

**NGQUSHWA MUNICIPALITY**



**ASSET MANAGEMENT POLICY**

**2016/17**

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## **DEFINITION OF TERMS**

<b>TERM</b>	<b>STANDARD</b>	<b>DETAILS</b>
<b>Asset</b>	GRAP 1 and 3	<p>An asset is defined in terms of GRAP 1.06 and GRAP 3.04 as follows:</p> <p>"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."</p> <p>The Framework for the Preparation and Presentation of Financial Statements (in terms of IFRS) provides the following explanations.</p> <ul style="list-style-type: none"> <li>• <b>Future economic benefits:</b> The potential to contribute, directly or indirectly, to the flow of cash and cash equivalents of the operating activities.</li> <li>• <b>Control:</b> The ability to control the benefits which are expected to flow. It's not limited to legal title.</li> </ul>
<b>Asset Management</b>	Not applicable	Asset Management encompasses planning/demand management, acquisitions, use, maintenance, and disposal of assets.
<b>Biological assets</b>	GRAP 101	A biological asset is a living animal or plant.

<b>Intangible asset</b>	Grap 102	Is an indefinable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or administrative purposes.
<b>Heritage assets</b>		Assets that have cultural, environmental, historical, natural, scientific, technological, or artistic significance and are held indefinitely for the benefit of present and future generations.
<b>Carrying amount</b>	GRAP 17	Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
<b>Cost</b>	GRAP 17	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 or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.
<b>Depreciable amount</b>	GRAP 17	Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.
<b>Depreciation</b>	GRAP 17	Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

## TERM STANDARD DETAILS

<b>Fair value</b>	GRAP 17	Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.
<b>Head of Department</b>	Not applicable	All incumbents of post level 1 in the different directorates.
<b>Inventory</b>	GRAP 12	Inventories are assets: (a) in the form of materials or supplies to be consumed in the production process, (b) in the form of materials or supplies to be consumed or distributed in the rendering of services, (c) held for sale or distribution in the ordinary course of operations, or (d) in the process of production for sale or distribution.
<b>Investment property</b>	GRAP 16	Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes, or (b) sale in the ordinary course of operations.
<b>Owner-occupied property</b>	GRAP 17	Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

<b>Property, Plant and Equipment</b>	GRAP 17	Property, plant and equipment are tangible items that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and (b) are expected to be used during more than one reporting period.
<b>Accounting Standards Board</b>		was established by the Public Finance Management Act to set standards of Generally Recognized Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa.
<b>Fixed asset register</b>		Is the controlled register recording the financial and other key details for all municipal assets recognized in accordance with this policy (FAR)
<b>Impairment" is</b>		When the recoverable amount of an asset is less than the carrying value of such an asset.
<b>Preventative maintenance</b>		is the maintenance which is required on a systematic basis to ensure that the originally assessed future economic benefits or potential service position of the relevant asset is realised hence that the fixed asset reaches its estimated useful life.

<b>Recoverable amount</b>		Is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.
<b>Recognition</b>		Is the process by which expenditure is included in the Financial Asset Register as an asset or attractive item.
<b>Replacement Value</b>		Is the amount which is needed in current terms to replace an asset.
<b>Residual Value</b>		Is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs for disposal.
<b>Stewardship</b>		Is the act of taking care of and managing property, plant or equipment on behalf of another.
<b>Asset strategy</b>		The means by which a department proposes to manage its assets (across all phases of their life cycle) to meet service delivery needs most cost-effectively
<b>Asset utilization</b>		A measure of how effectively an asset is being used to meet the department's service delivery objectives.



<b><u>Recognition Criteria</u></b>		<p>The cost of an item of property, plant and equipment shall be recognised as an asset when and only when:</p> <p>11.1.1 It is probable that future economic benefits will flow to the municipality</p> <p>11.1.2 or the potential service delivery associated with the asset will occur;</p> <p>11.1.3 The cost of the asset to the Municipality can be reliably measured.</p>
<b>Acquisition of assets</b>		Refers to the purchase of assets by buying, building (construction) or leasing.
<b>Construction contract</b>		Contract specifically negotiated for the construction of an asset or a combination of assets that are closely related interrelated or inter dependant in terms of their design, technology and function or their ultimate purpose use.
<b>Useful Life</b>		<p><b>"Useful Life"</b> is either:</p> <p>a) The estimated period of time over which the future economic benefits or future service potential embodied in an asset is expected to be consumed by the municipality.</p> <p><b>o</b></p> <p>b) The estimated total service potential expressed in terms of production or similar units that are expected to be obtained from the asset by the municipality.</p>

## ABBREVIATIONS

- i. CFO – Chief Financial Officer
- ii. MM – Municipal Manager
- iii. HOD- Head of Department

- iv. IDP – Integrated Development Plan
- v. MFMA – Municipal Finance Management Act No. 56 of 2003
- vi. SDBIP – Service Delivery and Budget Implementation Plan
- vii. CM – Council Minute/'s

### **3. ENABLING LEGISLATION**

Ngqushwa Local Municipality is required to comply with the MFMA, and circulars, memorandum and guidelines (practice notes) issued by National Treasury.

The Government Gazette No.31021, 9 May 2008 prescribes the implementation of the following Standards as set by the Accounting Standards Board for municipalities and municipal entities in terms of Section 89. These standards are effective for periods beginning on or after 1 April 2009.

This policy must comply with all relevant legislative requirements including:

- The Constitution of the Republic of South Africa, 1996
- Municipal Structures Act 117 of 1998
- Municipal Systems Act 32 of 2000
- Division of Revenue Act (enacted annually)
- Municipal Finance Management Act, Act 56 of 2003
- Local transfer regulations

This policy must also comply with standards specified by the Accounting Standards Board (ASB). The relevant currently recognized accounting standard include:

- Grap 17 – Property Plant and Equipment
- Grap 16 – Investment properties
- Grap 100 – Non - current assets held for sale
- Grap 102 – Intangible assets

### **RELATED POLICIES, PROCESSES AND PROCEDURES**

The following policies, processes and procedures should be in place to ensure an effective and efficient asset management system:

- Supply Chain Management Policy
- Delegations of authority
- Fleet Management Policy
- Insurance Policy
- Security Policy
  - Asset management plans

This policy does not over rule the requirement to comply with other policies such as Supply Chain Management, tendering or budget policies.

### **4. OBJECTIVES**

- To ensure the effective and efficient control, utilization, safeguarding and management of a municipality's property, plant and equipment.
- To ensure asset managers are aware of their responsibilities with regard to property, plant and equipment.
- To set out the standards of physical management, recording and internal controls to ensure property, plant and equipment are safeguarded against inappropriate loss or utilization.
- To specify the process required before expenditure on property, plant and equipment occurs.
- To emphasize a culture of accountability over assets.

- To ensure compliance with all legal and accounting prescriptions and requirements.
- To ensure compliance with Council's Insurance Policy, Supply Chain Management Policy and Payment Procedure.
- To prescribe the administrative guidelines and internal control procedures to be followed by persons in control of assets with regard to management of those assets.
- To ensure that preventative measures are in place to eliminate theft, loss and misuse.
- To ensure accuracy of the depreciation charge.
- To ensure a formal set of procedures that can be implemented to ensure that fixed assets and financial policies are achieved and are in compliance with the MFMA.

## **5. SCOPE OF ASSET MANAGEMENT POLICY**

The Asset Management Policy shall incorporate the following:

- Role of the accounting officer;
- Role of the chief financial officer
- Role of head of departments
- Format of asset register
- Classification of assets
- Funding Sources of assets
- Accounting for PPE
- Recognition of assets;
- Asset disposals, including transfers, sales and write-offs; insurance of assets;
- Other general procedures

## **6. CONTENT**

The utilization and management of property, plant and equipment is the prime mechanism by which a municipality can fulfill its constitutional mandates for:-

- Delivery of sustainable services,
  - Social and economic development,
  - Promoting safe and healthy environments; and
  - Providing the basic needs to the community.
- 
- As trustees on behalf of the local community, the municipality has a legislative and moral obligation to ensure that it implements policies to safeguard the monetary value and future service provision invested in property, plant and equipment.
- 
- The asset management policy deals with the municipal rules required to ensure the enforcement of appropriate stewardship of property, plant and equipment.
- 
- Statutory provisions are being implemented to protect public property against arbitrary and inappropriate management or disposal by a local government.
  - Accounting standards are being adopted by the Accounting Standards Board per instructions or the Accounting General, to ensure the appropriate financial treatment for property, plant and equipment.
- The requirements of these new accounting standards include:
- The compilation of asset registers covering all property, plant and equipment controlled by the municipality.

## **7. ROLE OF THE MUNICIPAL MANAGER**

The Municipal Manager, being the Accounting Officer of the municipality, is responsible for the following in terms of s. 63 of the Municipal Finance Management Act (Act 56 Of 2003):

- The assets of the municipality, including the safeguarding and the maintenance of those assets.
- Ensuring that the municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality.
- Ensuring that the municipality's assets are valued in accordance with the standards of generally recognized accounting practice.
- Ensuring that the municipality maintains a system of internal control of assets, including an asset register.

Therefore the municipal manager shall be the principal custodian of all the Nggushwa Local Municipality assets.

In terms of section 79(4), even though the municipal manager has delegated his duties, it does not divest the municipal manager from the responsibility of the delegated duty.

The municipal manager will still be responsible for monitoring the activities of the person delegated to, to ensure that they are performing the responsibilities and duties delegated to them.

## **8. ROLE OF THE CHIEF FINANCIAL OFFICER**

The municipal manager has duly delegated the following duties to the Chief Financial Officer in terms of S79(1)(b)(ii):

- Ensuring that all acquisitions of assets are in accordance with the Supply Chain Management Policy.
- Ensuring that council assets are accounted for in accordance with generally recognized accounting practice (GRAP).
- Providing the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the general ledger.
- Ensuring that assets are verified at least once every financial year. An asset verification report must be prepared and shall –
  - a) Include a complete list of all assets identified during the verification process.
  - b) Identify whether appropriate records have been maintained reflecting the items that should have been found during verification.
  - c) Identify any discrepancies between the items found during the verification process and the business unit listing and asset register
  - d) Performing reconciliation between the asset register and the general ledger on a quarterly basis.

The reconciliation of the asset register shall be performed per asset classification and reconcile the following:

- Cost
- Accumulated Depreciation
- Depreciation
- Carrying amount and shall reflect the following:
  - Opening balance
  - Movement for the year
  - Closing balance
- e) Ensuring adequate bar codes and equipment to exercise the function relating to asset control is available at all times.

- f) Ensure that the calculation of depreciation is performed and details required for processing financial records .



## **9. ROLE OF HEADS OF DEPARTMENT**

Section 78(1) of the MFMA prescribes the following areas of responsibility for senior managers (also referred to as HOD's) relating to asset management.

It is the responsibility of the HOD to ensure that all asset related changes that take place within their divisions/directorates have been properly authorized and communicated to the Budget and Treasury Department.

- The Budget and Treasury Office (after approval of the HOD) is notified of any changes in the status of the assets under the directorates/departments control (e.g. new asset purchases, asset transfers, asset impairments and asset disposals).
- The inventory and/or assets of the Ngqushwa Local Municipality are not used for private enterprise and gain by any employee/Councilor.
- Control is exercised over the respective department's assets and shall report any enhancement/improvement, transfer or disposal of the respective department's assets to the Corporate Services and Finance Department.
- Relevant reports on the writing off of scrap (in case of vehicles) and the theft/loss (in the case of other assets) are submitted to Corporate Services Department.
- All assets within the departments must be recorded on the asset register and bar coded.

## **10. ROLE OF MUNICIPAL OFFICIALS**

### **10.1. ASSET MOVEMENT**

- Employees of Ngqushwa Local Municipality that are custodians of assets must sign
  - a) **Asset movement form** when moving asset to another location within same department
  - b) **Asset transfer form** when moving asset to another location but in a different department.

### **10.2. RESIGNING OFFICIALS**

- Upon resignation an employee must sign asset verification/clearance form from Asset control officer, approved by relevant supervisor and HOD.
- The asset control officer should write a letter to human resources section stating that the employee had returned all the municipal assets and this letter should be approved by Chief Finance Officer. The assets that are returned by the resigning employee should be kept safely by relevant supervisor or HOD.

### **10.3. OFFICIALS HAVING PERSONAL ASSETS IN THE MUNICIPALITY**

- Officials having personal assets in the municipality must sign asset declaration form from Asset control officer, stating their reasons for keeping and for how long they intend to keep such asset in the municipality , and the municipality will not be liable for such assets.

## **11. FORMAT OF THE ASSET REGISTER**

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

**To comply with the requirements of GRAP 17, the asset register shall reflect the following information:**

- Description of each asset
- Date of acquisition/available for use
- Unique asset number (barcode)
- Title deed number (for property)
- Erf and portion number (for property)
- Location of asset (e.g. physical address, GPRS co-ordinates and description, unique location number)
- Original cost
- Revalued amount
- Fair value (if no costs are available)
- Last revaluation date of assets subject to revaluation
- Accumulated depreciation to the beginning of the current year
- Depreciation charge for the current year
- Accumulated depreciation at year end
- Carrying value of the asset
- Method and rate of depreciation.
- Impairment losses incurred during the financial year (and reversal of such losses, where applicable)
- Department(s) or vote(s) within which the assets will be used
- Source of financing
- Current insurance arrangements
- Use of the asset e.g. to perform basic municipal services
- Nature and duration of assets secured for debt and other encumbrances
- Disposal date/date of retirement from use

- Disposal price (proceeds)
- Responsible official (custodian)

## **12. CLASSIFICATION OF ASSETS**

The CFO must ensure that all assets are, as prescribed by the current standards, classified under the following headings in the asset register as defined by GRAP 17:

**12.1 Infrastructure assets** are defined as assets that usually display some or all of the following characteristics:

- ✚ They are part of a system or network,
- ✚ They are specialised in nature and do not have alternative uses,
- ✚ They are immovable, and
- ✚ They may be subject to constraints on disposal.

The different classifications for **infrastructure assets** are as follows:

- ✚ Electricity
- ✚ Gas
- ✚ Roads
- ✚ Pedestrian malls
- ✚ Recreational facilities
- ✚ Security measures
- ✚ Buildings
- ✚ Land (not classified as investment properties)

Infrastructure assets meet the definition of property, plant and equipment and shall be accounted for as property, plant and equipment. Infrastructure assets can be considered as a single asset or more usefully as a collection of different assets. Each individual asset shall be measured at its own cost and own lifespan, which will influence the depreciation of such an asset.

**Plant and equipment:** The different classifications for property, **plant and equipment** are as follows:-

- ✚ Land
- ✚ Buildings
- ✚ Emergency equipment
- ✚ Office equipment
- ✚ Furniture and fittings
- ✚ Bins and containers
- ✚ Motor vehicles
- ✚ Plant and equipment

### **12.2. Heritage assets**

In terms of this policy heritage assets are defined as any asset with a clearly identifiable intrinsic and remarkable heritage significance acknowledged by the South African Resources Agency in accordance with the National Heritage Resource Act, 1999 (Act No. 25 of 1999) or any other asset that has a cultural, environmental or historical significance.

**Examples** are:

- ✚ works of art
- ✚ historical buildings
- ✚ statues
- ✚ conservation areas
- ✚ nature reserves.

### **12.3. Investment property**

In terms of generally recognised accounting practice (GRAP 16) investment property is defined as property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- Use in the production or supply of goods or services or for

administrative purposes; **or**

- Sale in the ordinary course of operations. Some of the examples of investment properties are:
  - ✦ Office parks (which have been developed by Ngqushwa Municipality itself or jointly between the metro and one or more other parties)
  - ✦ Shopping centres (again developed along similar lines)
  - ✦ Housing developments (that is, developments financed and managed by the municipality itself, with the sole purpose of selling or letting such houses for profit.
  - ✦ Investment properties shall be accounted for in terms of GRAP 16 and shall not be classified as Property Plant and Equipment for the purposes of preparing the municipality's statement of financial position.
  - ✦ Investment properties shall be recorded in the 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.
  - ✦ Investment properties buildings shall be depreciated.
  - ✦ The municipality is using cost model for investment properties
  - ✦ The fair value of the investment properties shall be disclosed in the Annual Financial Statements.
  - ✦ Investment Property shall initially be measured at its cost. Transaction costs shall be included in this initial measurement. Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.
  - ✦ If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as PPE until it is ready for its intended use, where after it shall be reclassified as an investment asset.
  - ✦ Investment property is measured at cost less any accumulated impairment losses, in accordance with GRAP 17. Fair value of the investment property is disclosed.

- ✚ The CFO shall ensure that investment assets are recorded in an Investment Property register.
- ✚ The CFO shall ensure that an appropriately qualified valuator undertake such valuations on fair value an annual basis.
- ✚ The CFO shall ensure the recognition and measurement of *Investment Property* in terms of GRAP 16.

**12.3.1. *The following classes of Municipal Property will be classified as Investment Property:***

- (a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations which council intends to sell at a beneficial time in the future.
- (b) Land held for a currently undetermined future use.
- (c) A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis.
- (d) A building that is currently vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

**12.3.2. *The following classes of Municipal Property will be NOT be classified as Investment Property:***

- (a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale. This property is treated as inventory.
- (b) Property being constructed or developed on behalf of the Provincial Government: Housing Department.

(c) Owner-occupied property which is defined as property which is held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes as per definition criteria of GRAP 17 which includes all council buildings used for administration purposes.

(d) Property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) are also regarded to be owner-occupied property.

(e) Property that is being constructed or developed for future use as investment property. The relevant GRAP standard on accounting for PPE (GRAP17) applies to such property until construction or development is complete, at which time the property becomes investment property and the Standard on investment property applies. However, the Standard on investment property does apply to existing investment property that is being redeveloped for continued future use as investment property.

(f) Property that is leased to another entity under a finance lease.

(g) Property held to provide a social service and which also generates cash inflows. For example, council holds a large housing stock (letting units) used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an "investment property" and would be accounted for in accordance with the GRAP standard on accounting for PPE.

(h) Property held by council to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations the property will not meet the definition of investment property.



(i) Where council has properties that are used both for administrative and commercial purposes and part of the properties cannot be sold separately these properties will not be classified as investment properties.

#### **12.4. Intangible assets**

An intangible asset is defined as an identifiable non-monetary asset without physical substance. This asset can be held for any purpose, but must be controlled by the municipality and expected to provide future economic benefit to the municipality or to be used for service delivery. Intangible assets shall be recognised in the Asset Register, in compliance with the criteria set out in GRAP 102 dealing with intangible assets.

#### **12.5. PPE treated as inventories**

- PPE treated as inventories, such as Land held for sale or distribution in the ordinary course of operations, or in the process of production for sale or distribution, shall be recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.
- Land and Building owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included in either PPE or investment property in the municipality's statement of financial position.

#### **12.6. General**

- Immovable assets on the asset register will not be physically numbered

with barcode labels but will have a unique asset master record number.

- ✦ Incomplete construction work must be included in the asset register and stated at the aggregate of related expenditure incurred to date. Depreciation commences only when the asset is available for use.
- ✦ An asset shall remain in the asset register for as long as it physically exists. The fact that an asset has been fully depreciated shall not in itself be a reason for removing the asset from the asset register.
- ✦ If an asset has been fully depreciated but is still being used by Ngqushwa Local Municipality, it indicates that the asset's estimated useful life has been incorrectly estimated, and estimated useful life will be reviewed.
- ✦ Therefore the Municipality will have to account for a change in estimate based on the using the asset's adjusted estimated useful life.
- ✦ The asset register must be able to account for components of assets according to GRAP 17 paragraph 54 to paragraph 57. This requires the municipality to account separately for components of an asset that have a different estimated useful life to the asset they form part of.

### **13. FUNDING SOURCES OF ASSETS**

Three main sources of finance are utilised to acquire Property Plant and Equipment for the municipality, namely:

- Donations by other countries/ persons/companies/other departments and other municipalities.
- Municipal Infrastructure Grant (MIG)
- Equitable Shares
- Revenue Contributions
- The External Financing Fund (EFF)
- Grants, Subsidies and Public Contributions

- Donations/ Transfers

The acquisition of assets will not be funded over the period longer than the useful life of that asset.

The sources of finance that may be utilised to finance assets are utilised in accordance with the provisions of s19 of the Municipal Finance Management Act. It is important that assets shall be acquired according to needs and in accordance to with planned and budgeted timetables and normal Supply Chain Management acquisition procedures.

#### **14. ASSET ACQUISITION PROCESS**

Should the municipality decide to acquire a Capital Asset, the following fundamental principles should be carefully considered prior to acquisition of such an asset:

- The purpose for which the asset is required is in keeping with the objectives of the municipality and will provide significant, direct and tangible benefit to it;
- The asset meet the definition of a Capital Asset (as defined in GRAP 16, GRAP 17, GRAP 101 and GRAP 102);
- The asset has been budgeted for.
- The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget.
- The Supply Chain Management Policy and Procedures have been followed.
- Approved project plan form must be completed including all other costs involved for the asset to be in usable condition.

- Capitalisation form must be completed for each project indicating the source of funding.
- The purchase is absolutely necessary as there is no alternative municipal asset that could be economically upgraded or adapted;
- The asset is appropriate to the task or requirement and is cost-effective over the life of the asset;
- The asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources;
- Space and other necessary facilities to accommodate the asset are in place; and
- The most suitable and appropriate type, brand, model, etc. has been selected.
- The projected acquisition and implementation cost over all the financial years until the project is operational;
- The future operational costs and revenue on the project, including tax and tariff implications;
- The financial sustainability of the project over its economical life span including revenue generation and subsidization requirements;
- The physical and financial stewardship of the asset through all stages in its economical life span including acquisition, installation, maintenance, operations, disposal and rehabilitation; and
- The inclusion of the capital project in the Integrated Development Plans and future budgets.
- They have been appropriated in the capital budget;
- The project, together with the total project cost, has been approved by the Council;

- The Chief Financial Officer confirms that funding is available for that specific project; and
- Any contract that will impose financial obligations more than two years beyond the budget year is appropriately disclosed.

## **15. DISPOSAL OF ASSETS**

### **15.1. DISPOSAL OF MOVABLE ASSETS**

- 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.
- Any transfer of ownership (disposal) must be fair, equitable, transparent, competitive and consistent with the supply chain management policy.
- The above does not apply to transfers of capital assets to another municipality, municipal entity, national or provincial organ of state provided that the transfers are in accordance with the prescribed framework.
- During the consideration and acceptance of tenders/ quotes or any bid for such assets, the image of the municipality is not impaired.
- Asset disposal forms must be signed and approved by relevant HOD and submitted to CFO / delegated official for assets.
- Every HOD shall report in writing to CFO by 30 April each financial year on all fixed assets controlled or used by the department

concerned with such director wishes to alienate by Public Auction or Public tender.

- The CFO shall consolidate request for disposal from various departments, and report to Council or Municipal Manager with recommendations for the disposal process to be followed.

- Assets disposal must take place in compliance with section 14 of MFMA ( no.56 of 2003) which states that:

- (i) *Capital assets needed to provide the minimum level of basic municipal services may not be disposed of.*
- (ii) *A municipality may dispose any other capital asset, but provided*

*(a). Capital assets may only be disposed only after the municipal council in a meeting open to the public: has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal service, 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.*

- Once the assets are disposed, the CFO / delegated official shall delete the relevant records from the Fixed Asset Register.
- If the proceeds from disposal are less than the carrying value recorded in the Fixed Asset Register, such difference shall be recorded as loss in the statement of financial performance.
- If proceeds of disposal are more than the carrying amount of the asset concerned, the difference shall be recognized as a gain in the statement of financial performance.

## **21. DEPRECIATION OF ASSETS**

- All property, plant and equipment shall be depreciated. Depreciation shall generally take the form of an expense, both calculated and debited against the appropriate line item of the department or vote against which the asset is used or consumed, and should be recognised as such.
- Depreciation of an item of property, plant and equipment, should be allocated on a systematic basis over its useful life.
- Depreciation for plant or equipment used for construction of assets including roads shall be capitalised to that asset using the depreciation for that asset type used and period used in construction from technical services ( job card).
- Depreciation for movable assets shall be charged from invoice date, when the asset is available for use.
- Depreciation for infrastructure assets will be charged from completion date.
- It should be noted that land normally has unlimited life therefore it is not depreciated, whilst buildings are.
- Intangible assets will be amortised based on useful lives table.

### **21.7. Method of Depreciation**

The Chief Financial Officer shall depreciate all depreciable assets on the **straight-line method** of depreciation over the assigned useful operating life of the asset in question.

### **21.8. Rate of Depreciation**

The Chief Financial Officer shall assign a useful operating life to each depreciable asset recorded on the municipality's asset register. In determining such a useful life the Chief Financial Officer shall adhere to the useful lives set out in Appendix "A" to this document.

In the case of an asset which is not listed in this annexure, the Chief Financial Officer shall determine a useful operating life, if necessary by the useful lives assigned in the annexure to the asset most closely comparable to the asset in question.

### **21.9. BUDGET REQUIREMENTS FOR DEPRECIATION**

Each Department in consultation with the Chief Financial Officer shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable assets controlled or used by its department or expected to be so controlled or used during the ensuing financial year. The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other assets.



### **21.10. Depreciation: Provision for Depreciation**

The Chief Financial Officer shall thereafter ensure that in the case of depreciable assets an amount equal to the monthly depreciation expenses of the 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.

## **22. RESIDUAL VALUES**

In terms of GRAP 17, the residual value of an asset is the estimated amount that the Municipality would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Ngqushwa local municipality is using zero residual values for movable assets, except motor vehicles, 20% of cost price.

The residual value and the useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

## **23. DISCLOSURE REQUIREMENTS FOR PPE**

**Property, plant and equipment** GRAP 17. 82 - 89 details the disclosure requirements for accounting purposes relating to PPE. The following aspects need to be disclosed:

- The measurement basis.
- Depreciation method/(s) used.
- Useful lives or depreciation rates.
- Gross carrying amount and accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.
- Reconciliation of the carrying amount at the beginning and end of the period showing:
  - additions,
  - disposals,
  - acquisitions through business combinations,
  - increases or decreases during the period resulting from revaluations,
  - reductions in the carrying amount (impairment losses),
  - impairment losses (if any) reversed,
  - depreciation, and
  - other movements.
- Existence and amounts of restrictions on the title for PPE pledged as security for liabilities. The amount of commitments for the acquisition of PPE.
- The accounting policy for estimated costs of restoring the site of PPE.
- When property is stated at revalued amount, the following shall be disclosed:
  - the basis used to revalue property,
  - the effective date of the revaluation,

- whether an independent valuer was involved,
  - the nature of any indices used to determine replacement cost, and
  - the revaluation surplus, indicating the movement for the period.
- 
- If applicable, the financial statements shall also disclose the following for each class of property, plant and equipment:
    - (a) the carrying amount of temporarily idle property, plant and equipment,
    - (b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use, and
    - (c) the carrying amount of property, plant and equipment retired from active use and held for disposal.

### **23.7. Notes to Annual Financial Statements**

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

### **23.8. Accounting policy notes**

The depreciation methods used, the measurement base and the depreciation rates or useful lives.

### **23.9. Notes to the balance sheet**

The gross carrying amount and the accumulated depreciation at the beginning and end of the period in respect of each class of property, plant and equipment.

### **23.10. Notes to the income statement**

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

### **23.11. Deferred maintenance**

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan, the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements.

## **24. MAINTAINANCE PLANS**

- Every HOD shall ensure that a maintenance plan in respect of every new infrastructure asset with value more than R 100 000, 00 is promptly prepared and submitted Municipal Manager for approval.
- The HOD responsible for the asset in question, shall annually report to Municipal Manager, no later than July, the extent of which the relevant maintenance plan has been complied with, and of likely effect which any non-compliance may have on the useful operating life of the asset concerned.
- Every HOD shall be directly responsible to ensure that all assets are properly maintained in the manner to ensure that such assets attain their useful operating lives.

## **25. IMPAIRMENT**

Impairment of assets is to be done in accordance with GRAP 17 and GRAP 26 Impairment of Assets. It will be the responsibility of the Chief Financial Officer together with Technical Services Manager at each reporting date consider whether there is an indication of a possibility of impairment for any asset.

- If there is an indication that an asset is impaired the Chief Financial Officer will be responsible to outsource impairment testing and calculations to perform the task.
- Impairment testing and calculations will be done once a year.
- Impairment testing and conditional assets shall be done by 30 June for each financial year.
- When there's impairment indication, the Carrying Amount should be reduced to the recoverable amount.
- The amount of reduction should be recognised as an expense immediately.
- The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on individual asset or group of identical assets.

**The following may be indicators that an item of property, plant and equipment has become impaired:**

- ✦ The asset has been damaged.
- ✦ The asset has become technologically obsolete.
- ✦ The asset remains idle for a considerable period either prior to it being put into use or during its useful life.

- ✦ Land is purchased at market value and is to be utilised for subsidised housing developments, where the subsidy is less than the purchase price.

To test for impairment the assets carrying amount needs to be compared to the assets recoverable amount.

### ***Key stages in the impairment process***

The stages in the process of identifying and accounting for an impairment loss are as follows:

- **STEP 1:** Assess whether there is an indication that an asset may be impaired. Note that if there is no such indication then no further action is required.
- **STEP 2:** If there is an indication of impairment, then measure the asset's recoverable amount or recoverable service amount;
- **STEP 3:** Reduce the asset's carrying value to its recoverable amount or recoverable service amount, usually by treating the loss as a separately disclosed expense in the statement of financial performance. Indicators of impairment:
- **STEP 4:** If there is an indication that an impairment loss recognised in the prior periods may no longer exist or may have decreased, the recoverable amount or recoverable service amount must be determined;

### ***STEP 1 – Indicators of impairment/identifying assets that may be impaired***

Two sources of information that may indicate that an impairment has occurred are identified in the table below:

<b>Cash generating asset</b>	<b>Non cash generating asset</b>
Decline in the asset's market value that is significantly greater than would be	Cessation, or near cessation, of the

expected as a result of passage of time or normal use	demand or need for services provided by the asset
Significant adverse changes in the technological market, economic or legal environment in which the municipality operates or in its markets or expected in the near future	Significant long-term changes with an adverse effect on the entity have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the municipality operates
Increases in interest rates or market rates of return that may materially affect the discount rate used in calculating the asset's recoverable amount	
Obsolescence or physical damage affecting the asset;	Evidence is available of physical damage of an asset;
Significant adverse changes in the extent to which, or in the way that an asset is used or expected to be used, including plans to discontinue or reorganize the operation to which the asset belongs or to dispose of the asset	Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used

	<p>or is expected to be used.</p> <p>These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date;</p>
Re-assessing the useful life of an asset as finite rather than indefinite	A decision to halt the construction of the asset before it is complete or in a usable condition
Management's own forecasts of future net cash flows or operating profits may show a significant decline from previous budgets and forecasts	Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be significantly worse than expected.
A net cash outflows or operating profit or loss may be significantly worse than budgeted;	
Operating losses or net cash outflows, when current period figures are	



aggregated with budgeted figures for the future;	
cash flows for acquiring the asset or for maintaining or operating it are significantly higher than those budgeted.	
deterioration in the expected level of the asset's performance	

## **STEP 2 – Calculating the recoverable amount or recoverable service amount**

If the carrying amount of an asset is greater than its recoverable amount or recoverable service amount, then impairment has taken place – there has been a loss in the value of the asset

The recoverable amount or recoverable service amount is the <b>higher</b> of its fair value less cost to sell and its "value-in-use". The calculation of "value-in-use" depends on the nature of the asset:	
<b>Value in use – of a cash generating asset:</b>	<b>Value in use – of a non-cash-generating Asset</b>
<b>The value in use is the present value of the future cash flows expected to be derived from an individual asset or a cash-generating unit</b>	<b>The value in use is the present value of the assets remaining service potential</b>

<p><b>Recoverable amount OR Recoverable service amount</b></p> <p><b>= HIGHER of</b></p> <p><b>Fair value less cost to sell Value in use</b></p>	
<p><b>Calculation of recoverable amount in terms of IAS 36 (i.e. cash-generating assets)</b></p>	
<p><b><i>Identifying the asset or the cash-generating unit</i></b></p>	
<p>The recoverable amount is determined for an individual asset or the lowest aggregation of assets that generate independent cash flows.</p> <p>When the future cash flows of an asset cannot be attributed to a single asset to establish the recoverable amount on a reasonable basis, it is necessary to identify the smallest cash-generating unit to which such cash flows can be attributed.</p> <p>A cash generating unit is therefore the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.</p>	

- **STEP 3:** Reduce the asset's carrying value to its recoverable amount or recoverable service amount, usually by treating the loss as a separately

disclosed expense in the statement of financial performance. Indicators of impairment:

- **STEP 4:** If there is an indication that an impairment loss recognised in the prior periods may no longer exist or may have decreased, the recoverable amount or recoverable service amount must be determined;

## **26. ASSET COUNT AND CONDITIONAL ASSESSMENT**

### **26.1. MOVABLES ASSET COUNT**

- Movable asset count and conditional assessment will be done annually.
- Asset count report will be produced for each department, and inventory list will be done per office.
- Every HOD shall ensure that existence of items recorded on such inventory list verified from time to time, at least once a year.

### **26.2. INFRASTRUCTURE ASSETS**

#### **26.2.1. LAND AND BUILDINGS**

- Conditional assessment on land and building will be done after every four years, but will do impairment calculations if there are any during the year.

**26.2.2. ROADS, STORMWATER DRAINAGE**

Conditional assessment on roads and storm water drainage will be done annually, impairment test calculations will be done during the year.

**26.2.3. ELECTRICITY INFRASTRUCTURE**

Conditional assessment on electricity infrastructure will be done annually, impairment test calculations will be done during the year.

**26.3. CONDITIONAL RATING FOR ALL ASSETS**

<b>CONDITION ASSESSMENT RATING</b>	<b>DESCRIPTION</b>	<b>ESTIMATED REMAINING LIFE</b>
Very Good New	Sound structure or appearance, well maintained. Continue with planned maintenance.	As estimated
Good	Good Performance acceptable with minor deterioration (<5%). Normal planned maintenance continues.	As estimated
Fair	Fair Clearly evident deterioration (10-20%). Significant maintenance required, consider impairment.	Less than estimated
Poor	Poor Significant deterioration in structure or appearance.	Significantly less than

	Significant impairment of performance. Significant maintenance required.	estimated
Very poor	Does not perform. Reconstruction or replacement required (>50% needs replacement).	Need to be replaced

## **27. INSURANCE OF ASSETS**

All insured assets shall be handled in terms of the Municipality's Insurance Policy as agreed with the Insurance Brokers.

The Chief Financial Officer should ensure that all assets are insured. The assets shall be insured at cost.

It is the responsibility of the HOD to ensure that the purchased capital asset has been covered for insurance purposes before it is used by the respective department.

The Chief Financial Officer shall annually insure the municipality's assets, in consultation with the head(s) of department concerned, provided the Council of the municipality considers such insurance desirable and affordable.

## **28. ASSET CONTROL COMMITTEE (ACC)**

The Asset Control Committee (ACC) does not form part of the line structure in the asset control process.

- Transfers/ Donations to other organs of state must be approved by Council.

## **15.2. DISPOSAL OF IMMOVALBE ASSETS**

- Assets identified for disposal by way of a sale transaction, be it by public auction, bidding process or sales agreement, within 12 months of the date of identification shall be classified as Assets Held-for-Sale and transferred from the home asset category to held-for-sale category.
- Such assets shall be measured at the lower of its carrying amount and fair value less costs to sell and is not depreciated any further upon classification as held-for-sale.
- The municipality shall not classify a non-current asset that is to be abandoned as held-for-sale because its carrying amount will be recovered principally through continuing use.
- The CFO shall ensure that assets held-for-sale are recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.
- The CFO shall ensure the recognition and measurement of *Assets Held-for-Sale* in terms of GRAP 100

### **15.3. DISPOSAL PROCEEDS**

- These costs are incremental costs directly attributable to the disposal of an asset excluding finance costs and income tax expense.
- If an asset's recoverable amount (fair value less cost to sell) is lower than the assets carrying amount the asset will be written down to its recoverable amount.
- This will be recognised in the current financial statements as an impairment loss.
- The recoverable amount will now become the carrying value of the asset and the asset will continue to be depreciated over the rest of its estimated useful life.
- All items of plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

## **16. WRITE-OFF OF ASSETS**

The write-off of assets is the process to permanently remove the assets from the asset register. Assets can be written-off after approval of the Municipal Manager of a report indicating that:

- The useful life of the asset has expired;
- The asset has been destroyed;
- The asset is outdated;

- The asset has no further useful life;
- The asset does not exist anymore;
- The asset was stolen
- Taken by the insurer as salvage
- Acceptable reasons have been furnished leading to the circumstances set out above.

The only reasons for writing off assets, other than the sale of such assets during the process of alienation, shall be the:

- loss,
  - theft,
  - destruction,
  - material impairment, or
  - decommissioning of the asset in question
- 
- Every Manager of a Department shall report to the CFO on 31 October and 30 April of each financial year on any assets which such Manager of a Department wishes to have written-off, stating in full the reason for such recommendation.
  - The CFO shall consolidate all such reports, and shall promptly submit a recommendation to the Municipal Manager on the assets to be written off.
  - An asset, even though fully depreciated, shall be written-off only on the recommendation of the Manager of a Department controlling or using the asset concerned, and with the approval of the Municipal Manager.
  - Assets that are taken by the insurance company as salvage shall be written off.



- In every instance where a not fully depreciated asset is written off with no proceeds for the asset being obtained, the CFO shall immediately debit to such department or vote the full carrying value of the asset concerned as impairment expenses.
- Assets that are replaced should be written-off and removed from the asset register.
- An asset even though fully depreciated shall be written off only on the recommendation of the department controlling or using the asset concerned, and with the Municipal Manager's approval.
- The Chief Financial Officer shall consolidate all such reports and shall promptly submit a recommendation to the Council of Ngqushwa Local Municipality on the assets to be written off.

#### **17. REPLACEMENT OF ASSETS**

- Each department is responsible for motivating (keeping in mind the useful lives of different asset types), the possible replacement for motor vehicles, plant and equipment, maintenance equipment, security equipment, furniture and fittings, computer equipment, and any other operational items.
- This will include the replacement of assets which are required for service delivery but which have become uneconomical to maintain.
- These requests will be handled during the IDP/Budget process.
- The Municipal Manager, in consultation with HOD's and middle Managers, shall formulate norms and standards for the replacement of all normal operational assets.
- Such replacement standards shall be incorporated in a formal policy, which shall be submitted to Council for approval.

- This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such policy shall also provide for the replacement of assets which are required for service delivery but which have become uneconomical to maintain.
- Replacement assets from the insurer for all assets including motor vehicles, office equipment, computer equipment, furniture, minor assets, buildings, security equipment, Plant Equipment's, and maintenance equipment shall be recognised at market value.

## **18. ACCOUNTING FOR ASSETS**

### **18.1 RECOGNITION OF AN ASSET**

#### **18.1.1 FIXED ASSETS**

- A fixed asset is defined in GRAP 17 as a tangible item of property plant and equipment held by the municipality for use in productions or supply of goods or services, or administrative purposes, and which is expected to be used in more than one reporting period.
- **Characteristics of a depreciable fixed assets are the following:**
  - It is estimated that the asset will be used for more than 1 financial period.
  - It has a limited useful life
  - It is used in a process of delivering services
  - The resource should provide future economic benefits
  - The future economic benefits should accrue to the municipality

- The event of giving rise to the municipality's right to resource and control over the future economic benefits must already have occurred.
- It should be possible to determine the asset cost reliably
- The asset will be recognised in the asset register if it meets the above criteria.

## **18.2. MEASUREMENT AT RECOGNITION**

The cost of an item of property, plant and equipment comprises all costs of activities (cash or equivalent) necessarily incurred to bring the fixed assets to the condition and location essential for its intended use ( example purchase price, transport, installation) as follows:

- Purchase price, including import duties and non-refundable
- Purchase taxes, after deducting trade discounts and rebates.
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, such as :-
  - costs of site preparation,
  - initial delivery costs,
  - handling costs,
  - installation costs,
  - professional fees such as architects and engineers fees
  - Cost relating directly to the specific contract.
  - Site labour costs, including site supervision,
  - Costs and material used in construction,
  - Depreciation of plant used on contract
  - Costs of moving plant and equipment to and from contract price,
  - Costs of hiring plant and equipment
  - Costs and design, and technical architects,
  - The estimated costs of rectification, and guaranteed work,

- including expected warranty costs
  - Claims from third parties
  - Insurance
  - Construction overheads
- The initial estimate of any costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
- Donated and replacement assets from the insurer shall be recognised at market value.

### **18.3 ACCOUNTING FOR INFRASTRUCTURE ASSETS**

- The infrastructure asset register shall ensure complete representation of all infrastructure asset types.
- The level of detail of componentization shall be defined to a level that balances the cost of collecting and maintaining the data with the benefits of minimizing the risks of the municipality.
- An improvement plan stipulating the level of detail and the timing of improvements shall be prepared. Infrastructure assets will be valued at cost less accumulated depreciation and accumulated impairment.
- If cost can however not be established, then infrastructure assets will be valued at depreciated replacement cost.
- Depreciated replacement cost is an accepted fair value calculation for assets where there is no active and liquid market. Depreciation shall be charged against such assets over their expected useful lives.
- The remaining useful life and residual value of, and the depreciation methods applied to infrastructure assets will be reviewed regularly, but the cost related to such reviews will be measured against benefits derived to ensure value for money. Such reviews will have to be

performed at least once in a 5 year cycle.

#### **18.4 ACCOUNTING FOR COMMUNITY ASSETS**

- Community assets are valued at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives.
- *Community Assets* shall be recorded under the following main categories;
- Recreational Facilities;
- Sporting Facilities; and
- Other Facilities.
- The CFO, in consultation with the Managers of Departments, shall ensure that all community assets are appropriately recorded and valued in terms of the municipality's policies.

#### ***Capitalisation of Assets***

- Assets will only be capitalised in the asset register on completion or finalization of the project.
- Projects to be completed over more than one financial year will be initially disclosed in the asset register and financial statements as "work in progress" thereafter only on completion the asset will be capitalised and depreciated.

### **Creation of New Infra structure Assets**

- Creation of new infrastructure assets refers to the purchase and / or construction of totally new assets that has not been in the control or ownership of the municipality in the past.
- The cost of all new infrastructure facilities (not additions to or maintenance of existing infrastructure assets) shall be allocated to the separate assets making up such a facility and values may be used as a basis for splitting up construction costs of new infrastructure into the component parts, each of which have an appropriate useful life.
- A separate work in progress register shall be maintained separately, the asset will be capitalised once the asset is complete and completion certificate is available.
- The technical services manager shall sign in new asset form immovable assets that include all the requirements for asset register.
- Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for to operate in the manner intended by management at practical completion date.
- Each part of an item of Infrastructure with a cost that is significant in relation to the total cost of the item shall be depreciated separately.
- The Managers of Department shall ensure that a form is completed and submitted to the Asset Control unit that includes the details of the work in progress relating to the work in progress.

- The Head of Department technical services shall notify the Chief Financial Officer when the works have been completed and the assets can be recognised.
- The Technical Services Manager shall guide the service provider to submit invoices of work in progress as per the components and classification of assets as in the asset register.
- The Technical Services Manager shall ensure that roads asset are componentised according to Asset register requirements at design stage, including coordinates, size, and descriptions.

## **18.5 ACCOUNTING FOR FINANCE AND HIRE PURCHASE LEASES**

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

### **18.5.1 Recognition criteria for finance and hire purchase lease:**

- The lease transfers ownership of the asset to the lessee by end of the lease term.
- The lessee has an option to purchase by end of the lease term.
- The lessee has the option to purchase at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable such that at the inception of the lease, it is reasonably certain that option will be exercised.
- The lease term forms major part of the economic life of the asset even if the title is not transferred.
- At the inception of the lease the present value of minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

- If the lessee cancel the lease, the lessor's losses associated with the cancellation are born by the lessee.
- Gains or losses from fluctuation in the fair value of the residual fall to the lessee, in the form of a rebate equal to most of the sales proceeds at end of the lease.
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

#### 18.6 **ACCOUNTING FOR HERITAGE ASSETS**

- If no original costs or fair values are available in the case of one or more or all heritage assets, the Chief Financial Officer may, if it is believed that the determination of fair value for the asset in question will be laborious or expensive undertaking, record for such asset in the fixed asset register without an indication of costs or fair value concerned.
- Heritage assets are recognised and handled according to GRAP 103.
- Heritage assets are also not normally depreciated. The reason is that these assets have cultural significance and as such are likely to be preserved for the benefit of future generations. It should therefore be impossible to determine their useful lives.



### **18.7. ACCOUNTING FOR INTANGIBLE ASSETS**

- *Intangible Assets* can be purchased, or can be internally developed, by the municipality and includes, but are not limited to, computer software, website development cost, valuation roll, servitudes and mining rights.
- *Intangible Assets* are stated at cost less accumulated amortisation and accumulated impairment losses. Such assets are amortised over the best estimate of the useful life of the intangible asset, except for those assets with infinite useful lives such as water rights. If an intangible asset is generated internally by the municipality, then a distinction should be made between research and development costs. Research costs should be expensed and development costs may be capitalised if all the criteria set out in GRAP 102 have been met.

The CFO, in consultation with the Managers of Departments, shall ensure that all intangible assets are appropriately recorded in terms of the municipality's policies.

### **18.8. DONATED ASSETS**

Where an asset is donated to the municipality, or an asset is acquired by means of an exchange of assets between the municipality and one or more other parties, without paying or actual or implied exchange the asset concerned shall be recorded in the asset register at its fair value, as determined by the Chief Financial Officer.

The asset's fair value shall either be its market price or the amount the

- Minor assets shall be expensed in the Statement of Financial Performance and not be capitalised.
- However, these assets shall be bar-coded for identification purposes and recorded at cost in the Minor Asset Inventory Listing. These assets shall not be depreciated or tested for impairment and shall not generate any further transactions, except in the cases where losses are recovered by means of insurance claims or recoveries from disciplinary actions.
- **Procedures and Rules**
  - The CFO shall ensure that minor assets are recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.
  - Receipted using the same controls as capital assets;
  - Recorded in a minor assets register;
  - Assigned to a particular asset custodian;
  - Regularly verified to ensure that they are being appropriately safeguarded;
  - Subjected to regular control audits performed by the internal audit function;
  - Disposed of and losses reported in line with the specific policies of the municipality.

## **19. USEFUL LIFE**

- The parameters set for useful lives of assets are based on the best practise as issued by National Treasury and Local government asset management guidelines.
- These guidelines for useful lives of assets may be adapted based on

past experience and specific municipal preference.

- The useful life set out for specific asset will determine depreciation on the asset.
- It may be necessary to review useful lives of assets as the original estimate of useful life may become inappropriate.
- Such adjustment may be deemed to be a change in estimate and the depreciation charge for the current and future periods should be adjusted.
- The change in estimate or useful lives will be captured and adjusted on the system when the change in estimate or useful lives form have been signed by custodian, approved by HOD and Authorised by CFO.

## **20. AMENDMENT OF ASSET USEFUL LIVES**

The Chief Financial Officer will inform managers on assets in use but reached their useful life, for revision of estimated useful life.

The useful lives of assets will be reviewed at each reporting period, once per annum.

The revision of estimated useful life will be recommended by HOD of relevant department, approved by CFO, authorised by Municipal manager.

When any material amendment occurs the Chief Financial Officer shall inform the Council of the municipality of such amendment. Any amendments to the useful operating life shall be done in accordance with GRAP 3 Accounting policies, changes in accounting estimates and errors.

This committee is responsible only in an advisory capacity to assist the Asset Management Section with the formulation of policy, procedures and updating of the Asset Management Policy and Procedures Manual.

The committee meets quarterly, and as and when necessary. This committee shall consist of the following members:

- Chairperson (Chief Finance Officer)
- Asset Management Section ( Asset manager, asset control officer)
- Budget manager
- Roads manager
- Estate manager
- Town planning manager
- Electricity Manager
- Solid Waste manager
- Technical Services Executive manager
- PMU manager
- Community services executive manager
- Administration manager
- Fleet control Officer
- I.T.Manager

## **29. UPDATING THE POLICY**

It will be the responsibility of the Corporate Services Department Management to consider the provisions of this policy on an annual basis. The Corporate Services Department must notify all departments to submit suggested changes to this policy for presentation to Council on an annual basis.

## **30. NON-COMPLIANCE**

Non-compliance with the Asset Management Policy will lead to a disciplinary action.

### **31. EFFECTIVE DATE**

The policy will be effective as from 1 July 2016.

**APPENDIX A****ASSET ESTIMATED USEFUL LIVES IN YEARS**

The MFMA — Local Government Capital Asset Management Guideline, issued by National Treasury, was used as a basis of determining the useful lives except if otherwise indicated.

<b><u>CATEGORY OF ASSETS</u></b>	<b><u>ASSET LIFE IN (YEARS)</u></b>
<b><u>ELECTRICITY INFRASTRUCTURE</u></b>	
<b><i>Equipment:</i></b>	
High mast lighting	20-25
Generator	7-10
<b><u>ROADS INFRASTRUCTURE (based on Engineering Advice Services reports [EAS])</u></b>	
Paved	30-35
Graded	7-10
Tracks	1
Traffic Lights	10-15
Street lightning	25-30
Overhead bridges	30-35
Storm Water drains	25-30
<b><u>ROAD FURNITURE</u></b>	
Road marking	5-10
<b><u>Speed hump</u></b>	20-25
<b><u>Traffic island</u></b>	20-25
<b><u>Traffic signs</u></b>	7-10
<b><u>Traffic signal</u></b>	15-20

<b><u>SECURITY MEASURES</u></b>	
Photographic equipment	5-8
Fire Fighting equipment	5-8
Radio equipment	5-8
Fire arms	5-8
<b><u>COMPUTERS</u></b>	
Computer hardware	3-5
Networks	5-7
<b><u>FURNITURE AND FITTINGS</u></b>	
Office furniture	7-10
Office fittings	7-10
<b><u>OFFICE EQUIPMENT</u></b>	
Air conditioners	5-8
Electrical appliances	5-8
<b><u>PLANT AND EQUIPMENT</u></b>	
Grader	7-10
Roller	7-10
TLB	7-10
<b><u>MAINTENANCE EQUIPMENT</u></b>	
Trailers and accessories	7-10
Other maintenance equipment	7-10
<b><u>MOTOR VEHICLES</u></b>	
Motor vehicles	3-5
Trucks	5-8
Tractor	5-8
<b><u>INTANGIBLE ASSETS</u></b>	
Traffic system	5-8
Computer software	5-8
Other intangibles	5-8

<b><u>LAND AND BUILDINGS</u></b>	
Land	100 years (not depreciable)
Buildings	40-45
Investment properties	40-45
<b>WATER INFRASTRUCTURE</b>	
Plastic tanks	7-10
<b>HERITAGE ASSETS</b>	NOT DEPRECIATED
<b>LAND</b>	NOT DEPRECIATED



**APPENDIX B: ASSET MANAGEMENT FORMS**

**NGQUSHWA LOCAL MUNICIPALITY**



**ASSET WRITE OFF FORM**

**REQUEST DATE:** .....

**DEPARTMENT:** .....

**ASSET BARCODE:** .....

**ASSET**

**DESCRIPTION:**.....

**ASSET LOCATION :** .....

**CLASSIFICATION OF ASSET**.....

**ASSET CONDITION :**.....

**REASON FOR WRITE OF REQUEST**.....

.....

**REQUESTING OFFICIAL**

**NAME AND SURNAME :** .....

**SIGNATURE:** .....

**HOD RECOMMENDATION**

**NAME AND SURNAME**.....

**SIGNATURE** .....

**WRITE OFF APPROVAL (CFO)**

**NAME AND SURNAME:** .....

**POSITION:** .....

**SIGNATURE:**.....

**MM AUTHORISATION**

**NAME AND SURNAME:** .....

**SIGNATURE:**.....

**CHANGE UPDATED ON ASSET REGISTER BY BUDGET AND TREASURY  
OFFICE:**

.....  
**NGQUSHWA LOCAL MUNICIPALITY**



**ASSET REMOVAL FORM**

**REQUEST DATE:** .....

**DEPARTMENT:** .....

**CLASSIFICATION OF ASSET:** .....

**ASSET BARCODE:** .....

**ASSET DESCRIPTION:** .....

**ASSET LOCATION :** .....

**ASSET CONDITION :** .....

**REASON FOR REMOVAL:** .....

.....

.....

**REQUESTING OFFICIAL**

**NAME AND SURNAME:** .....

**SIGNATURE:**.....

**HOD RECOMMENDATION**

**NAME AND SURNAME:**.....

**SIGNATURE:**.....

.....

**CHANGE UPDATED ON ASSET REGISTER BY BUDGET AND TREASURY  
OFFICE:**

.....  
.....  
.....  
.....

## NGQUSHWA LOCAL MUNICIPALITY



### ASSET DECLARATION FORM

**ASSET DESCRIPTION:** .....

**SERIAL NUMBER:** .....

**NAME OF USER:** .....

**ASSET LOCATION:** .....

**ROOM NUMBER:** .....

**ESTIMATED REMOVAL DATE:** .....

**REASONS FOR KEEPING THE ASSET IN MUNICIPAL PREMISES:**

.....  
.....  
.....  
.....  
.....

**DECLARATION: I** .....,the owner agree not hold Ngqushwa Local Municipality liable for any theft or damage incurred relating to the use of the abovementioned asset.

**SIGNATURE:** .....  
**DATE:** .....  
**APPROVED BY SUPERVISOR/HOD:** .....  
**DATE:**.....

**DECLARATION: I** .....,the Asset Control Officer, agree that Ngqushwa Local Municipality is not the owner of the abovementioned asset.

**SIGNATURE:** .....  
**DATE:** .....  
**APPROVED BY CFO:** .....  
**DATE:** .....

**NGQUSHWALOCALMUNICIPALITY**



**DONATED ASSET DECLARATION FORM**

**DATE RECIEVED:** .....  
**ASSET BARCODE:** .....  
**CLASSIFICATION OF ASSET:** .....  
**ASSET DESCRIPTION:** .....  
**DEPARTMENT:** .....  
**ASSET LOCATION :** .....  
**ASSET CONDITION :** .....  
**DONOR'S** ..... **NAME:** .....  
.....  
**DONOR'S CONTACT DETAILS (ADDRESS, TEL/CELL):** .....  
.....  
.....  
**CONDITIONS FOR DONATION:** .....

.....  
**RECEIVING OFFICIAL NAME AND SURNAME**  
.....

**SIGNATURE:**  
.....

I ..... declare that the above asset was received from the above donor, and was donated to the municipality, risks and rewards are transferred to Ngqushwa Local Municipality. **YESNO**

The asset is not transferred to the municipality, the owner is responsible for risk and will not hold Ngqushwa Local Municipality liable for loss or damages. **YESNO**

**SUPERVISOR/HOD APPROVAL**

**NAME AND SURNAME** .....

**SIGNATURE** .....

**ASSET CONTROL OFFICER SIGNATURE:.....**

**APPROVAL(CFO)**

**NAME AND SURNAME:** .....

**SIGNATURE:** .....

**DATE:** .....

**NGQUSHWA LOCAL MUNICIPALITY**



**ASSET HANDOVER FORM**

**ASSET**

**DESCRIPTION:.....**

**ASSET**

**BARCODE:**  
.....

**ASSET SERIAL NUMER:** .....

**CLASSIFICATION OF ASSET:** .....

**ASSET CONDITION:** .....

<b>DEPARTMENT NAME</b>	
<b>DEPARTMENT / LOCATION</b>	
<b>ROOM NAME</b>	
<b>ROOM BARCODE</b>	
<b>CUSTODIAN NAME</b>	
<b>CUSTODIAN SIGNATURE</b>	
<b>HOD NAME</b>	
<b>SIGNATURE</b>	
<b>(CONDITIONAL ASSESSMENT BY I.T.UNIT)IF                      COMPUTER EQUIPMENT</b>	
<b>SIGNATURE</b>	

**CHANGE UPDATED ON ASSET REGISTER BY ASSET CONTROL  
OFFICER:.....**

**DATE UPDATED        .....**

**NGQUSHWA LOCAL MUNICIPALITY**



**ASSET DISPOSAL FORM**

**REQUEST DATE:** \_\_\_\_\_

\_\_\_\_\_

**DEPARTMENT:** \_\_\_\_\_

**ASSET BARCODE:** \_\_\_\_\_

**ASSET DESCRIPTION:** \_\_\_\_\_

\_\_\_\_\_

**ASSET LOCATION :** \_\_\_\_\_

**CLASSIFICATION OF ASSET:** \_\_\_\_\_

\_\_\_\_\_

**SUGGESTED METHOD OF DISPOSAL:** \_\_\_\_\_

**ASSET CONDITION :** \_\_\_\_\_

**REASON FOR DISPOSAL REQUEST:** \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**REQUESTING OFFICIAL**

**NAME AND SURNAME :** \_\_\_\_\_

**SIGNATURE:** \_\_\_\_\_

**HOD RECOMMENDATION**

**NAME AND SURNAME:** \_\_\_\_\_

\_\_\_\_\_

**SIGNATURE:** \_\_\_\_\_

**DISPOSAL APPROVAL(CORPORATE)**

**NAME AND SURNAME:** \_\_\_\_\_  
\_\_\_\_\_

**SIGNATURE:** \_\_\_\_\_

**MUNICIPAL MANAGER'S APPROVAL**

**NAME AND SURNAME:** \_\_\_\_\_  
\_\_\_\_\_

**SIGNATURE:** \_\_\_\_\_

**CHANGE UPDATED ON BY BUDGET AND TREASURY OFFICE:**

\_\_\_\_\_



**NGQUSHWA LOCAL MUNICIPALITY**



**ASSET VERIFICATION/CLEARANCE FORM**

ASSET DESCRIPTION	ASSET NUMBER	SERIAL NUMBER	CONDITION OF ASSET

**NAME                      OF                      RESIGNING                      OFFICIAL**

.....

**SIGNATURE                      OF                      RESIGNING                      OFFICIAL**

.....

**LOCATION:**

.....

**NAME                                      OF                                      SECTION**

**HEAD/SUPERVISOR.....**

**SIGNATURE OF SECTION HEAD/ SUPERVISOR.....**

**NAME OF H.O.D.....**

**SIGNATURE OF H.O.D.....**

**DATE: .....**

**APPROVED:**

**...YES.....NO.....**

**NGQUSHWA LOCAL MUNICIPALITY**



**ASSET LOSS REPORT FORM**

***A.DETAILS RELATING TO PERSON REPORTING EVENT***

**NAME:**

.....

**POSTION:**

.....

**DATE**

**OF**

**LOSS:**

.....

**TIME**

**REPORTED:**

.....am/pm

**DATE**

**REPORTED:**

.....

***B.DETAILS OF EVENTS***

**DATE:**

.....

**TIME**

.....am/pm

**PLACE**

.....

**NATURE OF EVENT (e.g. Burglary, fire, etc.):**

.....

**BRIEFCOMMENT:**

.....

.....

.....  
.....

**DESTRPTION OF: property, lost or damaged as a result of event:**

.....  
.....  
.....  
.....

**ESTIMATED COST FOR REPLACEMENT OF LOST OR DAMAGED  
ASSET: R.....**

***C. Details of action taken***

**REPORTED                      FOR                      FIRE                      BRIGADE                      yes/no**

.....

**TIME**

.....

**STATION**

.....

**REPORTED                                              TO                                              POLICE  
AUTHORITIES:.....yes/no**

**TIME                      .....**

**STATION:                      .....**

**REPORTED TO SECURITY SERVICES: yes/no. ....**

**NAME:** .....

**TIME:** .....

**REPORTED TO ADMINISTRATION MANAGER /yes/no :**  
.....

**NAME:** .....

**TIME:** .....

**ANY OTHER DETAILS AVAILABLE (eg Police Incident No etc.) :**

.....  
.....  
.....

**SIGNED:**  
.....

**DATE:**  
.....

**NGQUSHWA LOCAL MUNICIPALITY**



**NEW ASSET FORM (MOVABLE ASSETS)**

**ASSET**

**DESCRIPTION:**.....

**CATERGORY:**.....

**ESTIMATED COSTS FOR:**.....

**PURCHASE**

**PRICE:**.....

**DELIVERY AND INSTALLATION:**.....

**TRANSFER COSTS:**.....

**LICENCING FEES:**.....

**SPECIAL LICENCING:**.....

**INSURANCE COSTS ( 10% OF PURCHASE PRICE):**.....

**TYPE OF PURCHASE: CASH.....LEASE.....HIRE.....  
PURCHASE.....**

**OTHER COSTS NEEDED FOR THE ASSETS TO BE IN USE:**.....

**DRIVER:**

.....

.....

**PETROL,OIL,BRAKE FLUIDS PER  
ANNUM**.....

**SERVICE COSTS PER ANNUM.....**

**SOFTWARE COSTS.....**

**TRACKING DEVICE PER ANNUM.....**

**REPAIRS AND MAINTAINANCE COSTS PER ANNUM.....**

**TYRES.....**

**EXTENDED WARRANTY AFTER EXCEEDING INITIAL WARRANTY.....**

**PARTS FOR REPAIRS:.....**

**OTHER REQUIREMENTS NEEDED FOR THE ASSET TO BE IN USABLE STATE.....**

.....

.....

.....

.....

.....

.....

.....

.....

.....

**NGQUSHWA LOCAL MUNICIPALITY**



**NEW INFRASTRUCTURE ASSET COMPONENTISATION FORM**

**DESCRIPTION** **OF** **THE**  
**PROJECT:**.....

**PROJECT** **NAME:**  
.....

**WARD**  
**NAME:**.....

**PROJECT**  
**ADDRESS:**.....

**DIMENSIONS:**  
**LENGTH, HEIGHT, WIDTH, DIAMETER.**.....

**GPS** **Co** **ordinates**  
**latitude.**.....

**GPS** **Co** **ordinates**  
**longitude.**.....



**FORM** **OF**  
**ACQUISITION:**.....

**Newly** **constructed**

**Acquired:**

**Rehabilitated (Yr. Built \_\_\_\_\_)**

**SOURCE OF FUNDING: MIG .... Equitable shares..... Internal Funding...**

**Total** **Project** **Cost:**

**Insurance** **Property insurance** .....(coverage amount)

**Restrictions** **to** **use** **the**  
**asset**.....

**Repairs** **and** **maintenance** **costs** **per**  
**annum**.....

**Rehabilitation**

**costs**.....

**OTHER COSTS INVOLVED: CONSULTANT, DESIGN RESEARCH COSTS.....**

**Developed By:**

**Chief** **Financial**  
**Officer**.....