



DIPALESENG LOCAL MUNICIPALITY

FIXED ASSET MANAGEMENT POLICY

2019/20

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1. DEFINITIONS

- a) **Accounting officer** 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).
- b) **Accounting Standards Board (ASB)** means the board established in terms of Section 87 of the Public Finance Management Act. The section refers to the function of the board, which is to establish standards of GRAP as required by the Constitution of the Republic of South Africa.
- c) **Assets** are resources controlled by the municipality as a result of past events and from which future economic benefit or service potential are expected to flow.
- d) **Asset categories** are the main and sub groups used for the classification of assets.
- e) **Asset life-cycle** is the cycle of activities that an asset goes through – including planning, design, initial acquisition and/ or construction, cycles of operation and maintenance and capital renewal and finally disposal.
- f) **Asset management** is a broad function and includes a structured process of decision-making, planning and control over the acquisition, use, safeguarding and disposal of assets to maximise their service delivery potential and benefits, and to minimize their related risks and costs over their entire life-cycle.
- g) **Asset register** is a record of information on each asset that supports the effective financial and technical management of the assets and meets statutory and reporting requirements.
- h) **Capital assets** are all assets with an expected life-cycle of greater than one year and above the capitalisation threshold (where applicable). For example, this would include property, plant and equipment (infrastructure network), furniture, motor vehicles, computer equipment, etc), intangible assets, heritage assets and investment property.
- i) **Capitalisation** is the recognition of expenditure as an asset in the Financial Asset Register. Capitalisation of assets means the recording of assets in the Fixed Asset Register with its historical financial cost in accordance with GRAP.
- j) **Carrying** amount is the amount at which an asset is included in the balance sheet after deducting any accumulated depreciation and accumulated impairment losses thereon.
- k) **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.

- l) **Community assets** are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.
- m) **Component** is a part of an asset with a significantly different useful life and cost in relation to the rest of the main asset. Component accounting requires that each such part should be separately accounted for and is treated separately for depreciation, recognition and derecognition purposes.
- n) **Cost** is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
- o) **Current replacement cost** is the cost of replacing the asset with a modern asset of equivalent capacity.
- p) **Depreciable amount** is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.
- q) **Depreciated replacement cost** is a measure of the current value of an asset based on its current replacement cost less an allowance for deterioration of condition to date (based on the fraction of remaining useful life/ expected useful life).
- r) **Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life.
- s) **Direct attributable costs** include the following:
 - (i) cost of employee benefits arising directly from the construction or acquisition of the item;
 - (ii) costs of site preparation;
 - (iii) initial delivery and handling;
 - (iv) installation and assembly costs, cost of testing whether the asset is functioning property, after deducting the net proceeds from selling any item produced while bringing the asset to that location and condition;
 - (v) commissioning (cost of testing the asset to see if the asset is functioning property, after deducting the net proceeds from selling any item produced while bringing the asset to its current condition and location);
 - (vi) professional fees (for example associated with design fees, supervision, and environmental impact assessments) (in the case of all asset classes);
 - (vii) significant dismantling or rehabilitation cost;
 - (viii) transfer taxes (in the case of all asset classes); and
 - (ix) required insurance (applicable to assets under construction)
- t) **Donated assets** are items donated to the municipality at no cost or for a nominal cost or acquired by means of an exchange of assets.
- u) **Fair value** is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

- v) **Fixed Asset** is defined in GRAP17 as a tangible item of property, plant or equipment held by the 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 recognised as a fixed asset, an asset must also meet the criteria referred to in Sections 14, 15 and 16 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.

- w) **Generally Recognised Accounting Practice (GRAP)** refers to the Standards approved by the ASB for application by municipalities and municipal entities.
- x) **Heritage assets** are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
- y) **Impairment:** An asset is impaired when its carrying amount exceeds its recoverable amount.
- z) **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.
- aa) **Investment Properties** are defined as properties that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.
- bb) **Maintenance** is considered operating expenses incurred in ensuring that the useful operating life of assets is attained.
- cc) **Municipal valuation** means the official valuation of an immovable property as reflected in the Municipality's valuation roll.
- dd) **Other assets** are defined as assets utilized in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.
- ee) **Property, plant and equipment** 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.
- ff) **"Recognition"** is the process by which expenditure is included in the financial asset register as an asset.
- gg) **Recoverable amount** is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.

hh) **Residual** value is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

ii) **Useful life** is:-

- the period of 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's accounting officer.

2. INTRODUCTION

This policy is intended to define and provide a framework for Asset Management of Dipaleseng Local Municipality within the requirements of section 60, 62, 63, 78 and 79 of the Municipal Finance Management Act, 2003 (Act 56 of 2003) (MFMA), Treasury Regulations (TR), and South African Standards of Generally Recognised Accounting Practices (GRAP) and to promote good financial management practices.

It is the responsibility of the Accounting Officer to maintain a system of internal control over assets, including an accurate, valid and complete asset register and appropriate accounting principles applied for all assets.

This policy is applicable to all offices and officials within the Dipaleseng Local Municipality who utilize and/ or manage any type of assets being immovable and movable assets.

3. OBJECTIVE

The objective of the asset management policy is to:-

- a) establish a framework for the accounting treatment and safeguarding of assets, including the proper recognition, measurement, disposal and retirement thereof.
- b) To provide proper controls and management systems that will ensure effective, efficient, economical and transparent use of the Dipaleseng Local Municipality's assets.
- c) To establish controls that must ensure proper management of risks associated with the ownership and safeguarding of the Dipaleseng Local Municipality's assets.
- d) To foster a spirit of custodianship, responsibility, accountability and optimization of the Dipaleseng Local Municipality's assets.
- e) To improve sustainability and lower the risk of failure of the Dipaleseng Local Municipality's assets.
- f) To ensure the Dipaleseng Local Municipality's assets are safeguarded, sort for, efficiently utilized and maintained and to ensure the deliverance of excellence within the scope of service delivery.
- g) To ensure compliance with legislative, accounting and other municipal policy prescripts.

4. REGULATORY FRAMEWORK

The following references were observed in compiling this document:

- a) Municipal Finance Management Act, 2003
- b) Municipal Systems Act, 2000
- c) Asset Management Framework, National Treasury, 2004
- d) Guidelines for Infrastructure Asset Management in Local Government, Department of Provincial and Local Government, 2006
- e) MFMA Circular 18 & 44
- f) Local Government Capital Asset Management Guidelines, National Treasury, 2008
- g) Government Gazettes (30013 & 31021)
- h) Generally Recognised Accounting Practice (GRAP).
- i) Municipal Transfer and Disposal Regulations, Government Gazette no.31346.

5. SCOPE

This policy applies to all asset classes as prescribed by the SCOA regulations and also GRAP, including, but not limited to:

- a) Infrastructure Assets
- b) Community Assets
- c) Intangible Assets
- d) Heritage Assets
- e) Investment Properties
- f) Property, Plant and Equipment
- g) Biological Assets
- h) Computer Equipment
- i) Furniture and Fittings
- j) Office Equipment
- k) Other Assets

which are either contributed to the Dipaleseng Local Municipality or purchased and which meet the definition as set out above.

6. FUNCTIONAL RESPONSIBILITIES

This section prescribes the responsibilities of relevant functions within the Municipality with regard to assets

5.1 Municipal Manager

The Municipal Manager as the Accounting Officer of the municipality is responsible for the management of the assets of the municipality in terms of section 63 of the MFMA which prescribes the following:

- a) Safeguarding and maintenance of assets.
- b) Implementation of an accounting and information system that accounts for the assets.
- c) Ensuring that assets are valued in terms of GRAP.
- d) Maintaining a system of internal control of assets (e.g. an asset register).
- e) The Municipal Manager may delegate this function to members of top management or any other official of the municipality in terms of section 79(1)(b) of the MFMA.

5.2 Chief Financial Officer

The CFO should take all reasonable steps to ensure that:

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

No amendments, deletions or additions to the Fixed Asset Register shall be made other than by the Chief Financial Officer or by his/her authorised delegate.

5.3 Managers (Heads of Departments)

The Heads of Departments (HoDs) must take all reasonable steps to ensure that:

- a) Appropriate systems of physical management and controls are established and carried out for assets in their areas of responsibility.

- b) The municipal resources assigned to them are utilised effectively, efficiently, economically and transparently.
- c) The assets under their control are appropriately safeguarded and maintained to the extent necessary and that risk management systems are in place and applied.
- d) Any unauthorised, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented.
- e) Their asset management systems and controls can provide an accurate, reliable and up to date account of assets under their control.
- f) They are able to justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives.
- g) The purchase of assets complies with all municipal policies and procedures.
- h) All moveable property, plant and equipment is duly processed and identified when it is received into his/ her stewardship.
- i) All movable assets received into his/ her stewardship are appropriately safeguarded against inappropriate use of loss. This will include control over the physical access to these assets and regular asset counts to ensure any losses have not occurred. Any known losses should be immediately reported to the CFO.
- j) Assets are appropriately utilised for the purpose for which the municipality acquired them.

In addition, the HoDs are responsible to ensure that all employees within their respective department adhere to the approved Asset Management Policy and Procedure. The HoDs should nominate an employee to implement and maintain asset control (i.e. Departmental Asset Controller) in his/ her department.

5.4 The Financial Reporting and Asset Division

The Manager or his/ her delegate is designated as the Municipality's Asset Co-ordinator and is responsible for ensuring that:

- a) a valid, accurate and complete Fixed Asset Register is maintained;
- b) the Fixed Asset Register is reconciled monthly with the trial balance and the general ledger;
- c) an annual asset verification is performed for all municipal assets. The results of this verification must be reported to the CFO, the Municipal Manager or Council;
- d) the allocation of barcode ranges is co-ordinated;
- e) all asset internal and external audit queries are resolved timeously; and

- f) the municipality's assets are valued in accordance with the standards of GRAP.

5.5 The Supply Chain Management Division

The Supply Chain Management Division must:

5.5.1 with regard to acquisitions and disposals of assets:

- (a) ensure that all assets are acquired in terms of the SCM Policy;
- (b) before accepting an obsolete or damaged asset or inventory item, ensure that a completed Disposal Store Retirement/ Disposal Form is presented with the assets;
- (c) ensure that a record is kept of all obsolete, damaged or unused municipal assets;
- (d) compile a list of the items to be auctioned in accordance with their guidelines;
- (e) ensure that all assets disposed of by means of public auction is retired from the FAR and the profit/ loss is accounted for in terms of GRAP.

5.5.2 with regard to transfers from the Disposal Store:

- (a) have the right to transfer obsolete or unused assets to any municipal centre requiring such assets;
- (b) notify the Assets Division of such transfers within 10 working days of transfers taking place;
- (c) ensure that a record is kept of all such transfers.

5.6 The Human Resources Division

The Divisional Manager shall ensure that no monies are paid out to staff on termination of their service prior to receiving the relevant movable asset resignation form signed off by the relevant manager to whom the official resigning was reporting to.

7. FORMAT OF FIXED ASSET REGISTER

7.1. 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).

7.2. The Fixed Asset Register shall reflect the following minimum information:

- g) date of acquisition
- h) location, including region, street name and number and suburb
- i) barcode allocated/ other ID number
- j) asset class and type
- k) depreciation methods used
- l) useful life / life expectancy
- m) depreciation charges

- n) gross carrying value
- o) accumulated depreciation
- p) a brief description of each asset;
- q) a project reference number (WBS number)
- r) responsible official, employee number
- s) the departments or cost centre within which the assets will be utilised;
- t) the title deed number, in the case of fixed property;
- u) the stand number and physical address, in the case of fixed property;
- v) the original cost or fair value if no costs is available;
- w) the (last) revaluation date of the fixed assets subject to revaluation;
- x) the re-valued value of such fixed assets;
- y) impairment losses;
- z) impairment recovery;
- aa) the source of financing;
- bb) the current insurance arrangements;
- cc) the date on which the asset is disposed of;
- dd) the disposal price; and
- ee) the date on which the asset is retired from use, if not disposed of.

7.3 All heads of department under whose control any fixed asset falls shall provide the Chief Financial Officer in writing with any information required to compile the Fixed Asset Register, and shall advise the Chief Financial Officer in writing, within 24 hours of any material change which may occur in respect of such information.

7.4 A fixed asset shall be capitalised 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 Asset Register for as long as it is under the control of the Municipality

8. RECOGNITION AND CLASSIFICATION OF ASSETS

8.1 An item shall be recognised as an asset if:

- it meets the definitions of an asset as defined in GRAP 17 and

- 8.2 the cost or fair value of the item can be measured reliably.
- 8.3 Assets are recorded at cost which shall include the purchase price and other acquisition costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating, such as installation costs, freight charges, transportation, taxes, legal costs and duties etc.
- 8.4 For a contributed capital asset, cost is deemed to be the fair value at the date the asset is contributed.
- 8.5 Subsequent expenditure relating to assets is capitalised if it is probable that future economic benefits or potential service delivery of the asset is enhanced in excess of the originally assessed standard of performance.

9. ASSETS HELD UNDER FINANCE LEASE

Assets held under finance leases are capitalised and will be reflected in the Fixed Asset Register.

- 9.1 Major spare parts / standby equipment (strategic stock) qualify as PPE when it is a significant cost in relation to the total cost of the item, and it is expected to use them during more than one year.
- 9.2 Fixed assets shall be classified under the following headings in the Fixed Asset Register:
 - a) **PROPERTY, PLANT AND EQUIPMENT (GRAP 17)**
 - Land and buildings
 - Infrastructure assets Community assets
 - Heritage assets
 - Furniture and Fittings
 - Office Equipment
 - Computer Equipment
 - Biological Assets
 - Motor Vehicles
 - Plant and Equipment
 - b) **INVESTMENT PROPERTY (GRAP 16)**
 - c) **INTANGIBLE ASSETS (GRAP 102)**

10. INVESTMENT PROPERTY

- 10.1 An item shall be recognised as Investment property if it meets the definition.
- 10.2 Investment property shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of financial position.
 - 10.2.1 Investment property is recorded at cost.
 - 10.2.2 Disclosable value measured at recognition:
 - (a) initially at acquisition cost plus transaction cost, or nominal value;
 - (b) where acquired at no cost or nominal value, fair value at acquisition is deemed to be the cost for disclosure;
 - (c) if held under a lease and classified as Investment Property, is the lower of fair value and the present value of the minimum lease payments.

- 10.2.3 Cost value is determined according to the requirements of the GRAP standard on Investment Property.
- 10.2.4 Assets classified as Investment Property shall be re-defined once such assets usage changes.
- 10.3 Investment property 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.
- 10.4 Investment property shall be recorded in the Fixed Asset Register in the same manner as other fixed assets, but a separate section of the Fixed Asset Register shall be maintained for this purpose.
- 10.5 Investment property 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 the assets concerned.
- 10.6 An expert valuator shall be engaged by the municipality to undertake such valuations.
- 10.7 If the Council 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 item of PPE until it is ready for its intended use – where after it shall be reclassified as an investment asset.

11. INTANGIBLE ASSETS

- 11.1 Assets that meet the criteria of GRAP 31 (Intangible assets) shall be recognized as intangible assets at cost.
- 11.2 After initial recognition, intangible assets shall be carried at cost less accumulated amortisation and any accumulated impairment losses
- 11.3 Intangible assets shall be recorded in the Fixed Asset Register in the same manner as other fixed assets, but a separate section of the Fixed Asset Register shall be maintained for this purpose.

12. NON-CURRENT ASSETS HELD FOR SALE (GRAP 100)

- 12.1 Assets that shall be classified as held for sale when its carrying amount will be recovered principally through a sale transaction rather than through continuing use, in terms of GRAP 100
- 12.2 If the criteria in GRAP 100 are met after the balance sheet date, an entity shall not classify a non-current asset (or disposal group) as held for sale in those financial statements when issued. However, when those criteria are met after the balance sheet date but before the authorization of the financial statements for issue, the entity shall disclose the information in the notes to the financial statements. This information is as follows:
 - a) a description of the non-current asset (or disposal group);
 - b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;

13. RECOGNITION OF HERITAGE ASSETS

- 13.1 Heritage assets shall be accounted for in terms of GRAP 103 and shall be classified as a separate class of non-current assets on the Municipality's Statement of Financial Position.
- 13.2 Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. The municipality is not required to recognise assets as heritage assets where they would otherwise meet the criteria for PPE (for example, a historic building being used as office accommodation).
- 13.3 A heritage asset shall be recognised as an asset if, and only if:
 - a. it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and
 - b. the cost or fair value of the asset can be measured reliably.

- 13.4 A heritage asset that qualifies for recognition as an asset shall be measured at its cost.
- 13.5 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
- 13.6 After recognition as an asset, a class of heritage assets shall be carried at its cost less any accumulated impairment losses.
- 13.7 Heritage assets shall be recorded in the Fixed Asset Register in the same manner as other fixed assets, and a separate section of the Fixed Asset Register shall be maintained for this purpose.

14. BIOLOGICAL ASSETS

- 14.1 Accounting for biological assets shall take place in accordance with the requirements of GRAP 27
- 14.2 The Chief Financial Officer, in consultation with the heads of departments concerned, shall ensure that all biological assets, such as livestock and crops, are valued at 30 June each year at fair value less costs to sell. Such valuation shall be undertaken by a recognised valuator in the line of the biological assets concerned.
- 14.3 Details of biological assets shall be kept in a separate section of the fixed assets register.
- 14.4 The Chief Financial Officer shall, in consultation with the relevant Department Directors, ensure that the Municipality's biological assets are comprehensively insured, provided the Council considers such insurance desirable and affordable.

15. 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.

16. IDENTIFICATION OF FIXED ASSETS

The Municipal Manager shall ensure that the Municipality maintains an asset identification system which shall be operated in conjunction with its electronic Fixed Asset Register. (this shall include community, heritage and biological assets)

17. CUSTODY OF SECURITY ASSETS

- 17.1 Department directors shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the relevant Department.
- 17.2 All assets shall be barcoded and tracked by physical location through the Fixed Asset Register. In other cases where it is not possible to attach a barcode, a unique inventory number should be attached to the asset by means of either spray painting or any other practical means.
- 17.3 It is the responsibility of relevant Departments to report stolen or damaged property to the Finance Department.

18. VERIFICATION OF FIXED ASSETS

- 18.1 A physical asset verification process shall be performed annually and be conducted simultaneously throughout the Municipality. This will coincide with the financial year-end of the Municipality.
- 18.2 Overall coordination of the annual asset verification process shall rest with the Finance Department, with each Department responsible for the verification of their own assets.
- 18.3 The results of such verification will be reported to every head of department who shall promptly and fully report in writing to the Chief Financial Officer in the format determined by the Chief Financial Officer, on all the fixed assets not verified during such fixed asset verification.
- 18.4 Asset verifications shall be undertaken and completed as closely as possible to the end of each financial year and the resultant report shall be submitted to the Municipal Manager by 31 August of the year in question.

19. COMMUNICATION OF CHANGES

All changes shall be reported to the Finance Department within 10 working days to maintain accuracy of the Fixed Asset Register.

All changes shall be recorded on the Asset Movement Capture Forms (Annexure “B”)

20. DISPOSALS AND RETIREMENTS

20.1 Governance

The disposal/ retirement of assets is governed by sections 14 and 90 of the MFMA, where it states inter alia that

- a) The Municipality may only dispose of assets that are not providing minimum levels of basic municipal services.
- b) Assets other than those utilised to provide minimum levels of basic services may be disposed of subject to Council approval or in terms of delegated authority.

20.2 Procedures

- a) Any items declared obsolete or damaged must be accompanied by completed Asset Movement Capture Forms and approved by the Department Director, and counter-signed by the Asset Management Clerk.
- b) Prior approval is necessary should the following asset classes be declared obsolete or damaged:
 - i. **Vehicles and Plant** – The Corporate Services Director must authorise the write-off.
 - ii. **IT Equipment** – The Corporate Services Director must authorise the write-off.

21. PROCEDURE IN CASE OF LOSS, THEFT, DESTRUCTION, OR IMPAIRMENT OF FIXED ASSETS

Department Directors 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 (by completing the Asset Movement Capture Form (Annexure “B”)) to the Chief Financial Officer and, in cases of suspected theft or malicious damage – also to the South African Police Service.

22. CAPITALISATION CRITERIA: MATERIAL VALUE

- 22.1 No item with an initial cost or fair value of up to R250.00 (two hundred and fifty rand per item/group) shall be recognised as a fixed asset. If the item has a cost or fair value lower than this capitalisation benchmark, it shall be treated as an expense and written off in the period it occurs.
- 22.2 Every head of Department shall, however, ensure that any item with a value of less than R250 (two hundred and fifty rand), and with an estimated useful life of more than one year, shall be reported to the Chief Financial Officer who shall decide whether the portability and attractiveness of the item by its very nature, render it to theft or misplacing and whether it is sufficiently portable to allow removal and if the need exists for the item to be controlled and therefore be included in the Inventory Register as a non-capital item and identified and controlled in the manner as prescribed in Section 14.

23. CAPITALISATION CRITERIA: REINSTATEMENT, MAINTENANCE AND OTHER EXPENSES

- 23.1 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.
- 23.2 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 value of the expenses incurred.

24. CALCULATION OF THE INITIAL COST PRICE OF ITEMS OF PROPERTY, PLANT AND EQUIPMENT (PPE)

The initial budgeting and recording of an item of PPE is dealt with as follows:

- 24.1 An item of PPE that qualifies for recognition as an asset shall initially be measured at its cost. The cost of an item of PPE comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs are:
- i. Costs of employee benefits (as defined in the Standard of Generally Recognised Accounting Practice on *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment

- ii. The cost of site preparation.
 - iii. Initial delivery and handling costs.
 - iv. Installation costs.
 - v. Professional fees such as for architects and engineers.
- 24.2 Administration and other overhead costs cannot be regarded as directly attributable costs and can therefore not be included in PPE.
- 24.3 When payment for an item of PPE is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as an interest expense over the period of credit.

25. MAINTENANCE OF ASSETS

- 25.1 Each Department must develop a maintenance strategy that with ensure that the Municipality's assets are maintained at an adequate operational level or standard ensuring that all statutory, technical and operational objectives are achieved. This strategy must ensure that tangible assets under the custody and control of the relevant directors are properly maintained and repaired so that their possible maximum useful lives are realised.

Each Department is responsible for ensuring:

- (a) That all tangible and intangible assets under their control are maintained in a good working condition. The departments must take adequate care that the working environments for the various assets are appropriate and suitable for such types of assets;
 - (b) That their assets are not misused for personal use or benefit;
 - (c) That repair and maintenance costs incurred is reviewed and properly controlled;
 - (d) The development of a Departmental Asset Management Plan (DMP) according to their operating budgeting resources.
- 25.2 Department directors shall ensure that a maintenance plan is developed in respect of every new infrastructure asset with a value of R100,000 (one hundred thousand rand) or more is prepared and approved by the Accounting Officer prior to the commencement of the procurement process of the replacement asset. .
- 25.3 The maintenance plan shall be reviewed annually and assessed whether it meets the maintenance requirements of the asset
- 25.4 Directors shall be responsible for ensuring that all assets are adequately maintained to ensure that such assets attain their useful operating lives.

- 25.5 The asset maintenance plans shall be considered in the development and/or review of the Municipality's Integrated Development Plans and Service Delivery Budget Implementation Plans

26. DEPRECIATION OF FIXED ASSETS

- 26.1 All fixed assets, except land and heritage assets, shall be depreciated or amortised in the case of intangible assets.
- 26.2 The Chief Financial Officer shall determine a useful operating life to each class of Depreciable assets recorded on the Municipality's Fixed Asset Register.
- 26.3 Assets shall be depreciated using the straight-line basis of depreciation unless the Chief Financial Officer identifies a more appropriate basis of depreciation and if the required information to implement the revised basis of depreciation is readily available. The amended basis of depreciation shall be applied to all assets within an asset class.
- 26.4 The municipality depreciates items of PPE over their useful lives after taking into account residual values as was determined at the date of purchase. In the following instances, a review of the remaining useful life or the residual value of the item of PPE may be necessary and the municipality may decide to write off the asset over a shorter period than its remaining useful life:
- a) The item is not properly maintained and it is unlikely that the item can be used for its originally expected useful life. The estimated remaining useful life must be used to calculate the depreciation charge for the remaining life of the item of PPE.
 - b) The item can no longer be used for its intended purpose. In this circumstance, the asset must be written-off. There will no longer be a depreciation charge.
 - c) If the estimated useful life of an item of property, plant and equipment changes significantly due to technological changes then the depreciation rate should be adjusted for the current and remaining future periods. If the asset shows a significant change in the pattern of usage, then the depreciation method should be changed and will be accounted for as a change in estimate where the depreciation charge for the current and future periods will be adjusted.
- 26.5 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.

- 26.6 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.

27. CREATION OF NON-DISTRIBUTABLE RESERVES FOR FUTURE DEPRECIATION

- 27.1 The Chief Financial Officer shall ensure that in respect of all fixed assets financed from the Municipality's Capital Replacement 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.
- 27.2 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.

28. IMPAIRMENT LOSSES

- 28.1 The carrying amount of an item or a group of identical items of property, plant and equipment shall be reviewed annually in order to assess whether or not the recoverable amount has declined below the carrying amount.
- 28.2 Any resultant impairment losses shall be reported as a loss in the Financial Year, except where this relates to reversal of a revaluation gain recognized in previous years, in which case it shall be reported as a reversal of the revaluation gain recognised in Equity

29. REVALUATION OF FIXED ASSETS

- 29.1 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).
- 29.2 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.

- 29.3 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.
- 29.4 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.
- 29.5 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 Section 26 above).
- 29.6 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.
- 29.7 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).

30. DISPOSAL OF FIXED ASSETS

- 30.1 The municipality may not dispose of a capital asset required to provide the minimum level of basic municipal services.
- 30.2 The Municipality may dispose of assets that are not required to provide the minimum level of basic municipal services provided that:

- a) Municipal manager approves of any transaction below R500,000
 - b) The Council approves of any transaction over R500,000
 - c) The disposal is conducted in terms of the Municipality's supply chain management policy
 - d) The Municipality has considered the fair value of the asset and the economic and community value to be received in exchange for the asset
- 30.3 The director responsible for the asset to be disposed of shall complete an "Asset Movement Capture Form" (Annexure "B") prior to the disposal
- 30.4 The CFO shall use this form to update the fixed asset register upon the disposal of the asset in question
- 30.5 Transfers to another Municipality or Municipal entity or Government Department in respect of categories of assets approved by National Treasury, shall be approved by Council prior to the transaction, and shall be done at fair value. If the proceeds of the disposal are less than the carrying value recorded in the Fixed Asset Register, such difference shall be recognised as a loss in the 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.

31. INSURANCE OF FIXED ASSETS

The Municipal Manager shall ensure that all fixed assets are comprehensively insured.

32. EFFECTIVE DATE

This policy comes in effect on date of approval.

Implementation Date	Council Resolution no.	Adopted Date
1 July 2019		

ANNEXURES

33. ANNEXURE A

LEGAL REQUIREMENTS

SECTION 14: DISPOSAL OF CAPITAL ASSETS

- (1) A 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.
- (2) A municipality may transfer ownership or otherwise dispose of a capital asset other than one contemplated in subsection (1), but only after the municipal council, in a meeting open to the public—
 - (a) has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
 - (b) has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- (3) A decision by a municipal council 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 asset has been sold, transferred or otherwise disposed of.
- (4) A municipal council may delegate to the accounting officer of the municipality its power to make the determinations referred to in subsection (2)(a) and (b) in respect of movable capital assets below a value determined by the council.
- (5) Any transfer of ownership of a capital asset in terms of subsection (2) or (4) must be fair, equitable, transparent, competitive and consistent with the supply chain management policy which the municipality must have and maintain in terms of section
- (6) This section does not apply to the transfer of a capital asset to another municipality or to a municipal entity or to a national or provincial organ of state in circumstances and in respect of categories of assets approved by the National Treasury, provided that such transfers are in accordance with a prescribed framework.

34. ANNEXURE B

Supply Chain

The supply chain manager shall, with regard to the acquisition and disposal of assets:

- a) ensure that all assets are acquired in terms of the Supply Chain Management Policy;
- b) ensure that a record is kept of all obsolete, damaged and unused assets received from departments;
- c) ensure that all obsolete or damaged assets are disposed of as per the requirements of the SCM Policy.

Other Departments

All other Departments within the Municipality shall

- a) ensure that employees in their departments adhere to the approved Asset Management Policy;
- b) ensure that all assets are procured in terms of the SCM Policy;
- c) ensure that employees with delegated authority have been nominated to implement and maintain physical control over assets in their departments. Although authority has been delegated, responsibility remains with the respective Directors of the departments.
- d) ensure that assets are properly maintained in accordance with their respective asset maintenance policy;
- e) ensure that adequate barcodes are available at all times to exercise management and control;
- f) ensure that, where applicable, all their movable assets as reflected on the Fixed Asset Register are barcoded to exercise control;
- g) ensure that the Treasury Department is notified via the AMC form within 10 working days of any changes in the status of assets under the department's control, in accordance with section 9.1;

- h) ensure that transfers between departments are administered internally;
- i) ensure that a complete asset verification of all inventory and asset items is performed annually;
- j) ensure that all obsolete, damaged and unused assets, supported by relevant asset and condemnation forms, are handed into the SCM department without delay;
- k) be responsible for maintaining and managing their own Departmental Inventory Register;
- l) ensure that project structures are categorized and clearly identified according to the main asset classes, when created
- m) ensure that all assets are safeguarded against loss/theft and that they are adequately insured; and
- n) ensure that location changes are made timeously and location/room information are updated regularly.
- o) Provide the Chief Financial Officer with any information as may be required to accurately maintain the Fixed Asset Register.