the reasons, impact and recommendations.	Supervisors
Review the asset management plan in relation to the current asset management needs and maintenance of the previous period.	Chief Financial Officer
Calculate the backlog maintenance and compile a report setting out the reasons, impact and recommendations. If no backlog maintenance exist the report should still be compiled but must state that no backlog maintenance exist.	Supervisor
Analyse the emergency expenditure that was incurred on assets during the previous period and in comparison with the comparative year. Compile a report setting out the key reasons for the level of emergency expenditure.	Deputy Director: SCM
Make recommendations on the appropriate level of emergency expenditure provisions for the next period as well as recommendations to the process to manage emergency expenditure.	Deputy Director: SCM
Review the asset management plan in relation to the current asset management needs and maintenance of the previous period.	Chief Financial Officer
Update the costing of the asset management plan after it has been updated.	Asset & Stores Officer
Perform a risk assessment on the infrastructure assets and complete the standard risk assessment template.	Deputy Director SCM
Identify the list of critical assets based on the risk assessment and compile a critical asset list.	Deputy Director SCM

### 3 Acquisition of Assets

#### 3.1 Asset Register

Policy statements:

**The municipality should implement an asset information system that is adequate to record the standard asset catalogue information, asset maintenance information and asset performance information.**

**An asset should be**

**sed, that is, recorded in the asset register, as soon as it is meets the recognition and measurement requirements.**

**Subsequent expenditure relating to a fixed asset item that has already been recognised must be added to the carrying amount of the asset when it is probable that the expenditure will result in increased economic benefits flowing to the enterprise.**

**Reconciliations are performed on a regular basis (e.g. on a monthly basis) between the general ledger and the asset register.**

**The municipality must develop and adopt a standardised asset catalogue for infrastructure Assets.**

**Any changes to the standard asset catalogues should be formally communicated to the municipality to facilitate the process of updating the standard catalogues.**

Procedures – Asset Management and updates to asset catalogues

Procedure	Responsibility
A reconciliation of the Asset Register to the General Ledger to be completed on a monthly basis and submitted to the CFO for review.	Asset Clerk
The Asset Register must be in compliance with GRAP requirements.	Chief Financial Officer
All heads of department under whose control any asset falls should promptly provide the Chief Financial Officer in writing with any information required to compile the asset register, and should promptly advise the Chief Financial Officer in writing of any material change which may occur in respect of such information.	Directors
The Chief Financial Officer must check and authorise the reconciliations as correct.	Chief Financial Officer
Source the latest standard asset catalogue from the Province and compare it with the catalogue in use at the municipality.	Asset Clerk
Identify asset items that are on the municipal catalogue but not on the standard catalogue.	Asset Clerk

Consider these items and remove from the municipal catalogue if deemed appropriate.	Asset & Stores Officer
Submit the report to the municipality and follow up on the outcome. If the standard catalogue is not updated consult with Province on the manner to account for the particular assets.	Asset & Stores Officer
Update the municipal catalogue with new assets that was identified on the standard catalogue.	Asset Clerk
Review the detail guidance of each asset on the catalogue for changes made on the standardised documents and update the municipal catalogue if necessary (changes such as verification methods, condition assessment methods, etc.)	Asset Clerk
Review the reconciliation and submit to Province for filing purposes.	Asset Clerk
Prepare a reconciliation report that reconciles the municipal catalogue with the standard catalogue.	Asset & Stores Officer
Categorise assets per the correct categories in terms of GRAP 1.	Chief Financial Officer
Property, Plant and Equipment should be classified per GRAP 17.	Chief Financial Officer

## 3.2 Accounting Framework for Assets

Policy statements:

**Assets must be recognised and measured in accordance with the applicable GRAP standards.**

**Residual value and remaining useful lives must be reviewed on an annual basis.**

**The economic lives of the different assets should be determined after taking the asset maintenance strategy into account.**

**The revaluation model/cost model (municipality to decide) will be adopted for infrastructure, investment property, property, plant and equipment and heritage assets and the revaluation period will be every (xx) years (if applicable).**

**Assets values will be adjusted annually with an appropriate index as approved by Council each year( applicable to revaluation method)**

**Management should maintain adequate records to distinguish between adjustments in asset values due to the valuation process and impairment of the assets.**

### 5.2.1 GRAP related policies

- Refer to section 4.3 for detailed GRAP guidance regarding recognition and measurement of the following assets types:

- Inventories
- Investment property
- Leased assets
- Property, plant and equipment
- Infrastructure assets
- Heritage assets
- Intangible assets
- Agricultural assets

### 3.3 Alignment of technical and financial information of assets

Policy statements:

**Management should ensure that alignment and integration of technical and financial information with regard to assets exist at all times.**

**The municipality should develop, document and maintain robust asset management business processes. These processes should be reviewed each year for adequacy and refined if required.**

### 3.4 Asset Identification

Policy statements:

**All assets should be recorded in the relevant information system as soon as it is received by the municipality and ownership is transferred.**

**Assets that can be tagged for identification should be tagged upon receipt of the asset and the identification information recorded in the asset records.**

**Movable assets that cannot be tagged due to practical reasons should be identified by description and location in sufficient detail to facilitate control. This detail should be determined by the overall asset information owner.**

**Biological assets should be tagged for identification as far as possible.**

**A schedule of heritage assets should be kept and updated from time to time.**

**A register of intangible assets should be kept and the information should be supported by documentary evidence.**

**A schedule of investment properties should be maintained and should be supported by the relevant investment documentation.**

**Infrastructure assets, including land and buildings and parks should be identified through GPS coordinates.**

**Inaccessible assets should be recorded as polygon assets. A polygon asset refers to a geographical area that covers a homogeneous asset. The polygon asset should be supported by sufficient information to describe the asset, its condition and cost.**

**The confidence level of the asset identification should be recorded against each component in the asset register.**

**The confidence levels of asset identification should be reviewed annually by a qualified engineer and a report generated on the impact on strategic planning and asset values.**



# 4 Disposals of assets

Policy statements:

**Asset disposals should be appropriately authorised.**

Assets must be disposed of in such a way that:

- in financial terms, such disposal is of benefit to the municipality; and
- during the consideration and acceptance of tenders/quotations or any bid for such assets, the image of the municipality is not impaired.

**Asset Disposal Committee**

To enhance control over the disposal of assets, Assets Disposal Committee structure be formed

and the following responsibilities;

- Ensure that the assets that are identified to be written off, are indeed redundant and / or obsolete.
- Ensure that the writtern off items are stored safely and separated from assets in use;
- Ensure proper control over such items at the date of delivery to the supply chain unit.
- Ensure proper record keeping takes place so that only approved items are disposed of through an approved and applicable method and
- Timeously resolve any other issues which might result in discrepancies during the disposal process

**The Senior Managers shall approve all asset movements, which relate to the transfer of assets from one department to the other, when a department transfers an asset or an asset inventory item interdepartmentally or within its department, the Asset Transfer Form must be forwarded to the department/location receiving the asset or inventory item. A copy of this form is to be forwarded to the Asset Management Unit for the update of the asset**

Procedures - Disposals

Procedures	Responsibility
Motivations for the disposal of an assets must be submitted to the established Asset Disposal Committee chaired by the Chief Financial Officer via the Asset Manager.	e.g HOD's
Submission of the movation for approval by the Municipal Manager.	Chief Financial Officer
Approved motivations must be submitted to Asset Manager	Chief Financial Officer
The recommended method of disposal should be made known and the Asset Manager should facilitate the implementation of such disposal.	e.g. Asset Manager
Update the asset register of the Municipality and the book of accounts regarding the sale.	e.g.Asset Manager
Update the following information in Asset Register: Reason for disposal;	e.g. Asset Manager

Information relating to the buyer; Individual requesting disposal; Cost, book value and proposed selling price of the asset; Date of sale; Method of payment	
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## 5 Write-off of fixed assets

Policy Statement:

The following conditions must be met before authorisation of the write-off is granted:

The asset must have:

- exceeded its expected useful life, be materially impaired or been irreparably damaged;
- been rendered incapable of being put to the use for which it was acquired; and
- become redundant (i.e. in excess of required capacity due to changes in operational circumstances).

**• The Manager: Financial Services must have satisfied himself that the net cost/benefit effect of retaining the asset exceeds the net cost/benefit effect of scrapping and/or replacing the asset.**

**• The disposal must have been considered and provided for in preparing the capital budget for the year of disposal.**

**In the exceptional circumstances that disposal is considered necessary even though the above conditions have not been met. A fixed asset shall be written off only on the recommendation of the head of department controlling or using the asset concerned. The head of department shall report to the Manager Budget and Treasury on monthly bases any fixed assets that such department wishes to have written off, stating in full the reasons for such recommendation. The Manager Budget and Treasury shall consolidate all such reports, and shall promptly submit a recommendation to the management 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, destruction or material impairment of the fixed assets in question.**

**In every instance where a not fully depreciated fixed asset is written off, the Manager Budget and Treasury shall immediately debit such department, as additional depreciation expense, the full carrying value of the asset concerned.**

### Procedures Write-offs

Procedures	Responsibility
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, to the Asset Manager.	e.g HOD's
The assets officer must physically inspect and recommend, by signature, the assets to be scrapped and submit the motivation to the CFO.	Asset officer and CFO
The CFO must recommend the scrapping and submit the motivation to the MM, after consultation with the Departmental IT Committee, for all electronic equipment.	Chief Financial Officer
For assets with an initial cost of over R250 000.00, the MM must authorise all	CFO, MM and

scrapings of fixed assets by signing the Asset Scrapping Requisition. Once signed the ASR must be handed to the CFO and the assets Manager.	Asset Manager
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.	e.g. Asset Manager
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.	e.g. Asset Manager
<p>The following information must be updated in the fixed asset register:</p> <ul style="list-style-type: none"> <li>• Reason for disposal</li> <li>• Information relating to the buyer</li> <li>• Individual requesting disposal</li> <li>• Cost, book value and proposed selling price of asset in question</li> <li>• Date of sale</li> <li>• Method of payment</li> <li>• Receipt number; and</li> <li>• The entire relevant asset information e.g. number, type etc.</li> </ul>	e.g. Asset Manager

## 6

## Losses

Policy statements:

The municipality should have in place a system that constantly monitors losses in order to provide for finances of, and implement relevant counter and preventative measures

### Procedures - Losses

Procedures	Responsibility
If a loss is reported by a Department open a worksheet for the loss and check in the insurance policy of the municipality whether the loss is covered.	Deputy Director SCM
If the loss is covered send a claim form to the relevant Department and report the loss telephonically to the municipality's insurer's within xxx hours.	Deputy Director SCM
Ensure that the claim form with quotations to the repairs or replace the loss is received back from the Department within xxx hours after the claim form was sent out.	Deputy Director SCM
When the claim form is received make a note on worksheet to this effect and check the claim form for correctness and ensure that quotations are attached.	Deputy Director SCM
Enter the information on the claims register	Deputy Director SCM
Ensure that the case number of the SAPS has been entered on the claim form and if not contact SAPS and obtain the number. Also enter the number on the worksheet and claims register.	Deputy Director SCM
Fax the claim form together with a letter explaining loss to the insurance company and post the originals to them if required.	Deputy Director SCM
Attach a copy of the claim form, letter and fax confirmation slip to the worksheet and file it in the pending claims file.	Deputy Director SCM

## 7 DONATED ASSETS

### Governance

a) The authority to endorse and approve acceptance of assets contributed to the municipality vests with Council as such assets have an impact on future operational costs.

b) A report including the fair value/cost price of the contributed asset as well as the financial implications of acceptance of the contributed asset must be submitted to Council, so that acceptance of the asset can be confirmed

### Procedures

***Once Council has approved the donation, the Municipal Manager's Officer must:***

Notify the Budget & Treasury of any assets contributed, by submitting the Council approved report including the cost/fair value of the contributed asset so that the asset can be recorded and capitalized at the appropriate value

### DAMAGE ASSETS

Damaged assets should REPORTED TO the Budget & Treasury Office monthly. These assets should be recorded and reported to the council for disposal thereof.

## **8 Policy Review**

It is the intent of this policy is to practice asset management at Mhlontlo Municipality according to the requirements of the Municipal Finance Act.

This policy must be reviewed and updated annually.

Where key policy decisions are revised, the policy must be submitted to Council for approval.

## 9 Annexure 1 – Possible 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.

*	Electricity	
	Power stations	(30)
	Cooling towers	(30)
	Transformer kiosks	(30)
	Meters	(20)
	Load control equipment	(20)
	Switchgear	(20)
	Supply and reticulation networks	(20)
	Mains	(20)
*	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)
*	Water	
	Mains	(20)
	Supply and reticulation networks	(20)
	Reservoirs and storage tanks	(20)
	Meters	(15)
	Rights (that is, the right to draw water from a particular source belonging to another party)	(20)



*	Gas	
	Supply and reticulation networks	(20)
	Storage tanks	(20)
	Mains	(20)
	Meters	(20)
*	Sewerage	
	Sewer mains	(20)
	Outfall sewers	(20)
	Sewage purification works	(20)
	Sewerage pumps	(15)
	Sludge machines	(15)
*	Pedestrian malls	
	Footways	(20)
	Kerbing	(20)
	Paving	(20)
*	Airports	
	Runways	(20)
	Aprons	(20)
	Taxiways	(20)
	Airport and radio beacons	(20)
*	Security measures	
	Access control systems	(5)
	Security systems	(5)
	Security fencing	(3)

## 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	
	Ambulance stations	(30)
	Aquariums	(30)

Beach developments	(30)
Care centres	(30)
Cemeteries	(30)
Civic theatres	(30)
Clinics and hospitals	(30)
Community centres	(30)
Fire stations	(30)
Game reserves and rest camps	(30)
Indoor sports	(30)
Libraries	(30)
Museums and art galleries	(30)
Parks	(30)
Public conveniences and bath houses	(30)
Recreation centres	(30)
Sports and related stadiums	(30)
Zoos	(30)

* Recreation facilities	
Bowling greens	(20)
Tennis courts	(20)
Swimming pools	(20)
Golf courses	(20)
Jukskei pitches	(20)
Outdoor sports facilities	(20)
Organs (pipe organs that are Fixtures in a municipal hall or other centre)	(20)
Lakes and dams	(20)
Fountains	(20)
Flood lighting	(20)

# Sum-of-units method of depreciation may be preferred.

## 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)
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Shopping centres (again developed along similar lines)	(30)
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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)
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## **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	(3-5)
Office machines	(3-5)
Air conditioners	(5-7)
* Furniture and fittings	
Chairs	(7-10)
Tables and desks	(7-10)
Cabinets and cupboards	(7-10)
* 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	(5-10)
	Fire engines	(20)
	Buses	(15)
	Trucks and light delivery vehicles	(5-7)
	Ordinary motor vehicles	(5-7)
	Motor cycles	(3)
*	Plant and equipment	
	Graders	(10-15)
	Tractors	(10-15)
	Mechanical horses	(10-15)
	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)

# Sum-of-units may be preferred.



## 10 Annexure 2 - Asset Register

- The asset register should be maintained by the Municipality and updated at each change in the information contained in the register and reconciled to the general ledger monthly.
- Where the Municipality constructs an asset it should be accounted for as capital work in progress until it is available for use and thereafter included in the Fixed Asset Register.
- The asset register should provide a record of all the assets of the Municipality. It should include both financial and non financial information on assets. All assets should therefore be recorded in the asset register.
- The size and complexity of the asset register will depend on the number and type of assets held by the Municipality. The features of a good asset register include:
  - Structuring to allow the different classification of assets to be distinguished;
  - Financial data on assets that is maintained down to the level which is important to decision makers;
  - Clear identification of the individual or department responsible for the assets; and
  - Asset data should be :
    - updated as transactions and events occur (i.e. on an accrual basis);
    - regularly reconciled with acquisitions data; and
    - readily available to management.

- The table below summarises the minimum data that should be maintained on assets.

Acquisition	Identify	Accountability	Performance	Disposal	Accounting
<ul style="list-style-type: none"> <li>• Date</li> <li>• Reference</li> <li>• Amount</li> </ul>	<ul style="list-style-type: none"> <li>• Description</li> <li>• Model</li> <li>• Manufacturer</li> <li>• Serial No</li> <li>• Unique identification number</li> </ul>	<ul style="list-style-type: none"> <li>• Location and tracking of assets</li> <li>• Programme/ Department</li> <li>• Custodian</li> </ul>	<ul style="list-style-type: none"> <li>• Condition</li> <li>• Useful life</li> <li>• Residual value</li> </ul>	<ul style="list-style-type: none"> <li>• Condition</li> <li>• Useful life</li> <li>• Date disposed of or alienated</li> <li>• Disposal amount</li> </ul>	<ul style="list-style-type: none"> <li>• Historic Cost</li> <li>• Depreciation method</li> <li>• Depreciation rate</li> <li>• Accumulated depreciation</li> <li>• Net book value</li> <li>• Date written off</li> <li>• Disposal amount</li> <li>• Funding source</li> </ul>

- The asset register should include basic lease information pertaining to capitalised leased assets to establish a link between the lease register and asset register.
- Maintenance schedules and costs as well as insurance reports may also be included in the assets register.
- The acquisition and disposal of assets must be in accordance with the SCM Policy of the Municipality.
- The asset register should reflect the information which the CFO, in consultation with the HOD concerned and the internal auditor, deems necessary for accounting and control purposes.
- The Municipality should perform an annual reconciliation of the asset register to the accounting records.

## 8. COMMENCEMENT

This policy takes effect on 01 July 2014.

Approved by

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Mayor

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Municipal Manager



**Date**

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